Annual Performance Report

2023/24 - post queries updates, January 2025

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About our Annual Performance Report

This is our Annual Performance Report ('APR'). It's where you can find out more about how we've performed during our 2023/24 financial year (1 April 2023 to 31 March 2024) against the targets we have agreed with our regulator, Ofwat.

These targets are tied to our purpose to deliver life's essential service, so our customers, communities and the environment can thrive.

We're here to make sure our customers have clean, fresh drinking water every day, and that we're recycling waste without our customers having to worry.

We want to help you, our customers and stakeholders, to understand what our priorities are and what we're doing to turn Thames Water around.

We know that being truly open and transparent is important as we build trust with our stakeholders, so we will do our best to tell our story in a straightforward way.

Throughout this report, we've included links to documents that provide more background information.

The external documents and websites we refer to via these links are for extra information only and do not from part of our APR.

This document also includes our regulatory accounts that we are required to publish under Condition F of the Instrument of Appointment ("licence") of Thames Water Utilities Limited (referred to in this report as "Thames Water" or the "Company") as a water and sewerage undertaker under the Water Industry Act 1991.

Our licence can be found on the Ofwat website.

We have prepared this report in accordance with the Regulatory Accounting Guidelines ('RAG')issued by Ofwat, which are:

- RAG 1.09 – Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime;
- RAG 2.09 – Guideline for classification of costs across the price controls;
- RAG 3.14 – Guideline for the format and disclosures for the Annual Performance Report;
- RAG 4.12 – Guideline for the table definitions in the Annual Performance Report; and
- RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors.

Our regulatory and statutory publications

In addition to our APR, we publish the following documents which can be found in the Our performance section of our website.

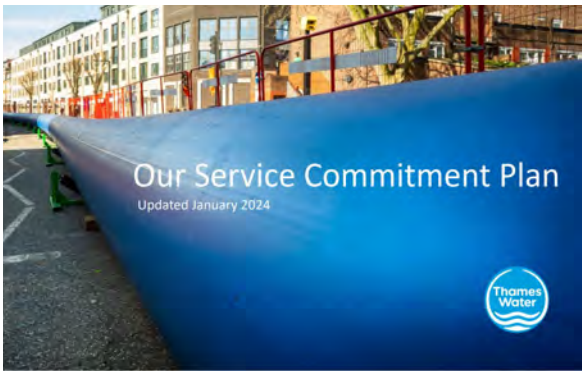
Annual Report 2023/24

Our sustainability report (annual)

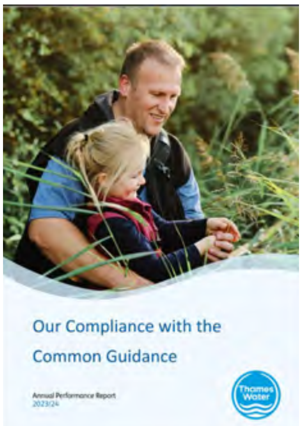
Improving river health in the River Thames catchment (April 2024)

Accounting methodology statement (annual)

Reporting criteria (annual)



Our Service Commitment Plan (January 2024)



Compliance with Ofwat Guidance (new)

Our glossary of terms (annual)

We publish our APR data tables in a MS Excel format on our website where they can be accessed by all interested parties

About us

Our purpose

Our purpose is to deliver life's essential service, so our customers, communities and the environment can thrive.

Where we operate

Our operating area follows the River Thames and stretches from Gloucestershire to Essex, covering countryside, villages, towns and our capital city of London.

Our values

We expect everyone at Thames Water to live our values:

- Take care
- Passionate about everything we do
- Be respectful and value others
- Reach higher, be better
- Take ownership
- Be proud, be blue

Board leadership, transparency and governance

We're committed to robust standards of corporate governance and follow the requirements of Ofwat's board leadership, transparency and governance principles.

Further details can be found in the 'Compliance with the Corporate Governance Code' section of our Annual Report 2023/24.

Key facts about us

- We supply clean and safe drinking water to 10 million customers every day, and we treat the wastewater of nearly 16 million customers in the South East of England;
- We move 2.5 billion litres of water and 5.1 billion litres of wastewater through our water cycle, every single day;
- We turn poo into power and self-generate over 20 % of our own energy, with 100 % renewable electricity from the grid filling the gap;
- We're all set to start testing the Thames Tideway Tunnel this summer, ahead of going live in 2025. Together with existing Thames Tideway improvements, this will support a reduction in annual discharges into the Tidal Thames by around 95 %;
- We have successful employment schemes for those leaving the Armed Forces, long-term unemployed people and school leavers. Our apprenticeship scheme is ranked in the UK Top 100 by RMP Enterprise; and
- We've got a turnaround plan to build a more resilient and investable Thames Water that delivers positive outcomes for customers, communities and the environment, underpinned by strong foundational capabilities.

Introduction

Statements from our CEO and Chairman

These can be read in full in our Annual Report 2023/24.

"Most importantly, it's business as usual for the teams on the ground, as they continue to supply our services and remain focused on the delivery of our three year turnaround plan"

Chris Weston

Our Chief Executive Officer ('CEO')

Appointed January 2024

"With the right team, time money and resources, Chris and I both believe we can turn this business around – it would be in the best interests of customers and the environment for Thames Water to remain market-led"

Sir Adrian Montague

Our Chairman

Appointed July 2023

Introduction

Our management priorities

We're working to improve our performance for our customers and the environment.

Our people

Keeping everyone safe and well.

Developing ourselves, our leadership, and our culture.

Our assets

Investing to improve resilience and address population growth & climate change.

Overhauling and modernising our digital estate.

Our customers

Being easier to deal with.

Supporting customers who need extra help.

Our performance

Delivering operational excellence, particularly pollutions, leakage, water quality and supply interruptions.

Living within our means: securing the right settlement, being efficient and investable.

Understanding our performance

As part of our Open Data approach, we've focused on making this report user-friendly and accessible.

Transparency in our APR

In addition to publishing our tables on an API portal, our APR document:

- Is split into sections for easier reference, with section tabs on the left-hand side throughout;
- Contains descriptions for each table to help provide clearer information for customers and make it easier to navigate;
- Provides interactive links to relevant areas of our website, such as our Annual Report 2023/24, our leakage performance page and other current publications;
- Includes a link to our Service Commitment Plan ('SCP') providing stakeholders with easy access to our latest plans to improve performance;
- Lists our Performance Commitments ('PCs') in customer-friendly groups, with our Turnaround PCs first, then other common PCs in Water Companies Performance Report 2022/23 ('WCPR') order, then bespoke PCs by topic and reference number;
- Contains an alphabetical index of our individual performance PCs for ease of reference;
- Contains a graph for each numerical PC showing our performance over the whole AMP to date, which gives our stakeholders a more complete view of our performance and targets over the AMP;
- Provides commentary on our performance for each PC with reasoning for why we've met or missed our targets;
- Provides clear notes to explain PCs and other line items;
- Provides a look up table for all our regulatory statements and disclosure; and
- Is accompanied by a glossary of terms which "jargon busts" water industry specific terms.

Our Performance Commitments

We measure our performance against a set of targets we've agreed with Ofwat as part of our Asset Management Plan ('AMP').

The water industry works in five-year regulatory periods, otherwise known as an AMP period. AMP7 covers the period from 1 April 2020 to 31 March 2025.

PCs are the metrics that Ofwat uses to measure the service that water companies deliver. They're the cornerstone of the outcomes regime which aims to focus water companies on delivering the things that matter to customers and the environment.

Common performance commitments apply to every water company in England and Wales; these are the 15 key benchmarks which Ofwat and our stakeholders can use to compare our performance within the wider industry and over time. Many have been in existence for more than the current five-year period and will continue to be PCs in AMP8.

Bespoke performance commitments target the needs of a specific company's customers. We've agreed 37 bespoke PCs for AMP7, plus an additional three applying since 2022/23 relating to our conditional allowances.

Our latest news and investments can be seen on our website

Understanding our performance (continued)

Outcome delivery incentives (‘ODI’)

These are the financial rewards and penalties that we can either earn or incur depending on our performance against the targets that we’ve been set. Both penalties and rewards will adjust how much customer revenue we can collect for our water, wastewater and retail services.
Some PCs can incur both rewards and penalties while others are reward or penalty only. The amount we pay or receive depends on how far we’ve missed or exceeded the target for an individual financial PC, and is subject to specific calculation rules set by Ofwat.

Our ODIs are calculated in a number of different ways. Some calculations reflect how we performed within the regulatory year, some our performance in a calendar year, while others are based on our performance across the AMP.

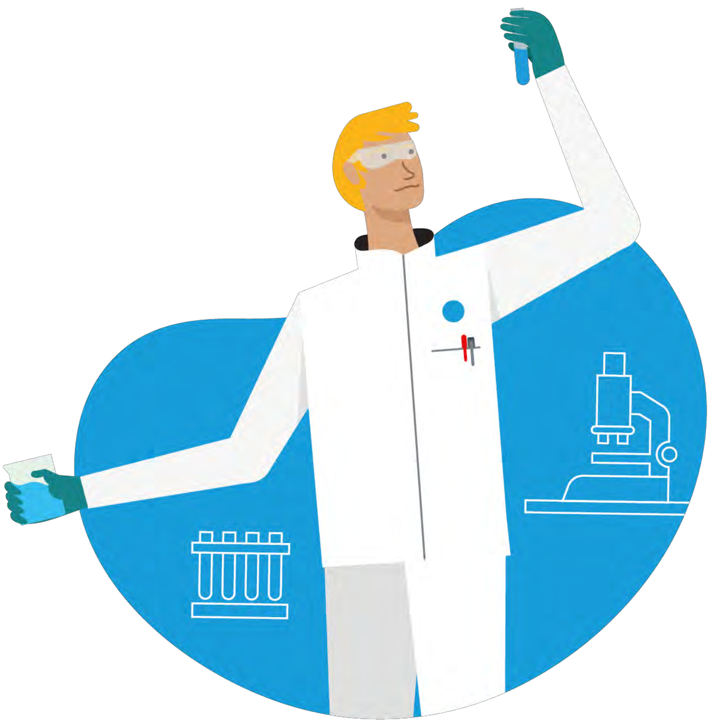
Not all our PCs have a financial reward or penalty attached as some are reputational only.

If you would like specific information on individual performance commitments we’ve made, please see our PR19 Final Determination Outcomes Document.

Data timing

Please note that we submit multiple versions of datasets to regulators throughout the year via regulatory submissions, and the methodology or reporting criteria - timescales, adjustments, exclusions, focus point - may change across different regulators. This may mean some of our metrics vary across different reports, but in all instances variations in calculations or figures will be explained in our supporting commentary. We consider our Annual Performance report figures to be our official company performance.

Notable measures to which this applies include the metering, leakage and per capita consumption PCs, along with wider datasets such as the Water Resources Management Plan (‘WRMP’) and the Environmental Performance Assessment (‘EPA’).



Understanding our regulatory information tables

In addition to the Performance Commitments, our Annual Performance Report provides a comprehensive suite of financial, operational and retail information as specified by Ofwat.

The numbering of the tables gathers related information together to help you to navigate to the section of interest:

- Tables 1A-1F: regulatory financial reporting
- Tables 2A-2O: price review and other segmental reporting
- Tables 3A-3I: our performance commitments
- Tables 4A-4Y: additional regulatory information – our service level
- Tables 5A-5B: additional regulatory information – water resources
- Tables 6A-6F: additional regulatory information – water network plus
- Tables 7A-7F: additional regulatory information – wastewater network plus
- Tables 8A-8D: additional regulatory information – bioresources
- Table 9A: additional regulatory information – innovation competition
- Tables 10A-10H: additional regulatory information – green economic recovery
- Table 11A: additional regulatory information – greenhouse gas emissions

There are a small number of tables (2G, 2H, 4X, 4Y, 10F and 10H) which Ofwat does not require us to complete, because their scope is not relevant to Thames Water.

Table 6E is not currently in use for any water company.

The commentary requirements are set by Ofwat and specific to each individual table. The requested commentary will often provide additional details which are not suited to being shown in a table.

For greater clarity, we've chosen to publish tables 4A - 11A in their original template and provide links to each table from this Annual Performance Report.

All tables have been prepared in line with our regulatory guidelines and follow the principles set out in this Annual Performance Report document.

You can view these tables on our website.

Throughout this report we will provide extra information to help you understand our performance

Alphabetical index of Performance Commitments

You can click on the links below to find information about how we've performed this year on a PC by PC basis. For more information on our PCs, please see Understanding our performance.

Where to find our statements and disclosures

The following section contains the statements we are required to make under the terms of our licence conditions and the statutory requirements set out in the Water Industry Act 1991.

This table tells you where you can find this information in our 2023/24 submission and provides links both within and outside this document:

Disclosure requirement	Where it can be found	Reference
Accounting methodology summary	https://www.thameswater.co.uk/about-us/performance	RAG 3
Accounting policy note for price control units	Price control segments	RAG 3
Excel version of APR tables on website	https://www.thameswater.co.uk/about-us/performance	IN 24/01
Open data version of APR tables on website	API Portal I Thames Water	IN 24/01
Assurance requirements for bespoke performance commitment	Adherence to assurance requirements set out in Performance Commitment definitions	IN 24/01
Audit (for financial measures) and assurance (for non-financial measures) reports	Auditors' and assurance reports, page 115 and page 185	RAG 3
Bad debt policy	Bad debt policy	RAG 3
Board leadership. transparency and governance principles - annual reporting	Risk and Compliance Statement	Principles
Board statement on accuracy and completeness of data and information	Risk and Compliance Statement	RAG 3
Capitalisation policy	Capitalisation policy	RAG 3
Common performance commitments (compliance with Ofwat's guidance)	Compliance with Ofwat guidance 2023/24 https://www.thameswater.co.uk/about-us/performance	IN 24/01
Common performance commitments (narrative)	Alphabetical index of performance commitments	RAG 3
Compliance with sanctions related to the conflict in Ukraine	Compliance with sanctions related to the conflict with Ukraine	IN 22/01
Costs narrative disclosure	Throughout this report	RAG 3
Debt analysis	Table 1E	RAG 3

Table of statements and disclosures (continued)

Disclosure requirement	Where it can be found	Ref
Disclosure of information to auditor	Disclosure of information to auditor	RAG 3
Dividend policy and explanations of dividends paid	Dividend policy	RAG3/ IN24/01
Executive pay and performance statement	Executive pay	RAG 3
Financial flows	Table 1F	RAG 3
Green economic recovery statement	Green economic recovery	n/a
Infrastructure network reinforcement charges	Infrastructure network reinforcement charges	RAG 3
Innovation competition statement	Innovation competition	RAG 3
Interest disclosures	Breakdown of interest paid	RAG 3
Long term viability statement	Annual report 2023/24 https://www.thameswater.co.uk/about-us/performance	RAG 3
Open data	Our approach to open data	IN24/01
Outcomes narrative	Our performance	RAG 3
Protected land sales under Condition K	n/a	IN23/03
Retail narrative	Table 2C	RAG 3
Return on regulatory equity disclosures	Table 1F	RAG 3
Reporting Criteria	https://www.thameswater.co.uk/about-us/performance	N/A
Revenue Recognition policy	Revenue recognition policy	RAG 3
Ring-fencing certificate	Directors' Ring-fencing certificate	RAG 3
Risk and compliance statement	Risk and Compliance Statement	IN 24/01
Social tariffs disclosures	Table 2N	RAG 3

Table of statements and disclosures (continued)

Disclosure requirement	Where it can be found	Ref
Statement explaining out/under performance of the return on regulatory equity	Table 1F	RAG 3
Statutory and RAG definitions differences	Additional narrative on the statement of financial position	RAG 3
Supply demand balance and metering disclosures	Table 6D	RAG 3
Tax analysis and reconciliation	Tax reconciliation	RAG 3
Tax strategy for the appointed business	Tax strategy	RAG 3
Totex disclosures	Table 4C	RAG 3
Transactions with associates and the non-appointed business (principles)	Transactions with associated businesses	RAG 5
Water efficiency campaigns included in PCC commentary	Per capita consumption	IN 23/03
Water supply interruptions-restatement for updated definition	Supply interruptions	IN 23/03
Wholesale revenues disclosures	Table 2M	RAG 3

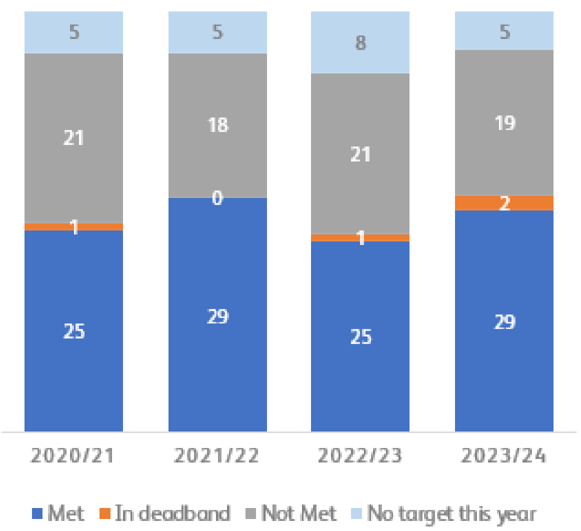
Our Performance

Summary of our 2023/24 performance

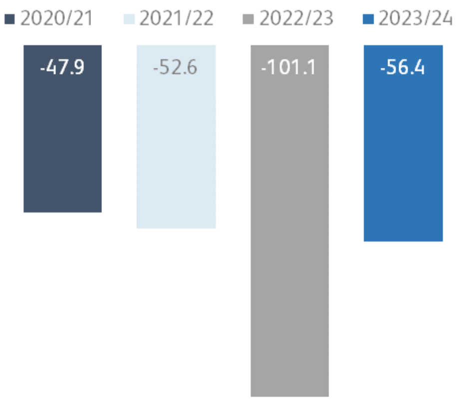
Our 2023/24 ODI position has improved significantly against last year.

PC Type	Met				Not Met	No target	Total
	2020/21	2021/22	2022/23	2023/24	2023/24	2023/24	2023/24
Common	5	7	4	5	8	2	15
Bespoke	21	22	22	24	13	3	40
Total	26	29	26	29	21	5	55

Performance commitment targets met



Net penalties over the AMP to date in £m (including C-MeX and D-MeX)



Performance against WCPR targets

Performance highlights

- We've met 29 PC targets, which is our joint highest performance in the AMP.
- We've met six (including two in the deadband where we've missed our target but not incurred a penalty) of the 12 targets measured in Ofwat's Water Company Performance Report ('WCPR') (2022/23: four including one in the deadband).
- We've recorded our best performance in the AMP for water quality, mains repairs, internal sewer flooding, sewer collapses and clearance of blockages.
- Our annual leakage is the lowest that it has ever been. We've improved it by 43 Ml/d and brought our water balance within +/-2 % in line with Ofwat expectations.
- Our net penalty (including C-MeX and D-MeX) has decreased from £101 million in 2022/23 to £56 million this year. Excluding C-MeX and D-Mex, our net penalty has decreased by over 50 % from £82 million to £39 million.

What could've gone better in the year?

- The weather has once again exposed the fragility of our assets. For example, a single water supply interruption in Guildford following a storm exceeded the overall target performance set by Ofwat.
- Our overall complaints are up, but we've seen a significant improvement in our operational complaints.
- In some cases, such as for internal sewer flooding, our ODI penalty has increased despite improved performance, because the Ofwat targets become increasingly challenging over the AMP.

Summary of our 2023/24 performance (continued)

ODI Performance over AMP in £ millions

Rewards/(penalties) at 2017/18 prices	2020/21	2021/22	2022/23	2023/24
Water quality compliance	(0.898)	(1.262)	(16.043)	-
Water quality events	-	-	(0.142)	(0.071)
Leakage*	2.671	-	(8.908)	(14.043)
Water supply interruptions	(10.120)	(6.956)	(20.022)	(16.336)
Mains repairs	(1.058)	8.714	(16.674)	11.850
Pollution incidents	(2.739)	(1.433)	(9.345)	(12.325)
Internal sewer flooding**	(10.560)	(28.831)	(5.531)	(7.375)
Unregistered household properties	(0.211)	(0.211)	(0.211)	-
Empty household properties	(0.308)	-	0.231	0.231
Clearance of blockages	(5.223)	(6.410)	(8.811)	(2.371)
Renewable energy produced	(1.370)	0.725	2.096	1.531
Treatment works compliance	-	(0.123)	-	-
Environmental measures delivered	-	(0.667)	-	(0.308)
Security of Supply ('SoSI')	-	-	(0.224)	(0.224)
Sludge	-	-	-	(0.454)
Sewer collapses	-	-	0.340	1.027
Reducing risk of lead	0.015	0.429	0.689	0.840
Empty business properties	0.549	0.497	0.278	0.274
Smarter water catchments	-	-	-	(0.811)
Abstraction Incentive Mechanism ('AIM')	(0.000)	(0.000)	(0.000)	0.001
Acceptability of water to consumers	-	-	-	-
Total net penalties	(29.252)	(35.528)	(82.277)	(38.564)

Notes on our performance measures

* As a result of improvements in our leakage calculation, our historic leakage penalties are overstated. Our revised ODI history is 2020/21: £2.7 million reward, 2021/22: £0.4 million reward and 2022/23: £7.9 million penalty. We intend to reclaim the £1.7 million overstatement through the normal regulatory arrangements.

** Our 2021/22 penalty for internal sewer flooding includes the impact of the London flooding of July 2021, a 1 in 200-year weather event. If this was excluded, our penalty would be c.£20 million less.

C-MeX and D-MeX measures the relative performance of companies and so are not classified as ODIs. In 2023/24, we received penalties of £12.2 million for C-MeX (2022/23: £13.1 million) and £5.6 million for D-MeX (2022/23: £5.7 million).

How weather impacted our performance this year

Considering climate change risks

At Thames Water, adapting to and mitigating our contribution to climate change have been important parts of how we do business for a long time.

We make significant assessments to understand climate related risks and opportunities, and their impact on our future plans.

Climate change is one of the biggest challenges we face. More frequent and intense weather events across the globe will impact our business and the service we provided to customers this year and over the coming years.

The weather in 2023/24

Whilst we did not experience the same extremes in weather as we saw in the previous year, peaks in temperature have continued to expose the fragility of our assets. For example, there were seven days in September where the temperature exceeded 30°C, which caused an outbreak in leakage on our network.

In contrast to the drought of 2022, this year was one of the wettest years on record across our whole region, reflecting the increasing volatility we experience from climate change.

As a result of persistently high flows through our assets and prolonged wet weather, spills have more than doubled in the past year.

Three named storms also caused a spike in network events for both waste and water:

- Babet (16-21 October 2023)
- Ciaran (28 October-4 November)
- Henk (1-2 January 2024)

Performance commitments particularly sensitive to weather events include:

- Internal sewer flooding
- Leakage
- Mains repairs
- Water quality events
- Pollution incidents
- Water supply interruptions
- C-MeX
- Per capita consumption
- Security of supply index
- Responding to major trunk mains bursts
- Sewage pumping station availability
- Abstraction incentive mechanism.

2023/24 was in the top 10 wettest years since 1836

Our major project initiatives

Conditional allowances

For AMP7, Ofwat conditionally permitted us two allowances to enhance the performance of our network. These allowances were provisional on us delivering an agreed scope of work through a gated process

London Water Improvement Conditional Allowance

In November 2022, Ofwat confirmed we'd met the requirements and in May 2023, they approved £300 million expenditure. At the same time, we committed a significant shareholder investment of £400 million so the overall total is £700 million. This will benefit customers across the region through investment in water supply.

This funding boost will allow us to replace 112km of our leakiest water mains pipes across London.

To reflect how this will impact on our performance, our performance targets for mains repairs (per 1,000 km of mains network) and leakage (three year average reduction) for the last two years of the AMP have been updated as follows:

Year		Mains repairs	Leakage
23/24	Was	254.8	17.4 %
	Now	254.7	17.4 %
24/25	Was	251.1	20.4 %
	Now	249.3	20.5 %

With Ofwat's approval, we've also agreed to three new performance commitments for the 2020-2025 price control period.

These are:

- Trunk mains renewal (in period, penalty 2023/24 onwards);
- Future London strategy (in period, reputational 2024/25 only); and
- London data validation work streams (in period, reputational 2023/24) onwards).

Water Supply System Resilience Programme Conditional Allowance

Our Water Supply System Resilience Programme ('WSSRP') conditional allowance was approved by Ofwat in December 2023 and approved by the Board in January 2024.

This allowance will, by 2031, deliver major asset resilience improvements to Coppermills and Hampton Water Treatment Works,

We have agreed interim and final milestones with Ofwat, which means we'll incur "delay" or "non-delivery" penalties should we not perform at the levels we have agreed with Ofwat

Thames Tideway Tunnel

The tunnel is being constructed by Bazalgette Tunnel Limited to tackle the problem of overflows from the capital's Victorian sewers for at least the next 100 years.

We have six Thames Tideway Tunnel ('TTT') performance commitments. We're responsible for the connection works to our existing network.

In May 2024, the isolation between the Lee Tunnel and Tideway tunnel was removed creating one single system.

In the coming weeks and months, the entire system will be carefully brought online with individual combined sewage overflows (discharge points) being connected to the new tunnel.

We're on track for TTT to be fully functional in 2025. The 25km-long, £4.6 billion super-sewer will build on other improvements, such as the Lee Tunnel and asset resilience, to reduce the total volume of discharges to the tidal Thames by 95 % in a typical year and overall spills into the river by 90 % . It will also create new public spaces and amenities.

Common performance commitments

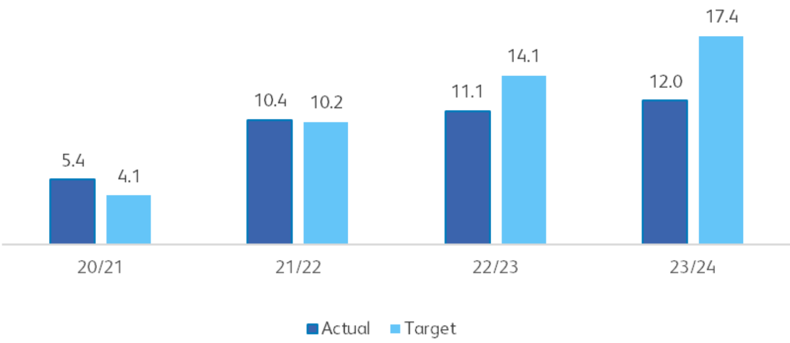
Performance

Leakage *BW04*

Penalty: £14.043m (not met)

% reduction in leakage using a 3-year average from the 2019/20 baseline survey

A greater % is better



How we've done

This year, we reduced our annual average leakage on our network by 7% and leakage is now at its lowest ever level. Despite this, the ever more challenging requirements over the AMP mean we've missed our regulatory target this year delivering a 12.0% reduction assessed on a 3-year rolling average basis.

We've changed our strategy from maximising the number of leaks fixed to maximising leakage reduced, which means that we're fixing larger leaks sooner. This represents a significant departure from the previous leakage strategy of emphasising high volumes of repairs without the ability to quantify whether the nominal benefit of these repairs was realised.

In addition, we've:

- Changed our ways of working, including moving to local ownership;
- Upgraded our leakage management systems enabling better demand management area ('DMA') targeting and leakage reduction management;
- Changed our third party leakage detection contracts to align incentives to our Turnaround Plan; and
- Deployed an insight tool from our smart meters to understand customer usage and target leakage more accurately.

Despite less extreme weather patterns in temperature and precipitation than last year, we still observed seasonality highlighting the fragility of our assets. For example, the short cold snaps in December and January caused spikes in burst pipes and leakage.

What we're doing to improve our performance

The Leakage Transformation Programme has laid the foundations for the initiatives within our Turnaround Plan. In particular, this has put in place:

- Clearer prioritisation of outstanding leaks based on their estimated size;
- Stricter target timelines for getting these leaks repaired;
- Enhancements to our systems;
- Processes and incentives to allow more effective targeting of DMAs for leakage recovery and reduction; and
- Managing these activities as end-to-end campaigns.

We're now focusing on embedding new ways of working to further drive leakage reduction and we'll continue to drive improvements in DMA operability.

Our delivery strategy is centred on PALM principles: Prevent, Aware, Locate & Mend, with greater emphasis on Prevent and Aware.

We're building our understanding of the business capabilities required to support our longer-term leakage strategy for AMP8. This strategy will focus on replacing and maintaining our assets as we recognise the need for greater resilience.

Our Service Commitment Plan ('SCP') contains further details about our plans and our overall performance objectives.

Leakage (continued) *BW04*

Backcasting

This year we have incorporated some minor improvements to our leakage reporting methodology to increase our compliance with Ofwat common guidance.

This has bought us closer to full compliance, bringing the water balance discrepancy within +/- 2 % of distributable input. This represents a significant step forward in our reporting.

Our calculations now more accurately reflect:

- Water use in unmeasured blocks of flats; and
- How we account for the way water is pumped to both unmeasured and measured blocks of flats at night.

For context, 51 % of our customers live in flats and 91 % of these flats are in London.

Recognising the great importance that we, our customers and our regulators rightly place on accuracy and consistency of information over time, we have applied these methodology improvements to our previously reported performance. As a consequence, the baseline has been reset so that our current performance is reported on a consistent basis.

We have applied these improvements to our previously reported performance and have reset the 2019/20 baseline from 674.4 Ml/d at APR23 to 672.9 Ml/d at APR24.

We have also restated our annual leakage for the earlier years of AMP7. As a result, our leakage ODI penalty for the first three years of AMP7 is £1.7 million less than previously reported (2022/23: £1.0 million, 2021/22: £0.4 million, 2020/21: £0.3 million).

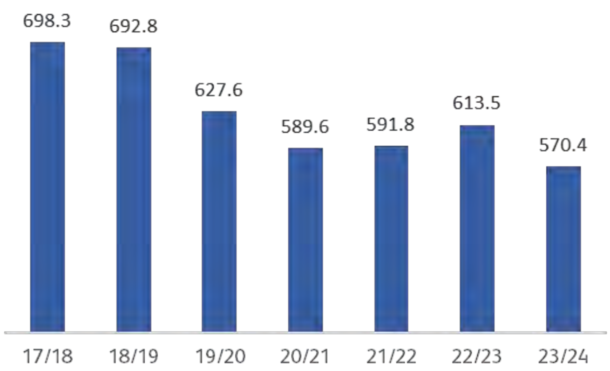
We intend to claim this overpayment of penalty back through our ODI in-period adjustment model.

Historic data in tables 4R, 6B and 6D has not been updated to reflect the backcasting.

Our leakage performance over time

Our 2023/24 annual leakage position of 570.4 Ml/d is a 7 % reduction on our 2022/23 performance. This year on year reduction of 43Ml/d means that we are now at our lowest ever leakage position.

The graph below shows all of our rebased annual total leakage (in Ml/d):



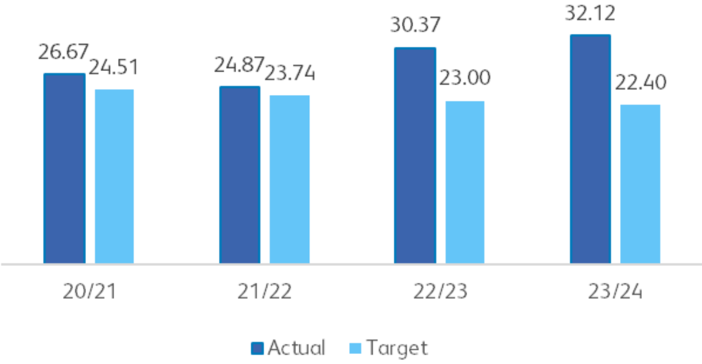
Performance

Pollution Incidents *ES01*

Penalty: £12.325m (not met)

Number of pollution incidents per 10,000km of our wastewater network that pose a danger to the environment

A lower number is better



How we've done

Despite reducing our serious pollution incidents to 14 (2022:17), we've reported 350 category 1-3 incidents (2022: 331) meaning that we've missed our target this year.

Although pollutions have increased, we have reduced the number of incidents from our network assets since 2022 as the root cause, blockages, has improved significantly. See clearance of blockages for further information.

The integration of our Discharge Alert Monitor ('DAM') tool and pollution awareness training has improved data availability and our ability to identify incidents from our sewage treatment works.

Despite these initiatives, delays to capital investment programmes have contributed to some STW incidents, while resource constraints have led to automatic categorisation of incidents as pollutions by the EA when we've not been able to provide relevant samples to prove that pollutions have been mitigated.

Prolonged periods of heavy rainfall and exceptionally high groundwater levels have contributed to the increase in incidents for this year.

Furthermore, the EA has introduced stricter regulation this year, including the withdrawal of exemptions and changes to incident categorisations.

We launched a new interactive map in November, to make reporting pollutions, blockages and leaks easier. The external focus on pollution incidents also means more have been reported by the public.

In July 2023, we were fined £3,334,000 at Lewes Crown Court after pleading guilty to a pollution incident in West Sussex which occurred in October 2017.

What we're doing to improve our performance

In our turnaround plan, our aim is to address and mitigate the major drivers of pollutions across our networks and STWs, including more proactive network cleaning and monitoring, and better prioritised reactive responses.

We've split our pollution reporting to better analyse where pollutions come from, such as network and STWs.

Previously, we used a trial and error approach focused on field efficiency and blockage reduction, whilst our new approach is data driven and has cost-benefit interventions.

Our Service Commitment Plan ('SCP') contains further details about our plans and our overall performance objectives.

Notes on this measure

This is a calendar year measure.

The EA categorises pollutions from 1 (the most serious) to 4 (minimal or no impact). Categories 1-3 are included in this PC.

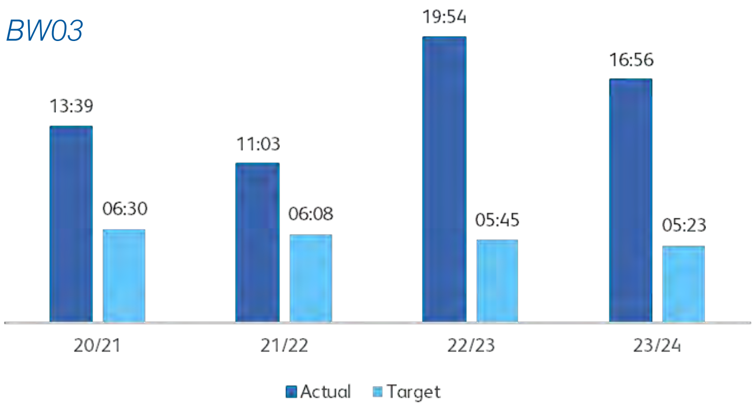
Performance

Water Supply Interruptions *BW03*

Penalty: £16.336m (not met)

Length of time our customers don't have water (in mm:ss)

A lower time is better



How we've done

Our performance improved by almost three minutes this year, bringing our underlying performance closer to the Ofwat target. Our target this year was over a minute lower than in 2020/21.

However, we've missed our target this year with a single supply interruption at Guildford, 08:55, accounting for half of our overall performance. Our next largest incidents were 01:00 at Footscray Road, SE9 in October 2023 and Pangbourne WTW RG8 on 20 January (00:35).

We're investing £93.1 million of additional funding to secure Guildford's water supply.

This year we have prioritised restoration of supplies over repairs which has had a positive impact on our performance. For example, wherever possible, we completed work without fully isolating the network to minimise customer disruption and increase the volume of repairs completed under normal pressure.

We've also installed incident loggers so that we can better understand the customer impacts caused by each burst and repair.

Unfortunately, external recruitment market factors meant our technician recruitment times increased and consequently we've had poorer resourcing in some geographical areas.

We've changed our approach to work completion for some network repair types, which unintentionally increased the number of repairs causing a supply interruption. However, this increase is offset by our new approach to maintenance of air valves which has reduced the frequency of trunk mains bursts.

Notes on this measure

This is the average number of minutes and seconds our customers don't have water, for interruptions lasting three hours or more.

What we're doing to improve our performance

In our turnaround plan, we aim to drive initiatives to address trunk mains bursts and inefficiencies in mains repairs, as well as improving our response to unexpected events.

Through our turnaround, we plan to:

- Increase the volume of repairs completed 'live' or under reduced pressure;
- Enhance our tankering fleet, which provides incident support;
- Invest in our network, including rectification of valve issues, hydrant installs, and cross connections where we have poor network interconnectivity;
- Develop a valve tracking tool to enable the near-live status of all our valves on the network;
- Trial a trunk mains valve remote controlled device for isolating bursts or rerouting supplies; and
- Investigate ways to maintain the water supply during pipe repairs.

Our Service Commitment Plan ('SCP') contains further details about our plans and our overall performance objectives.

2022/23 disclosure requirement

Last year, the line definition for this PC was updated to clarify that companies should report interruptions that are greater than or equal to three hours duration. We reviewed our prior year reporting and have not identified a need to restate prior years' performance as we are already compliant.

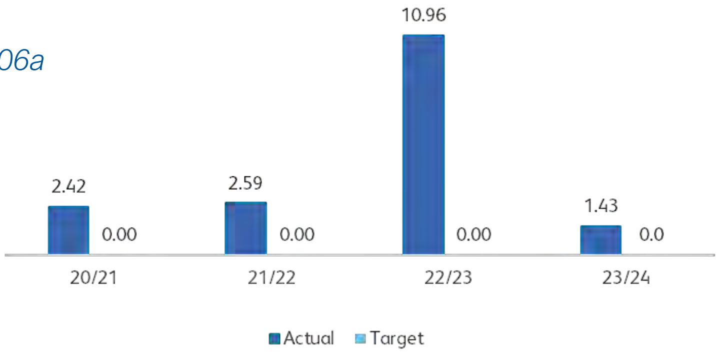
We also confirm that our reporting excludes any supply interruptions to cattle troughs, as required by Ofwat.

Water Quality Compliance *BW06a*

No penalty as the actual is close to target (deadband)

Measured with the Compliance Risk Index ('CRI'), the annual aggregated score of our level of treated water compliance incidents

A lower score is better



How we've done

Our Water Quality Compliance performance has significantly improved this year with no failures at our larger treatment works in London, partly due to the major improvement works at Hampton WTW during the year.

We understand that no water quality event is acceptable to our customers and, as such, the regulatory target is set at zero. This means we've missed our target but receive no financial penalty as our performance is within acceptable tolerance.

This performance improvement has been brought forward through management effort and enterprise, as well as key activities such as accelerating asset maintenance to reduce crucial challenges like ingress that incur significant penalties through cryptosporidium failures.

The largest influence on the score during 2023 was a turbidity failure at Walton WTW, one of our London sites, contributing a third of the overall score. London tends to have a much greater influence on the score than TVHC as all our largest process sites are located within London.

Our reservoir compliance improved in 2023. However, a number of assets, in particular Service Reservoirs, are subject to Drinking Water Inspectorate ('DWI') Legal Instruments, with improvement plans in place to address risks with respect to turnover, chlorine and routine inspection compliance.

What we're doing to improve our performance

By continuing to tackle root causes through our turnaround plan, we aim to maintain our improved position and keep our performance at target or within the acceptable tolerance. Further improvements are detailed in our turnaround plan and continue into AMP8.

These plans include:

- Improving our risk management process;
- Implementing our public health transformation programme;
- Seeking insight and learning from leading companies;
- Deploying innovation; and
- Adopting guidance from the DWI.

In addition, specific site improvements are planned, at London's Hampton and Coppermills WTWs, as part of our Conditional Allowance.

Our Service Commitment Plan ('SCP') contains further details about our plans and our overall performance objectives.

Notes on this measure

This measure aligns with the current risk-based approach used by the DWI.

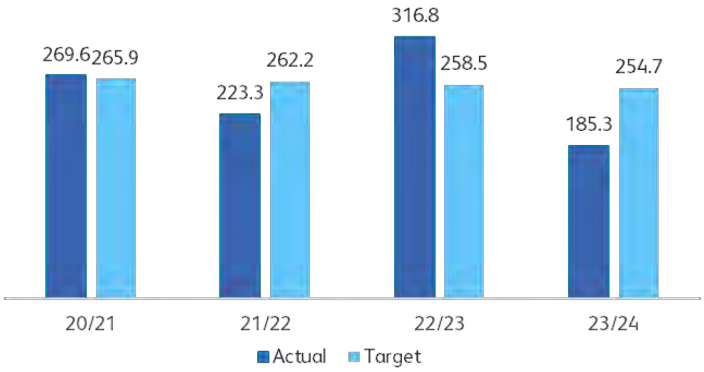
Performance

Mains Repairs *BW01*

Reward: £11.850m (met)

Number of repairs we have made to the network per 1,000 kms of mains

A lower number is better



How we've done

We've recorded a dramatic drop in the number of burst mains reported this year and met our target, with both proactive and reactive repair volumes reducing in the year. We've met our target despite it being progressively more difficult to achieve year-on-year.

The main reasons for this are:

- We've changed our leakage strategy from maximising the number of repairs to maximising the leakage reduction, resulting in fewer proactive repairs;
- Our leakage prevention programmes have improved the network performance;
- Relatively mild, damp conditions and limited freeze-thaw or extreme temperature events meant the wet ground was stable for our pipes; and
- Water demand was lower than last year, reducing network stress.

Over the last three years, our quality assurance team have been working hard to improve the identification of burst mains and eradicate incorrect or fraudulent work management and we've significantly improved the quality of our repair and maintenance work.

We now carry out same-day assurance on every completed job related to this PC and corrections can now be made directly into our work management system, improving data quality and visibility.

We've also worked with our Business Integrity team to improve our working practices.

What we're doing to improve our performance

We are focused on maintaining our performance by:

- Delivering more mains rehabilitation schemes to replace the mains most prone to bursting;
- Utilising the information in our Climate and Leakage Model ('CaLM') to inform decision making. This carries out wholesale reviews using a hydraulic, system-based approach to deliver a calmer system by mitigating pressure transients and high pressure variance. It also identifies sites needing review by looking at bursts per flow monitoring zone, supply interruption hotspots and leakage sensitive areas; and
- Adjusting pressure management areas ('PMA') to optimise the pressures across the network and mitigate burst risk.

Mains repairs is an essential part of our leakage strategy. Our AMP8 leakage strategy is embedding faster than we anticipated with active leakage repairs already achieving low numbers not expected until the end of AMP8. Whilst this is in part due to favourable weather, we are confident we can keep repairs low due to our targeted approach.

Notes on this measure

Our targets have been amended for 2023/24 and 2024/25 as part of Ofwat's February 2023 approval of our PR19 conditional allowances to enhance the performance of our London water network.

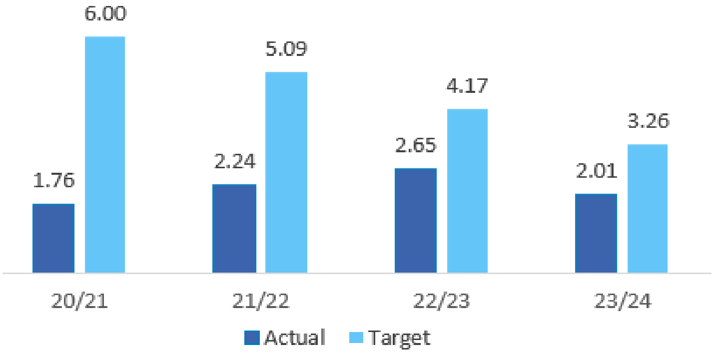
Performance

Unplanned Outages *BW02*

No penalty (met)

% of water we were unable to supply due to unforeseen circumstances

A lower % is better



How we've done

This year, and every year of the AMP, we've met our target.

Our unplanned outage performance has benefited from the improvement in our water quality performance in 2023/24, while our continuing focus on the public health transformation plan has also contributed to our success.

While we concentrate on all unplanned outages, we are particularly focused on the reliability and resilience of our five London works as they contribute over 60% weighting to this measure, and they are critical to our continued outperformance.

Our conditional allowances are enabling us to improve the resilience at Coppermills and Hampton treatment works.

What we're doing to improve our performance

We'll remain operationally focused on achieving longer-term improvements through asset criticality assessments, regular site trip reporting and response review, and a tool to assist with alarm management. This allows us improve our operational response to asset events, as well as helping to manage the system and keep customers in supply.

We also expect our future performance to be favourably impacted by the delivery of our Public Health transformation plan.

Our PR24 submission assumes continuing improved performance through AMP8. This will be achieved through maintaining the health of the water production asset base and acting on findings from the increased risk-based inspection programmes, as part of public health transformation.

Notes on this measure

This is water we were unable to supply to our customers because of an unforeseen deterioration or failure of the assets we use to source and treat the water.

Performance

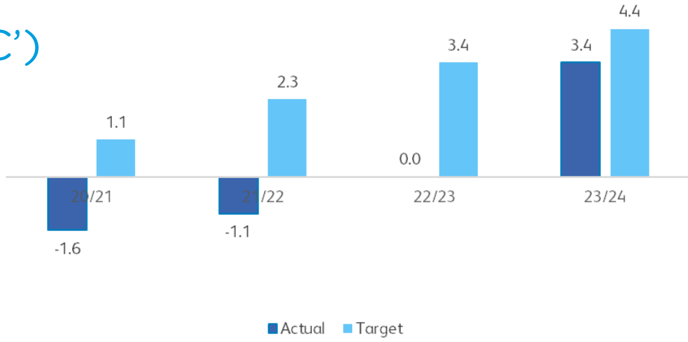
Per Capita Consumption ('PCC')

BW05

Penalty: n/a (not met)

Three year average % reduction in the average water usage of household customers

A greater positive % is better



How we've done

Our three year average reduction in our PCC has improved by 3.4% year on year, the biggest improvement over the AMP. However, we've missed our target this year.

0.3% of this improvement is attributable to the accuracy enhancements that we've made to our leakage calculation.

A further small drop in PCC can be attributed to us updating our property information (no update was possible last year as we were awaiting the new census data), increasing our population numbers marginally. The details on this can be seen in the notes for Table 4R.

This year, we've benefited from a cooler, wetter summer, in contrast to the drought in 2022, so we experienced a much smaller seasonal increase in demand.

At the same time, we've continued to see the cost of living crisis driving reduced consumption, while post-covid hybrid working changes are also continuing to impact consumption, particularly in the Thames Valley and Home Counties ('TVHC').

Smart metering data also allows us to proactively engage with households in order to help reduce consumption, such as by identifying household leaks.

Our water efficiency Smarter Home Visits (see Table 6F), increase our understanding of the areas with the greatest water saving opportunities.

Backcasting

The data improvements made to our leakage calculation also impacts our Water Balance. This means our PCC reporting in the year has also been backcast, following the same methodology applied to our leakage calculation.

Our PCC 2019/20 base line has been updated to 145.2 litres/person/day (previously 146.0 l/p/d). There is no ODI adjustment required for PCC as its ODI calculation is at the end of the AMP.

What we're doing to improve our performance

We strongly feel that metering is the best way to influence customer behaviour and we're disappointed that we were unable to reach an agreement with Ofwat to continue our Green Economy Recovery programme to implement 204,700 smart meters in TVHC instead of London. Ofwat made recovery of GER funding contingent on delivery of our AMP7 leakage targets. However, due to the Summer 2022 drought and December 2022 freeze-thaw event, and the impact that this has had on our rolling three year average leakage performance, we don't expect to achieve our leakage target for this AMP. As a consequence the GER programme has been stopped. We haven't met our leakage or PCC targets due to the hottest, driest year on record in 2021/22 and we believe that increased metering in TVHC would have the greatest impact on reducing customer demand.

Our roll out of smart metering, in addition to providing more accurate customer insights and enabling better network management, will continue to play a role in reducing household water consumption and wastage.

Further innovations in data utilisation will enable us to identify and target water efficiency communications and interventions on households with high usage and continuous flows.

We are also engaging with policy makers and regulation leads about the suitability of the current PCC metric to measure water company performance going forward.

Notes on this measure

This is a PC where our performance is assessed at the end of AMP.

Performance

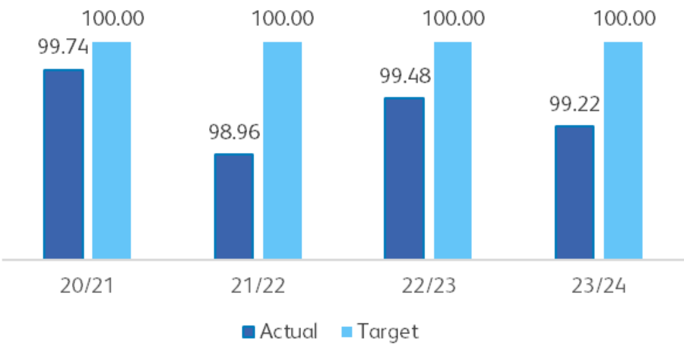
Treatment Works Compliance

CS01

No penalty as the actual is close to target (deadband)

% of our treatment works compliant with their discharge permit conditions

A greater % is better



How we've done

As our performance is within Ofwat's non-penalty parameter, while we've missed our target this year, we will not receive a penalty .

We've had three compliance failures this year:

- Long Reach STW, suspended solids failure (January 2023);
- Sandhurst STW, ammonia failure (March 2023); and
- Mortimer STW, oil spillage (August 2023).

All failures were investigated and the root cause identified so that corrective actions could be taken at a site-specific level to reduce the risk of reoccurrence. On completion of these reviews, actions were implemented to mitigate the risk of similar occurrences.

Additionally, discharge compliance risks are reviewed by senior management in monthly Compliance & Pollutions Steering Group meetings to maintain our continuous learning processes and focus on mitigating failures at higher risk sites.

What we're doing to improve our performance

We'll continue to increase our focus on discharge compliance and improving operational performance and we're committed to increasing our resilience by upgrading our wastewater treatment plants, through our investment programmes .

Our latest plans can be found in our "Improving river health in the River Thames Catchment" that we published in April 2024.

Notes on this measure

This is a calendar year measure.

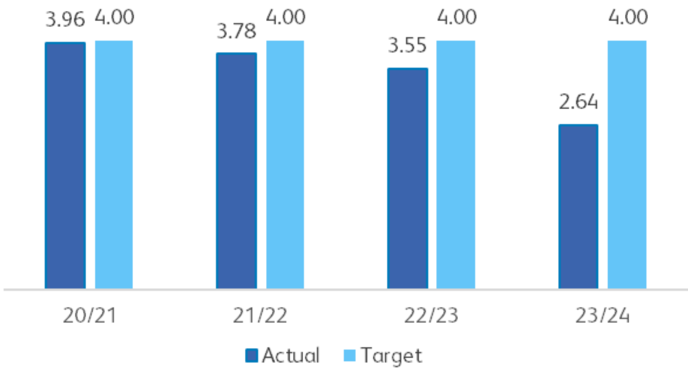
Performance

Sewer Collapses *CS02*

Reward: £1.027m (met)

Number of sewer collapses per 1,000 km of sewer network

A smaller number is better



How we've done

Building on our year on year improvements, we've achieved our best performance in the AMP. We've met our target and seen the number of collapses reduce by 26 % from 2022/23.

This is really good news for the environment as well as our customers. Fewer collapses means fewer pollutions and a reduced negative impact on our surroundings.

We've had fewer rising main bursts than last year (11 % reduction), and our gravity sewer collapses are significantly lower (31 % reduction).

After a process change in September 2023, we've reduced follow-on work and this has allowed us to prioritise necessary sewer repairs in locations with higher flooding and pollution risk.

We've increased our proactive sewer rehabilitation funding compared to AMP6. An example of our investment in improving sewer resilience, and our environmental impact, is a £16 million rising main replacement in Swindon that we commenced in August.

What we're doing to improve our performance

We'll continue delivery of the proactive sewer rehabilitation programme, implementing process improvements to reduce the time between CCTV survey inspections and sewer rehabilitation delivery.

Our investment programme for proactive gravity sewer rehabilitation and rising main replacements is planned to be even greater in AMP8.

We'll also continue to prioritise the new reactive follow-on work raising process.

Notes on this measure

This is the number of sewer collapses or breaks which have impacted our customers or the environment, and where we have replaced or repaired the pipe.

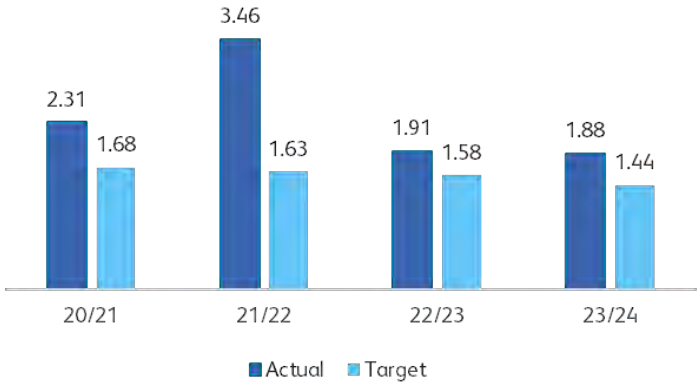
Performance

Internal Sewer Flooding
CS03

Penalty: £7.375m (not met)

Number of internal sewer flooding incidents per 10,000 sewer connections

A smaller number is better



How we've done

Our internal sewer flooding 2023/24 performance is our best in the AMP to date and we've improved for the third year running. However, our penalty has increased as the performance target set for this PC is incrementally lower each year.

We've had a significant increase in rainfall this year and this PC has been particularly impacted by the named storms we experienced in 2023/24. Due to these climatic conditions, we exceeded our hydraulic (storm-related) flooding target in most months of the year as prolonged above average rainfall means that the ground has often been saturated, increasing the risk of flooding, even during light rainfall.

20 % of internal sewer floods this year were due to localised storms, which are difficult to predict and mitigate, such as in Swindon in September.

Floods from other causes have reduced by 10 % due to our planned interventions programmes, which include:

- Planned maintenance and cleaning programmes;
- Removal of interceptors (older lateral drains that can cause blockages);
- Network Protection schemes; and
- Increasing the amount and availability of real time sewer depth monitoring ('SDM').

We've also benefited from the increased efficiencies in blockage clearance and improved the speed of our response.

What we're doing to improve our performance

Work continues on our planned intervention programmes and they are already proving their merits.

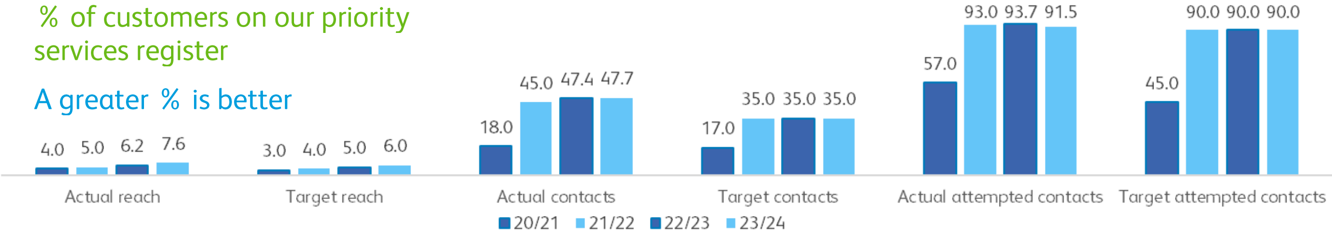
We're trialling the introduction of a virtual technician to support first time fixes and reduce the number of repeat floods.

Priority Services Register *AR06*

Reputational only (met)

% of customers on our priority services register

A greater % is better



How we've done

We've continued to grow our priority services register ('PSR') and met our target through the operational management we've got in place to spot vulnerability within the contact centres and our oversight of the quality of the check in process.

We were one of the first water companies to hit the target to grow our PSR to 7% of our region – for us that's 410,000 households. We achieved this target 18 months early.

Our PSR growth above our forecast can also be attributed to our energy data sharing partners, UK Power Networks ('UKPN') in particular, who have undertaken PSR awareness campaigns .

We've maintained the consistency of our check in process through engagement with our data sharing partners.

What we're doing to improve our performance

We're currently exploring an opportunity that would see us undertake a historic PSR data share exercise with UKPN.

We will also:

- Continue with our current strategy of data sharing and employee spotting;
- Create a waste only customer PSR; and
- Implement data sharing with the Energy Suppliers.

Notes on this measure

The PC includes the % of all households in our region that are on the PSR, known as 'Reach', and how often we contact them.

This PC does not have a financial penalty/reward attached to it.

How individuals are recorded in our PSR

An individual may be registered for more than one service, so the number of registrations will not sum to the total individuals registered. For example, in the support service categories shown below, an individual of pensionable age with a sight impairment and chronic serious illness would be counted as three registrations within the support with supply interruptions category.

Individuals registered by service category:

Support service category	Number
Communication	68,278
Support with mobility and access restrictions	530,971
Support with supply interruptions	694,390
Support with security	10,786
Support with other needs	15,694
Total individuals registered	450,375

Register movements in year:

	Individuals	Households
At Mar 2023	365,774	358,899
Additions	130,373	124,534
Removals	45,772	41,497
At Mar 2024	450,375	441,936

In addition to this PC, we have several other schemes for our vulnerable customers. For example, we've donated £6 million to an independent trust fund over the past 10 years which supports customers in need via local charity projects.

Performance

C-MeX *AR01*

Penalty: £12.212m, (17th out of 17 companies)

Customer experience and satisfaction out of 100 through a customer survey

A higher score is better

How we've done

Customers tell us that we're not resolving issues quickly enough or keeping them well informed of resolution progress. Our scores are higher for those surveyed who've used our services. whereas public perception is negatively impacting the view of others.

Reprioritisation from our Turnaround Plan has meant we've halted our brand campaigns, which we believe has had some impact on the score. Customer perception has also been influenced by negative media publicity this year, including the resignation of our CEO, company debt, operational issues,and pollution fines.

What we're doing to improve our performance

Our turnaround plans focus on reducing complaints rather than increasing satisfaction, and it's not yet clear how much secondary benefit will be realised for C-MeX, although as our performance improves in other areas, we expect to see incremental improvements in our C-MeX score.

We'll focus on improving basic customer service in operations, including driving improvements across leakage, blockages, and sewer flooding. We're developing ways to increase the speed of incident resolution and keep customers informed, such as automating more of the billing process.

Notes on this measure

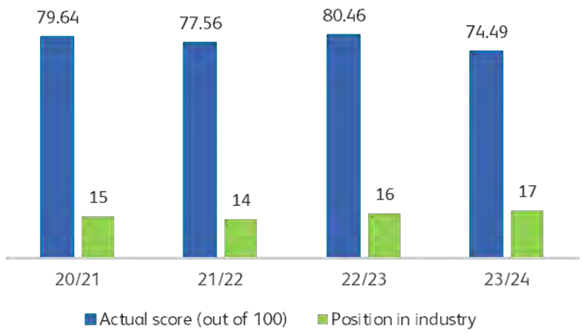
The 17 largest water companies in the industry take part in two equally weighted monthly customer surveys (customer experience and customer satisfaction). The results are used to calculate rewards or penalties based on the relative performance of the company.

D-MeX *AWS01*

Penalty: £5.572m, (17th out of 17 companies)

Developer experience and satisfaction scored out of 100 through a customer survey

A higher score is better



How we've done

Despite relatively stable performance on this PC, our league position has deteriorated this year.

We started the year by mobilising new resources to manage the incoming work, whilst also developing a strategy for clearing the backlogs from our previous contractors, particularly in TVHC.

Our D-MeX figures reflect this late delivery of work from both a quantitative and qualitative perspective, with both improving significantly in the last quarter of the year.

We continue to offer environmental incentives, although uptake has been quite low. These provide more accessible discounts to developers including water efficiency elements in their designs.

We've also delivered new workflow management systems for both London and the Thames Valley.

What we're doing to improve our performance

We've got approval for investment in a new customer portal, which will be transformative for our future performance. The initial launch is planned by April 2025.

Notes on this measure

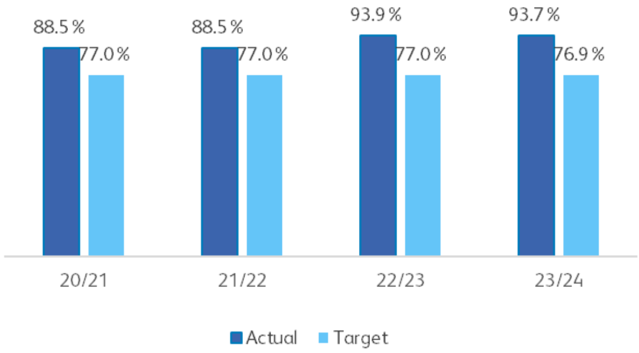
D-MeX measures developer satisfaction by combining qualitative and quantitative satisfaction scores. The results are used to calculate rewards or penalties based on the relative performance of the company.

Risk of severe restrictions in a drought *DW01*

Reputational only (not met)

% of customers in our region at risk of severe water restrictions during a 1-in-200-year drought

A greater % is better



How we've done

This measure has been adversely affected by our performance in leakage and PCC, along with changes to supply-side schemes in the Water Resource Management Plan ('WRMP') . Unfortunately, we've missed our target this year.

The level of demand seen in the Swindon and Oxfordshire ('SWOX') and Slough, Wycombe and Aylesbury ('SWA') zones over the past year has exceeded what was forecast.

These high levels of demand are partly due to weather patterns and partly due to changing habits since Covid-19 as some people continue to work from home.

What we're doing to improve our performance

We expect our performance for this measure to be improved by the leakage and resilience activities in our Turnaround Plan.

Following the summer drought in 2022, we dedicated specific resources to improving our asset resilience, our modelling for proactive mitigation, and reviewing plans for severe drought restrictions. In addition, we've delivered Board and Executive training materials.

We will continue to review our drought preparedness and refresh our training materials.

Notes on this measure

Our certainty grade for this metric is C6.

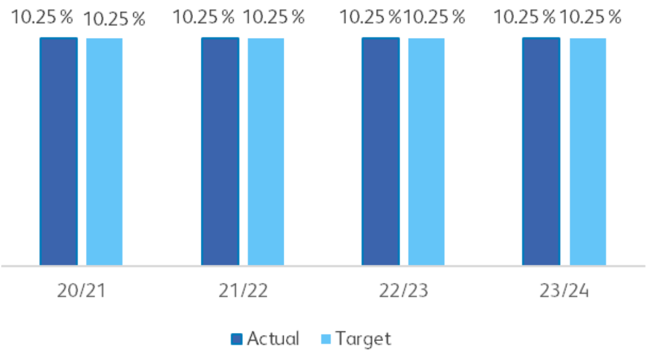
The guidance consistent metric is 90.41 % compared to the 86.60 % target.

Risk of sewer flooding in a storm *DS01*

Reputational only (met)

% of customers in our region at risk of severe water restrictions during a 1-in-200-year drought

A greater % is better



How we've done

We've maintained our performance and met our target again this year.

What we're doing to improve our performance

The key factor that may change our performance in this AMP will be the opening of the Thames Tideway Tunnel next year. We have no other major flooding schemes planned.

Notes on this measure

As required by Ofwat's reporting guidance for this metric, we make the following disclosures:

- We take into account both hydraulic and other cause flooding in our assessment;
- The majority of catchments are Vulnerability Grade 4, typically due to high population density and historical flooding;
- No 2D models were used for this assessment;
- FEH13 rainfall has been applied to the models; and
- Option 1a collated population 6.24 %. Option 1b collated population 4.02 %.

Bespoke performance commitments

Satisfied vulnerable customers *AR05*

Reputational only (not met)

The % satisfaction level of customers who are on our priority services register

A greater % is better

How we've done

When analysing root causes of dissatisfaction, inclusive service issues are not a factor of any significance. The only issue highlighted is our support during supply interruptions. Unfortunately, though maintaining performance, we've missed our target.

The satisfaction of our PSR customers depends on the same drivers as our wider customer base - resolving issues efficiently and keeping customers informed. PSR customers scored 88 % on average, and 88 % for non-PSR customers.

What we're doing to improve our performance

We know that we need to improve our support for customers during supply interruptions by keeping them more informed and customising our support for PSR customers with appropriate alternative responses. A workstream has been established as part of the Turnaround Plan for complaints.

Our AMP8 strategy focusses on resolving issues for customers more rapidly and keeping them informed.

BSI for fair, flexible inclusive services *AR07*

Reputational only (met)

Renewal of our annual certification

	20/21	21/22	22/23	23/24
Actual	Achieved	Maintained		
Target	Achieved	Maintained		

How we've done

We've met our target again this year. In order that our service is accessible to all, we committed to achieving and then maintaining the British Standard Institute's vulnerability standard BS1847 throughout the AMP period.

This year, the standard has been upgraded from BS1847 to International Standards Office (ISO) 22458, and we have maintained our accreditation.

What we're doing to improve our performance

We will maintain our performance through ongoing engagement and communication within our customer teams.

We plan to increase our customer call consistency through voice analytics tools embedded within our telephony to initiate better knowledge management.

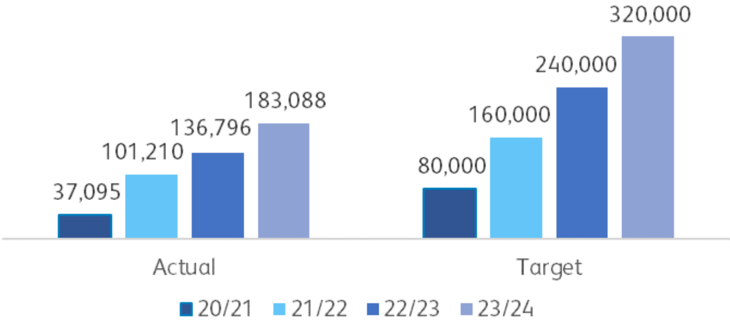
Performance

Proactive customer engagement *AWS02*

Reputational only (not met)

Number of times we proactively contact customers in the year

A greater number is better



How we've done

Performance was very similar to last year in most areas contributing to this measure. Unfortunately, turnaround reprioritisation has reduced our ability to meet our start of AMP forecast, and we've missed our target.

However, demand reduction activities increased compared to last year due to receipt of additional funding, which allowed Smarter Home Visits and Smarter Business Visits to increase modestly. This progress was outweighed by our lack of a Digital Engagement Portal, and the likelihood of not having one completed in AMP7 due to our new Turnaround Plan.

What we're doing to improve our performance

We expect to see incremental improvements as part of our turnaround plan, but it's not currently an area with direct focus.

Before the end of the AMP, a full survey of customer activity will be carried out to assess the success of current activities. This would include anything carried out in previous years.

Notes on engagement activities

- Net Promoter Score ('NPS'): We're not able to calculate the NPS due to system changes.
- Local Authority Housing Associations ('LAHA') visits were discontinued after 2020/21.
- The Greenredeem scheme motivates our customers to reduce water consumption, through behaviour change, by winning prizes, donating to charities and redeeming gift cards.
- Bin it don't block it ('BIDBI') campaigns encourage customers not to dispose of fats, oils and grease in our drains.

Defined Activities	2022/23	2023/24
Smarter Water Home Visits	2,366	4,586
Smarter Water Business Visits	387	1,760
Wastage	300	448
Greenredeem	669	392
Proactive Smart CSL Repairs	2,607	3,491
LAHA Visits	_	_
Proactive Lead Pipe Replacements	13,389	12,300
Total	19,718	22,977

Additional Activities	2022/23	2023/24
School Visits	_	39
NHH Fats, Oils and Grease (FOG) Visits	15,825	13,244
BIDBI Greenredeem	_	3,946
Fat trap requests	_	6,086
Digital - Smarter Home Visits	_	_
Digital - Education Visits	43	_
Digital - Portal Engagements	_	_
Total	15,868	23,315

Defined total AR24	22,977
Additional activities total AR24	23,315
Total	46,292

AWS02 AR23 total	136,796
AWS02 AR24 total	183,088

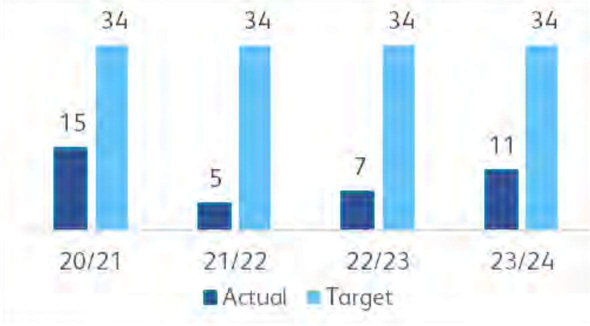
The tables above set out those activities classed as defined by the PC and those additional activities we have completed which support the measure.

Properties at risk of receiving low pressure *BW07*

No penalty (met)

How many properties are receiving, or at risk of receiving a low pressure supply (nr.)

A smaller number is better



How we've done

We've met our target, partly due to new ways of working implemented this year. For example, we've started moving our Operations team onto a new work management system, which has improved and automated our processes. In addition, we've moved to an early investigation model which allows us to respond more quickly in areas where the water supply pressure seems to be below standard.

A mild summer and warmer winter have had a positive impact on this measure by reducing spikes in demand and stress on the water network.

One valve failure in North London (Portersfield) contributed to a large number of properties on the Register.

What we're doing to improve our performance

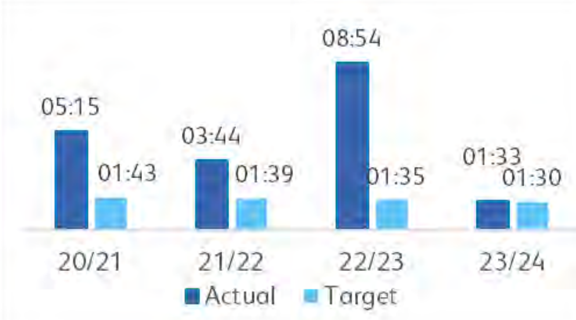
We will continue to embed the early investigation model and improve our alarm management through better data dashboards.

Responding to major trunk mains bursts *BW11*

Reputational only (not met)

Average number of minutes customers are without water because of a burst (mm:ss)

A smaller time is better



How we've done

We've enhanced our operational processes this year, but narrowly missed our target.

This is a marked improvement from last year's performance, partly due to our increased use of tankering during trunk main events for a quicker response and incident resolution. We've also increased our trunk mains monitoring and upgraded air valves to reduce the risk of causing bursts.

What we're doing to improve our performance

We are working to improve our performance by:

- Increasing compliance to our asset standards for above ground maintenance;
- Continuing to invest in our network, including rectification of valve issues, hydrant installs, and building resilience through increased network interconnectivity;
- Enhancing our tankering fleet;
- Developing a valve tracking tool to enable the near-live status of all mapped valves on the network; and
- Trialling a trunk mains valve remote controlled device to understand its effectiveness in providing burst isolation, or rerouting of supplies without disruptive dig downs.

Notes on this measure

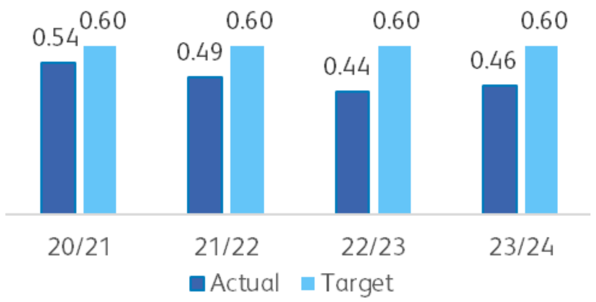
- Incidents in scope are categorised as lasting for three hours or more.
- Trunk mains are our largest network pipes.

Acceptability of water to consumers *BW08*

No penalty (met)

How many times customers have contacted us about their water per 1000 population

A smaller number is better



How we've done

We've kept our performance in line with previous years and met our target again this year.

The DWI reissued their guidelines for this measure, allowing the team to review current processes for consistency. In addition, improvements to our website information may have also contributed to consistent good performance.

What we're doing to improve our performance

We forecast that performance will be maintained below the target of 0.60 next year.

We will continue to minimise customer complaints relating to water quality issues through day-to-day operational management and provision of relevant information on our website relating to typical water quality issues.

Notes on this measure

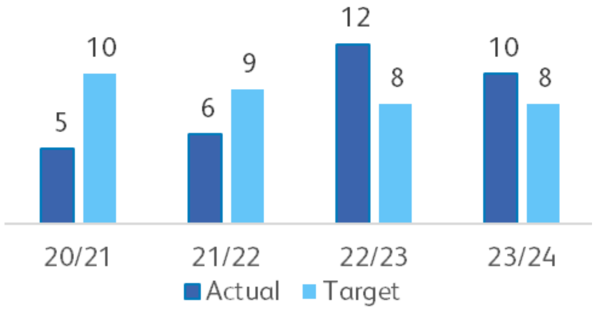
- The contact might be in relation to the taste, odour or cloudiness of their water.
- Alternatively, there may be a report of an illness due to our drinking water.

Number of water quality events *BW09*

Penalty: £0.071m (not met)

Water quality events impacting customers categorised as 3, 4 or 5 by the DWI (nr.)

A smaller number is better



How we've done

Although performance is improved compared to last year, there have still been too many significant events with customer impact, mostly large loss of supply events. As such, we've missed our target by 2 events.

Prolonged wet weather has contributed to some of the events, but greater seasonal variation is becoming more typical in recent years.

What we're doing to improve our performance

Water Quality is a key priority within our turnaround plan. Our Service Commitment Plan ('SCP') and turnaround plan outline the key improvements we want to make, and these improvement activities should see a correlated improvement in the number of water quality events.

Notes on this measure

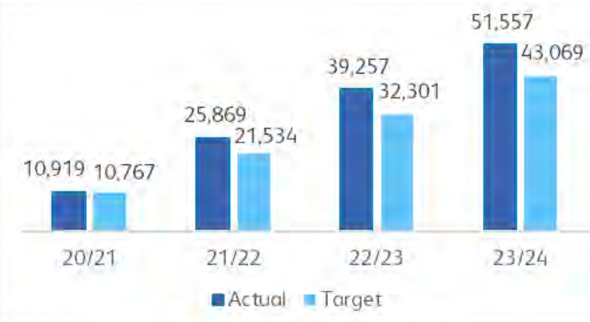
- The criteria applied are subject to DWI assessment which can change. The DWI have not concluded assessment for all events so there is a small possibility that our performance figure may change.
- Category 3 = Significant, Category 4 = Serious and Category 5 = Major.

Reducing risk of lead *BW10*

Reward: £0.840m (met)

Cumulative number of lead communication pipes we will replace in the 2020/25 period

A greater number is better



How we've done

We've met our target again this year. Although we've changed one of our suppliers, we've continued successful delivery of our accelerated lead pipe replacement programme.

What we're doing to improve our performance

Our performance will be maintained based on the processes established and developed over the previous 4 years and evidenced by successful programme delivery.

The implementation of our new workforce management system will enable improvements to data capture and reporting, which will enhance decision making.

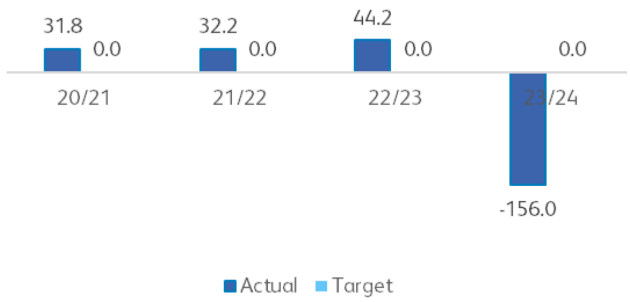
We will take forward the learnings from this successful PC into AMP8 to positively impact water quality for our customers.

Abstraction incentive mechanism ('AIM') *EW01*

Reward: £0.0009m (met)

Abstraction from environmentally sensitive sites when levels are low (Ml/d)

A greater negative amount is better



How we've done

We've met our target this year. The predominantly wet and mild weather has had a major impact on this PC and the change in our performance from last year.

AIM was not switched on at four out of five sites as flows were not low enough to reach the trigger values. AIM was triggered at Axford, but we complied with the constraint.

What we're doing to improve our performance

We will maintain good communications with site operatives to comply with AIM whenever possible. However, our customers' security of supply will always be our priority.

Notes on this measure

- We have included five sites in this measure: Pangbourne groundwater source, and the pumping stations of New Gauge, Axford, Pann Mill, and North Orpington.
- We've reduced our Pann Mill licence through a sustainability initiative, and have therefore suggested to Ofwat that we remove Pann Mill from AIM.

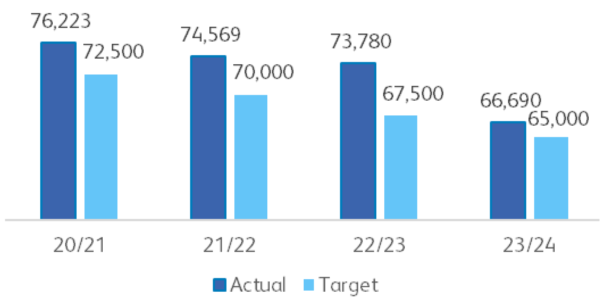
Performance

Clearance of blockages *CS04*

Penalty: £2.371m (not met)

Blockages we've cleared from the sewer network

A smaller number is better



How we've done

We've continued to reduce blockages year on year against an increasingly tough target, but have missed our target by 3% this year.

Our performance is driven by our planned programmes and operational changes. We've increased blockage clearance by jetting from 40% of blockages at the beginning of the AMP to 85% by March 2024. Jetting is more effective at preventing repeat blockages. Our planned sewer cleaning had good performance until Q4, which was impacted by resource restrictions.

We've also continued to remove interceptors as tests show a 60% decrease in blockages as a result of this work (see internal sewer flooding).

Blockages are often due to misuse, such as disposing of fats, oils and grease ('FOG') into the sewer network. For example, a 'concreteberg' in Hammersmith took us six weeks to remove.

What we're doing to improve our performance

We will improve resource availability for planned cleaning through improved job management. We will also increase our blockage prevention measures, such as sewer depth monitor installs, interceptor removals and customer education.

Planned intervention programmes for Internal Sewer Flooding CS03 will positively impact this PC.

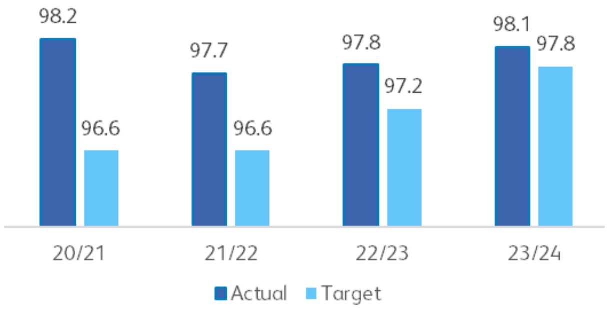
In the AMP8 business plan, we've included improved proactive identification through virtual blockage alarms and continuing our roll out of sewer depth monitor.

Sewage pumping station availability *CS05*

No penalty (met)

Average % of pumps available for use in our sewage pumping stations

A greater % is better



How we've done

We've successfully met our target in spite of operational challenges with increased and sustained weather events, such as the high rainfall over the past eighteen months.

After heavy rainfall, our pumps are more likely to be blocked by debris and fail, and power supplies can also be interrupted.

New technology has been installed to improve flow measurements and data insights. Our reporting system has been fully automated to provide accurate and consistent asset information for any time period. This has improved our data quality and proactive planning.

Resourcing has been more challenging this year, especially in responding to asset incidents at night. Despite this, we have increased our sampling rate to daily to improve our capability to intervene and operate more dynamically, targeting resources to where they are most needed.

What we're doing to improve our performance

We are looking at ways to build on our new reporting capabilities, such as analysis of incident root causes and incident impact.

In addition to tracking the number of incidents, we may also track asset unavailability time to provide greater understanding of our network resilience.

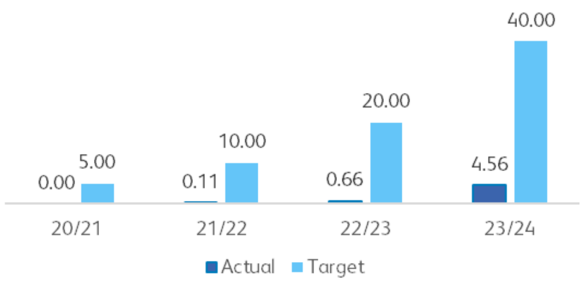
Performance

Surface water management *DS02*

Penalty: n/a

Area (in hectares) where surface water is disconnected from the public sewer system

A greater area is better



How we've done

We have increased our cumulative output this year and continue to have a strong partnership delivery model, but we're behind our delivery target.

There are ongoing project delays due to the complexity of differences in the needs and governing bodies between our delivery partners, such as Local Authorities, Highways Agencies, charities and schools. Project costs also continue to be higher than forecast in PR19; third party suppliers have had to be sourced for some projects.

Ongoing wet weather this year has delayed construction for some projects and resulted in more specialist, higher cost equipment needed to work in wet weather.

The increase in costs and need for additional funding sources can reduce the amount of meaningful contribution that can be claimed for this PC by reducing the amount of area claimed from 100 % to a proportion of the total.

What we're doing to improve our performance

Our key action for the year ahead is get sign off on the last few remaining projects and maintain good engagement with our stakeholders. We hope to deliver a total area of around 19 hectares.

Notes on this measure

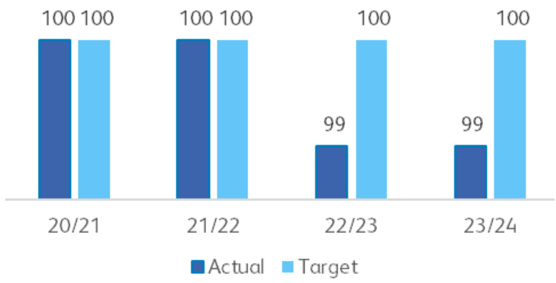
This is a PC where our performance is assessed at the end of AMP.

Security of supply index availability *DW02*

Penalty: £0.224m (not met)

Our ability to maintain a water supply, particularly during a drought

A greater score is better



How we've done

Last year, our SoSI score fell to 99 due to a deficit in the SWOX area and our performance remains the same, so we have missed our target.

Demand and leakage continue to be higher than expected in that area, although the wetter, milder weather this year has reduced the impact.

What we're doing to improve our performance

Work is underway to recover the loss of deployable output in the SWOX area. We hope to resolve this in summer 2024, however the number of sites requiring investment, and the ongoing challenges with elevated demand and leakage, means our SoSI performance may not recover until AMP8. Our Water Resources and Operations teams are monitoring progress.

In addition, maintenance and refurbishment at Thames Gateway WTW in London is ongoing, aiming to improve reliability.

Our WRMP includes a programme of leakage, metering, and customer usage reduction schemes that we hope will improve the supply-demand balance challenges we see in the Thames Valley.

Notes on this measure

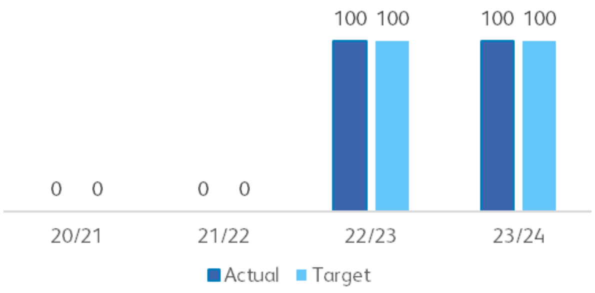
Our Water Resources Management Plan 2024 (WRMP24) builds on our current plan (WRMP19) and reflects the South East regional plan. It sets out how we'll keep taps flowing over the next 50 years, looking ahead to 2075.

Drainage and wastewater management plan *DWMP*

Reputational only (met)

Cumulative % completion of our DWMP in line with Water UK requirements

A greater % is better



How we've done

We are 100 % complete on our Drainage and Wastewater Management Plan ('DWMP').

We published our DWMP on 31 May 2023, with a regulatory extension from our original publication date in order to encompass the latest guidance on Storm Overflows.

Alongside our DWMP, we've published an accompanying document detailing how DWMP interventions are supported in our PR24 submission.

What we're doing to improve our performance

We are currently working with our regulators (DEFRA, EA, and Ofwat) to discuss the remit of the next iteration of DWMP, known as cycle two. Our regulators expect to see a broader view of wastewater infrastructure requirements for the next cycle.

Power resilience

DWS01

Penalty: n/a

Cumulative number of our key sites that we have made resilient to power disturbances

A greater number is better

How we've done

We've unfortunately missed our target again this year as only 4 out of 37 outputs have been completed.

Our progress on this PC has stopped as funding for this programme was reallocated in 2021/22.

What we're doing to improve our performance

While we don't expect to deliver any further outputs against this PC, we will continue to focus on resilience via other workstreams.

Notes on this measure

This is a PC where our performance is assessed at the end of AMP.

Securing our sites (2020-25 projects) *DWS02*

Penalty: n/a

% of 28 borehole sites we have made SEMD compliant

A greater % is better

How we've done

22 boreholes have been completed and we are on track to complete the programme successfully.

The new governance structure introduced for AMP7 has significantly improved project management and supplier/ contractor relations.

However, there have been small delays due to the availability of steel and microchips used in some components, a factor effecting many industries around the world at present.

What we're doing to improve our performance

We will continue our good governance structure through early engagement and close management of the programme, to mitigate delays and maintain good communication networks with all stakeholders.

We will also continue to look for synergies, working collaboratively across TW teams and contractors to provide the most efficient and cost effective approach.

In addition, we've funded a supplementary resource to mitigate potential delays within our Operational Technology function.

Notes on this measure

The Security and Emergency Measures Direction ('SEMD') is legislation that directs undertakers to maintain plans to provide a supply of water at all times.
This is a PC where our performance is assessed at the end of AMP.

Securing our sites (legacy projects) *DWS03*

Penalty: n/a

% of 264 AMP6 sites we have made SEMD compliant

A greater % is better

How we've done

247 sites have now been completed and progress is well ahead of our schedule.

This work is managed alongside our other SEMD PC so its performance drivers are very similar.

In addition, we successfully established a solution at Hampton WTW (one of our large London treatment sites) by constructing a temporary marquee structure over a leaking contact tank to enable the SEMD scope to progress despite the faulty asset.

In order to minimise disruption to site processes, the SEMD programme is aligned with planned maintenance and inspection outages to simultaneously use the outages for installation work.

What we're doing to improve our performance

Please refer to the improvements outlined for our other SEMD PC (DWS02).

Notes on this measure

This is a PC where our performance is assessed at the end of AMP.

Counters Creek
CC

Reputational only (met)

Understanding the risk of flooding and level of resilience within the catchment

This measure is either completed or not yet complete

How we've done

We met the target by completing the required study. We submitted it to Ofwat on 26 July 2023 in advance of the deadline and published the report on our website for our customers and stakeholders.

Our report was reviewed by the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and an independent assurer.

To date, we have invested over £1.3 million in the area with 924 properties surveyed, anti-flooding devices installed in 93 homes and other network devices installed in 498 homes.

What we're doing to improve our performance

We will continue to focus on managing long-term resilience and reducing the flood risk to our customers. Full details can be seen in Section 3 of the report and its appendices.

Notes on this measure

Counters Creek was a river that ran through London. It rose north of Kensal Green and joined the tidal Thames south of the old Cremorne Gardens. The watercourse was incorporated into the sewer system in the late 1800s.

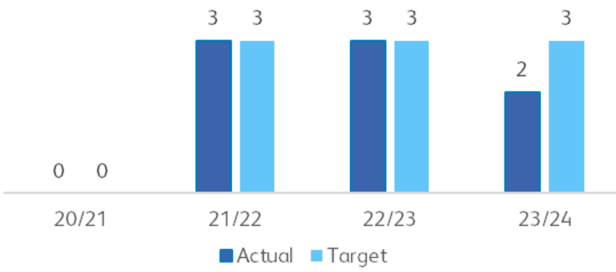
The London sewer system does not have a conventional branch-like structure and therefore flow routes can vary depending on rainfall locations and intensities.

Smarter Water Catchments *EWS02*

Penalty: £0.811m (not met)

Delivering smarter water catchments initiatives (nr.)

A higher number is better



How we've done

Although we have delivered this initiative in two of the three catchments, the River Crane and the River Chess, we have only been able to deliver 36 of the 37 actions within the catchment plan for the River Evenlode. As a result, we've missed our target.

Our final determination definition for the PC requires all actions to be completed in order to 'pass'. Actions completed this year include delivery of an educational . programme, training and events for citizen scientists, river restoration and projects to monitor water quality and address diffuse pollution, which are delivering multiple benefits for the local environment and community. However, one action (our plan for a pilot technology project for phosphorus removal) is outstanding.

Support from our stakeholders is a key aspect of this PC and we continue to work with our partners in the Evenlode catchment to deliver this outstanding action.

What we're doing to improve our performance

We will consider all options to return our performance to the target next year.

Notes on this measure

We've committed to delivering initiatives in three river catchments (Chess, Crane, and Evenlode). These whole river interventions will address multiple environmental issues. More information can be seen on our website.

Unregistered household properties *ER01*

No penalty (met)

Implementation of a robust process to identify households that are not being billed

This measure is either completed or not yet complete

How we've done

We've successfully achieved this PC this year.

We've implemented an Unregistered Property process for the first time, continually refining and improving the quality of our data and the returned data from our third party partner, throughout the year and we will continue to do so.

Both onshore and offshore resources are now in place, data processing and reporting has been established, and we have expanded our capability from a small, targeted trial to all of our TW properties.

Several data identification processes and ways of working were tested so that the most robust one became embedded. Data matching is now carried out each month following system improvements to reduce the average case handling time and enable more effective reporting.

What we're doing to improve our performance

We will continue to refine and improve the quality of both our data and that received from our third party provider through analysis and feedback.

We have scoped a plan to improve customer response rates and maximise our return on investment.

Households on our social tariff *ER03*

Reputational only (met)

The number of households receiving support from our social tariff

A greater number is better

How we've done

We've achieved double the expected number of households this year, and met our target again.

We've broadened our eligibility criteria for our social tariff to include the 'affordability threshold' as well as 'low income', based on research and collaborative work with the Consumer Council for Water ('CCW'). This resulted in 20,000 additional customers benefiting from our social tariff and gave us confidence to move to the 'affordability threshold' as our sole criteria going forward.

The cost of living crisis has driven awareness of support available, and while this has resulted in some spikes in demand, we have been able to absorb them.

What we're doing to improve our performance

We are embedding the social tariff application process into the Income and Expenditure reviews that we undertake and launching a web form to make it easier for customers to apply.

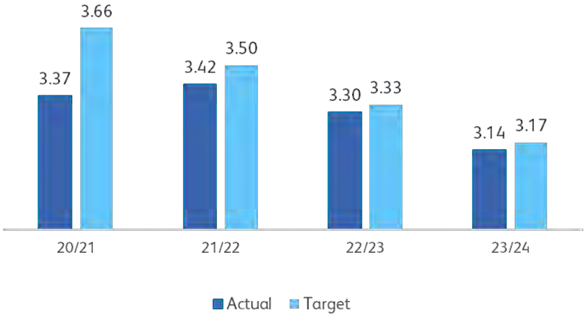
We will undertake research with customers as part of our wider Affordability Strategy as we look ahead to provide sustainable support and increased investment for AMP8.

Empty household properties *ER02*

Reward: £0.231m (met)

% of empty household properties in our billing system

A smaller % is better



How we've done

We've met our target this year and should maintain it in Year 5 despite the target reducing again.

A new empty properties management team was set up last year and has continued to cleanse our property data within the billing system to drive accuracy.

Our moving house processes were also thoroughly reviewed and revised this year to capture increased customer data. We have established management of empty properties within this functional area to enable full visibility of property lifecycles.

We've adopted a more tactical approach to the billing, prompting customers to contact us if they have forgotten or neglected to inform us that they have moved into a property.

It is possible that we are seeing some recovery from the increase in empty properties observed during the Covid-19 lockdown periods.

What we're doing to improve our performance

We will continue working in partnership with third parties to improve our data sources and investigate further opportunities to develop our property lifecycle processes, such as building our relationship with Developer Services.

We'll also investigate ways to improve data capture across all our customer communication channels.

We will promote our new Landlord Tap service and other relevant information on our website.

We will improve segmentation of the empty/ active property base to better manage the process.

Empty business properties *EWS08*

Reward: £0.274m (met)

The number of properties billed that were previously listed on our system as empty

A greater number is better

How we've done

We've met our target again.

We have a dedicated Customer Incident Response team to visit properties, which enables more visits to be carried out.

What we're doing to improve our performance

Further training is planned to enhance the quality of the property visits.

We plan to roll out a new insights software.

We will collaborate more closely with retailers.

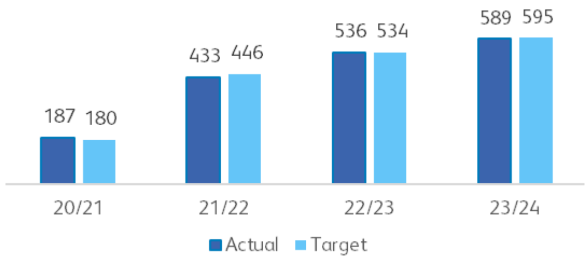
We will continuously review our processes to keep driving improvements.

Environmental measures delivered *ES02*

Penalty: £0.308m (not met)

Cumulative number of completed “green” status schemes from the WINEP as at 1 Apr 2019

A greater number is better



How we’ve done

We’ve missed our target this year due to the late delivery of several WINEP schemes.

This is due to a range of challenges, including changes in scope, increased complexity of the schemes and macroeconomic conditions. Macroeconomic events have meant that the cost inflation we’ve experienced has far outstripped the Consumer Price Index (‘CPIH’) uplift on the revenues that we’re able to recover from our customers during the AMP.

These cost pressures led us to rephase work on some schemes from Year 4 into Year 5 of AMP7 and work on the completion of these late schemes will continue into AMP8.

What we’re doing to improve our performance

We understand the importance of delivering our WINEP and the positive impacts it will have for our customers and the environment. We have developed plans for the delivery of the late schemes and are continuing to discuss these plans with regulators.

In addition to falling short of our target this year, it will not be possible to complete the AMP7 WINEP originally set out in PR19 as the EA has reassessed our WINEP priorities and made changes to our programme in the first half of AMP7. This means that there are some schemes that are no longer needed, but nevertheless remain in our target number.

WINEP delivery

NEP01

Reputational only (not met)

Whether we have delivered our WINEP

This measure is either delivered or not delivered

How we’ve done

We’ve missed our target as we have not delivered all the expected schemes in the WINEP this year.

What we’re doing to improve our performance

This PC is managed alongside ES02, so the factors impacting our performance will be the same, along with the improvements planned for the year ahead.

Notes on this measure

The Water Industry National Environment Programme (‘WINEP’) is a list of actions that Defra has requested all water companies complete in AMP7 to contribute to meeting their environmental obligations.

ES02 provides the number of WINEP schemes completed, but our performance on this PC is either ‘met’ or ‘not met’.

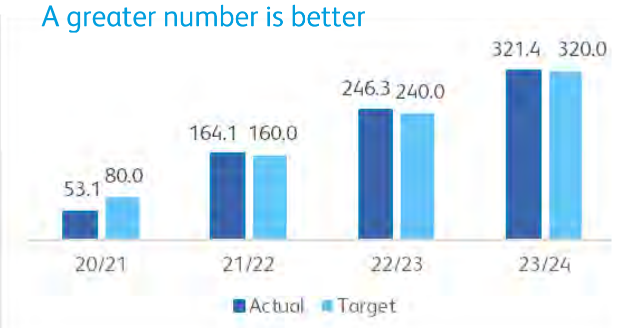
This PC considers the current WINEP, whereas ES02 measures the programme originally set out in PR19.

Installing new smart meters in London *M01*

Penalty: n/a

Cumulative number of new, smart meters that we have installed in London since 1 April 2020 (in thousands)

A greater number is better



How we've done

We have met our target this year despite several operational challenges. We installed our one millionth smart meter in December.

We successfully changed to a new workforce management system and managed disruption from the cancellation of the Green Economic Recovery ('GER') programme.

Customer applications for smart meters are at an all time high, likely due to the cost of living crisis and increased media focus on the performance of the water industry.

What we're doing to improve our performance

Following the cancellation of our GER programme, we submitted a corrigenda to Ofwat to amend this PC by shifting installations from London to TVHC. In April 2024, Ofwat rejected our request, on the basis that it "would deliver no additional benefits to customers; and could undermine incentives for Thames Water to deliver its 2020-25 investment plan (in particular the leakage PC) in full."

Given the strong ODI and reputational incentives to deliver our leakage target, we disagree with Ofwat's conclusion. We don't believe it was in the best interest of our customers or the environment. We believe that meter delivery in TVHC should be prioritised for our customers, in response to SoSI, and for the environment to reduce demand and help to protect river health. We have not amended our meter installation plans and will prioritise supply-demand balance risk over meeting PC targets and ODI repercussions. We therefore don't anticipate that we will pass M01 in 2024/25.

Replacing existing meters with smart meters in London *M02*

Penalty: n/a

Cumulative number of basic meters replaced with smart meters in London since 1 April 2020 (in thousands)

A greater number is better

How we've done

We have outperformed against our target despite similar operational challenges to our M01 PC.

Our overperformance was driven by a change in work prioritisation due to post-covid19 consumption patterns. This means London is no longer our most water stressed region.

Performance will be maintained through:

- Collaborative working relationships with our delivery partners; and
- Regular communications with suppliers to drive consistent availability of metering components.

What we're doing to improve our performance

Performance will be maintained through collaborative working relationships with our delivery partners and regular communications with suppliers to drive consistent availability of metering components.

Notes on this measure

- A smart meter is a meter that uses advanced metering infrastructure (AMI) to be read remotely. Customers can then be billed for the exact amount of water used.
- A basic meter is an existing meter installed in the Thames Water network prior to 1 April 2020 without smart meter capability.
- Both M01 and M02 are PCs where our performance is assessed at the end of AMP.

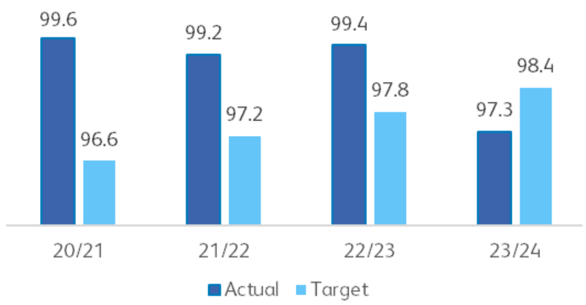
Performance

Sludge treatment before disposal *ES03*

Penalty: £0.454m (not met)

% of sludge that we treat before disposal

A greater % is better



How we've done

Our current performance and availability of sludge treatment assets is below what we aim to achieve and we've missed the target this year.

Prolonged periods of wet weather have limited our access to agricultural outlets, reducing our ability to maximise sludge throughput and storage.

The largest impact to PC performance this year has been the requirement to increase the digestor inspection and refurbishment programme to comply with statutory regulations with regards to gas holders. Downtime was greater than we had planned due to resource availability.

We had a major odour incident from storing sludge over the summer at Camberley STW, but it did not impact our performance for this PC.

What we're doing to improve our performance

To improve the resilience of our sludge treatment assets, we will increase the delivery of our digester programme with greater investment where possible.

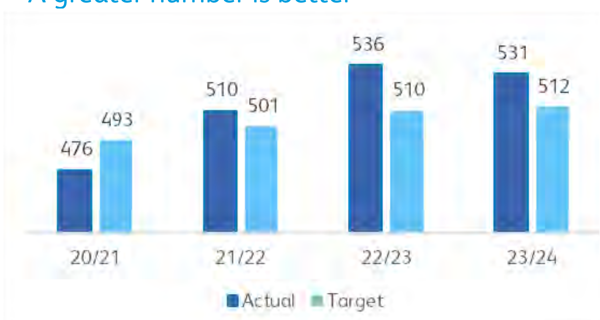
There is potential to allow for improved maintenance and reduced stressing of assets, should resourcing challenges be resolved and capacity increase.

Renewable energy produced *EWS03*

Reward: £1.531m (met)

Amount of renewable energy produced (in GWh)

A greater number is better



How we've done

We've performed strongly and exceeded our target again this year.

We delivered our second gas-to-grid ('G2G') project, at Mogden STW, which will heat around 4,000 homes.

Wind generation has increased with both our turbines available for periods of the year.

The quantity of renewable heat produced has also continued to increase due to Operations prioritising the use of biogas in the boilers over Combined Heat and Power ('CHP').

However, the production of renewable electricity decreased as less gas was being used in CHP engines.

Biomethane production has also reduced due to cable thefts causing power outages at our plant.

Our performance has been limited by sludge treatment asset failures and digester outages. Solar generation was also impacted by an asset failure at Littleton and the failure to deliver some new solar photovoltaic ('PV') schemes.

What we're doing to improve our performance

We will continue to maximise biogas and renewable energy (electricity, heat and biomethane) production and closely monitor our performance. New solar projects will be commissioned and a new biomethane plant at Mogden.

Our longer term plans include the expansion of biomethane technology to capture more energy from our biogas and the further development of solar PV opportunities.

Performance

Enhancing biodiversity

EWS01

Penalty: n/a

Number of natural habitats we've created and enhanced on our 61 sites of Biodiversity Interest

A greater number is better

How we've done

While we continue to support nature recovery, the budget related to the delivery of this performance commitment has been removed as we prioritise other deliverables. We've therefore missed our target this year.

What we're doing to improve our performance

It's become clear that this PC has an unachievable target due to the inclusion of reservoirs (heavily modified waterbodies) for which there is limited if any opportunity for biodiversity enhancement. We're therefore reporting failing performance in circumstances where we are otherwise delivering meaningful and measurable biodiversity enhancements that are receiving positive recognition from our peers.

We proposed removing these waterbodies from the baseline through Ofwat's corrigenda process. In April 2024, Ofwat rejected our request stating "we are not satisfied that the proposals represent a material improvement to the PR19 PC". We disagree as these habitats contribute to approximately 70 % of available biodiversity units.

We're disappointed in Ofwat's decision, particularly as it is in our customers' interest to address the issues and report accurately and transparently the enhancements we are delivering against a stretching and appropriate target. We'll continue to develop our AMP8 plans, conserving and improving biodiversity and access to nature for our customers and local communities.

Notes on this measure

This is a PC where our performance is assessed at the end of AMP.

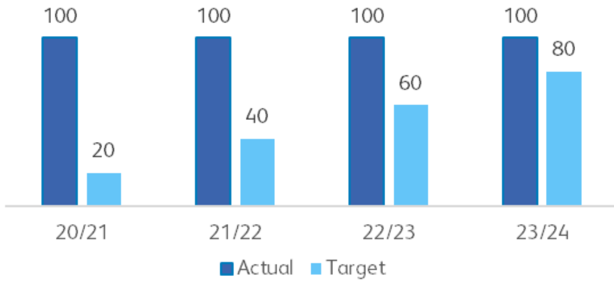
Natural Capital Accounting

EWS04

Reputational only (met)

% of landholdings where natural capital stocks are assessed and reported publicly

A greater % is better



How we've done

We have maintained the 100 % that we achieved in Year 1. We reassessed our landholdings this year and the Year 1 assessment still stands.

What we're doing to improve our performance

We continue to contribute to the non-numeric target component, but no further improvements are planned.

We are developing an approach to allow natural capital data to be used during our 'needs' solution optioneering process.

We will periodically review outputs for any material changes at least once every five years, or more frequently if there is a material (more than 1 %) change in our landholdings. We also anticipate repeating key elements of our assessments for our landholdings in future AMPs to inform our temporal understanding.

Notes on this measure

We have over 6,500 hectares of sites including treatment works, recreational sites and nature reserves.

By better understanding the current condition of the environment that we own, or can influence, we can understand the impact of our interventions.

TTT Readiness of Beckton STW *ET01*

Penalty: n/a

Ability of Beckton STW to receive TTT flows

How we've done

This PC did not have a target for this year; Beckton is expected to be ready in July 2024, ahead of the target of October 2024.

What we're doing to improve our performance

We're focused on managing the main contractor and a key supplier, who are doing systems integration work to allow plant commissioning.

TTT storm testing will start in August 2024.

Notes on this measure

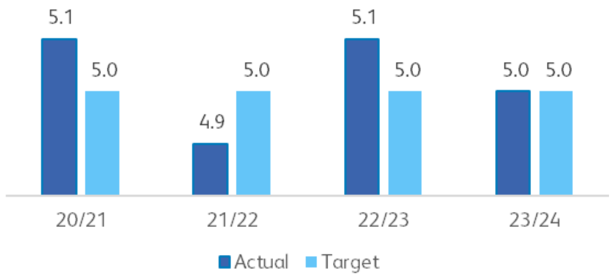
This PC measures the number of months before commission date that we have completed upgrades to the inlet works at Beckton Sewage Treatment Works ready to receive flows from the TTT.

TTT Effective stakeholder engagement *ET02*

Reputational only (met)

How well we are engaging with our stakeholders

A greater score is better



How we've done

External stakeholders reviews have increased during the year as we near the date for the TTT to go live, and we've met our target.

We've also supported new stakeholders with additional briefings so that the TTT scope is well understood.

What we're doing to improve our performance

Stakeholder sessions will continue until the project handover in June 2025.

TTT Critical asset readiness *ET04*

Penalty: n/a

How ready our infrastructure is for the TTT

How we've done

This PC did not have a target for this year; asset readiness is on track to meet the target of October 2024.

What we're doing to improve our performance

We will continue asset assessments to enable readiness by the target date.

Notes on this measure

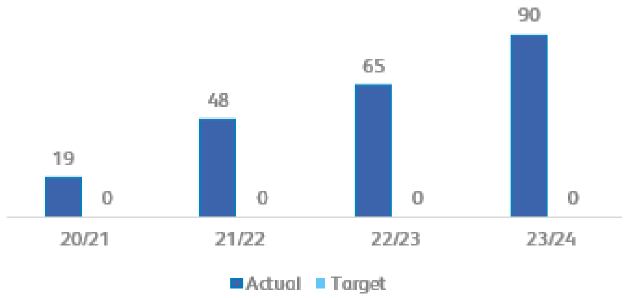
This considers how long before commission date, in months, we have completed the infrastructure needed to receive flows from the TTT.

TTT Effective system operator *ET05*

Reputational only (met)

Our % readiness to operate the TTT when it is commissioned

A greater % is better



How we've done

We've met our target this year.

What we're doing to improve our performance

All deliverables will be complete ahead of the go-live date for the TTT and we expect to meet our target again next year.

Notes on this measure

The target will change from 0 to 100 % in 2024/25 as this is the first year that the TTT will be in operation.

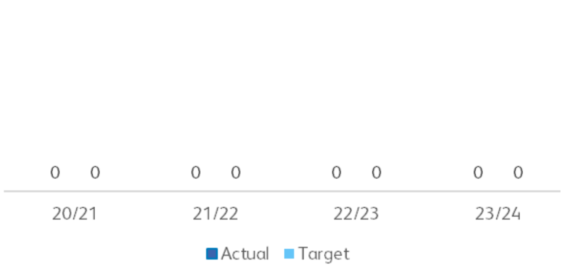
Performance

TTT Maximising value of land sales *ET06*

Reputational only (met)

Net profit or loss made on the sale of land related to the TTT

A greater positive amount is better



How we've done

No land parcels were sold in this period so we've met our target this year.

Tideway programme delay has impacted the timing of the land sales so these are now split between AMP7 and AMP8. Regular Ofwat briefings are keeping our regulator informed.

What we're doing to improve our performance

We will continue to provide Ofwat with full visibility of our approach and timing of land sales.

Notes on this measure

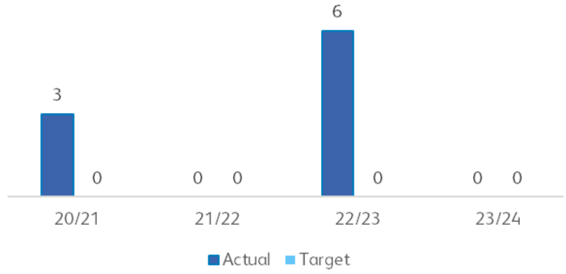
There are 12 parcels of land that we acquired in relation to TTT, but are scheduled to sell.

TTT Managing early hand back of land *ET07*

Reward: n/a

How prepared we are to receive land back from Bazalgette Tunnel Ltd

A greater positive number is better



How we've done

We've met our target this year, although no land was handed back.

Our readiness to receive land remains positive, but is dependent on external parties.

What we're doing to improve our performance

We will continue to work closely with Bazalgette Tunnel Limited to minimise delays and increased costs arising from programme issues. We will also monitor progress carefully to maximise our performance for this PC.

Notes on this measure

This measures, in months, how we have avoided project delays or cost overruns that would negatively impact customers. We aim to receive land back early from Tideway once necessary work is complete.

This is a PC where our performance is assessed at the end of the AMP.

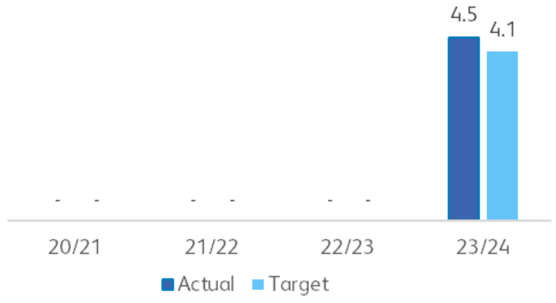
LWI Trunk mains renewal

LWI01

Penalty only (met)

trunk mains network renewed attributable to the eight schemes agreed with Ofwat as part of the programme (km)

A greater length is better



How we've done

Delivering 4.5km of renewed trunk mains, we've met our target this year.

What we're doing to improve our performance

As some of our Surbiton deliverable are currently forecast for completion in AMP8, we miss our end of AMP target. However, we are seeking to mitigate this by accelerating other areas.

Notes on these measures

For AMP7, Ofwat conditionally permitted us a £300 million allowance to enhance the performance of our London water network.

In November 2022, Ofwat confirmed we'd met the requirements and we committed a significant shareholder investment of £400 million that will benefit customers across the region through investment in water supply. These three PCs were agreed by as part of Ofwat's confirmation.

LWI Future London strategy

LWI02

Reputational only (met)

outputs delivered that improve understanding of mains performance, leading to better management of our London Network (nr.)

A greater number is better

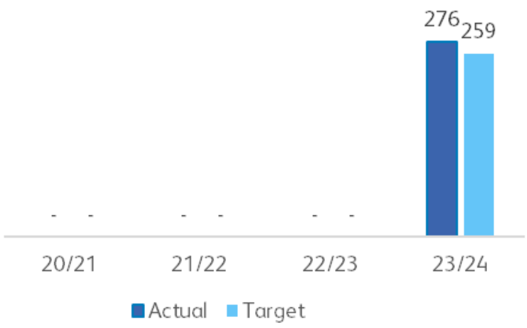
This PC is only applicable for 2024/25.

LWI Data validation *LWI03*

Reputational only

defined reports and projects delivered to define the strategic direction for our London network (nr.)

A greater number is better



How we've done

We've met our target for the year.

What we're doing to improve our performance

All areas proceeding to time and budget.

Responding to Customer Complaints

Performance

Responding to customer complaints

2023/24 was a mixed story for household customers complaints

While the overall volume was nearly 10% higher than the previous year, we made good progress in reducing complaints received about the provision of water and wastewater to our customers.

Complaints about the issuance of bills

Disappointingly, the number of complaints that we received concerning our charges and the issue of bills went up by over 35%.

In April 2023, we reverted to reading meters twice in the billing year and we've read over 200k more meters than the previous year. This allowed us to send out more bills based on actual consumption rather than estimates, resulting in better billing accuracy.

Whilst this should be better for customers, we've witnessed an increase in complaints from customers challenging their bills.

Complaints about our water and wastewater services

Complaints about our water services were down by nearly 29% compared to the previous year and those about the disposal and treatment of wastewater were nearly 19% lower than at the same stage year.

This has primarily been driven through a focus on improving response times across the customer end to end journey, including:

- Quicker and easier routes for customers to make contact, such as our new digital channel offerings;
- Improved service level agreements in the field with waste delivering a performance improvement of 8% and water an improvement of 6% from March 2024;
- A reduction in open field work; and
- A 25% reduction in outstanding field work in waste has been achieved, alongside a 40% reduction in water.

Telephone complaints

We continue to offer our customers a variety of ways for them to communicate with us according to personal preference.

With our provision of more digital and real-time channel availability this year, many customers have chosen to contact us via live chat, WhatsApp messaging or through social media. This has helped us to reduce telephone complaints received by nearly 22%.

Smart metering

We have fitted and exchanged over 139,000 water meters to households since April 2023 and in December 2023 we fitted our one millionth Smart Meter as we lead the industry in this area.

We strongly believe in Smart metering but not all of these are working in the way that our customers like or understand and this has largely contributed to the 45% increase in complaints that we received about meter installation work.

Household complaints across all channels

Type	2022/23	2023/24	Variance
Revenue	39,410	53,278	35.2%
Water	17,443	12,426	(28.8%)
Wastewater	15,664	12,735	(18.7%)
Metering	3,251	4,707	44.8%
Total	75,768	83,146	9.7%

Responding to customer complaints (continued)

What we are doing to improve our performance

In April 2023, we made significant changes to our offshore resourcing partners and team structure.

Over the course of 2023, we made significant improvements to service and fully embedded these changes.

New ways of working across both desk and field teams within Operations also supported the complaints performance with increased cross company collaboration. This enables the right teams to have visibility of the customer issue on the same day of receipt and has expedited the response times to resolve.

There has been specific focus on improving the speed of first attendance, improving, and reducing outstanding field work. All of this contributing to the significant reduction in repeat rate and strong WIP position.

Following the submission of our Turnaround Plan, we have continued to build on our insight into customer dissatisfaction through deep root cause analysis, and now have a better view than ever of the key complaints drivers.

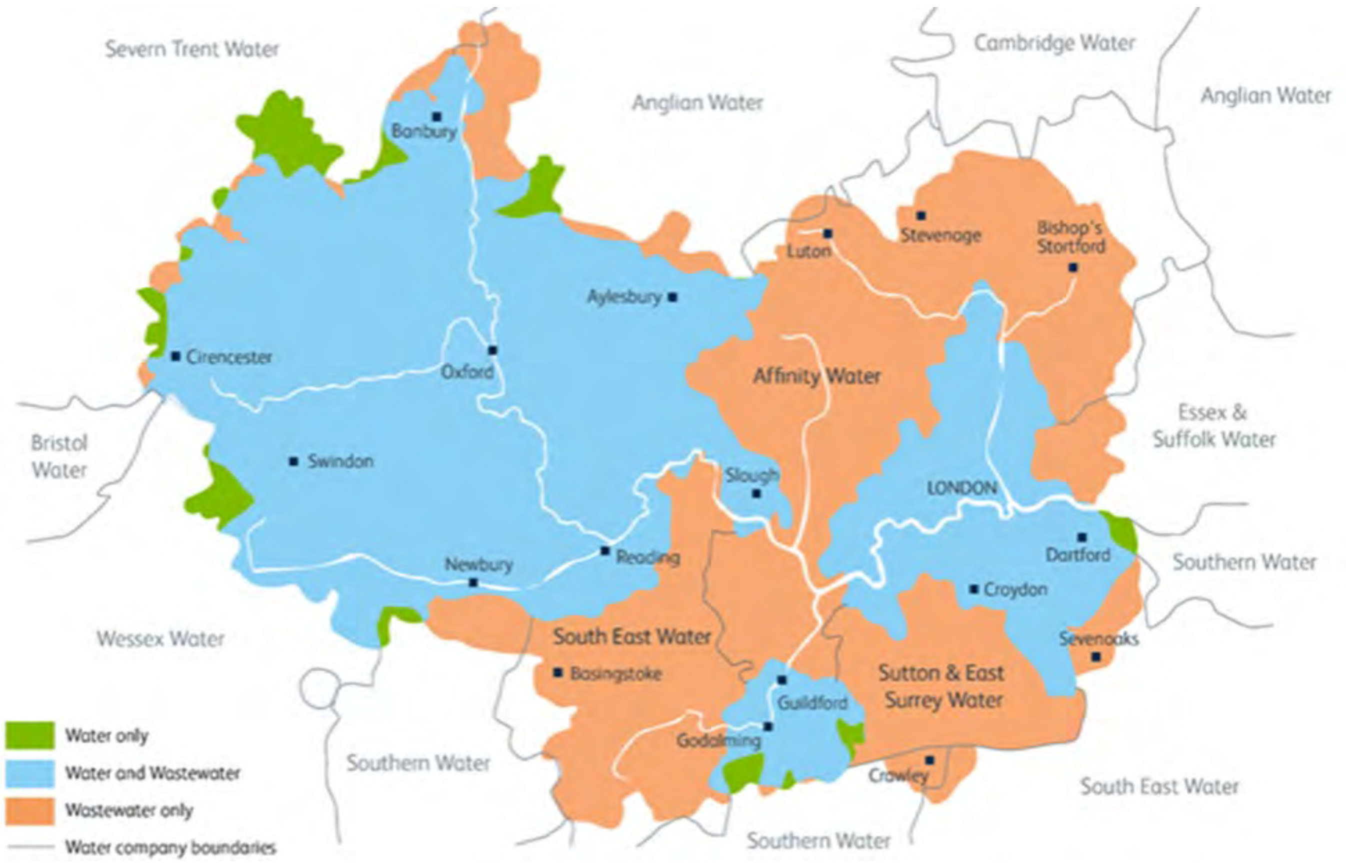
As a turnaround priority, we aim to reduce customer complaints by a further 22% reduction in three years

Other improvement plans include:

- Maintaining the higher level of meter reading so that we can consistently provide more accurate bills for our customers and reduce bill shock caused by increases following lower estimated bills.
- Improve the reliability of Smart Meters being fitted and reduce complaints by giving customers more confidence and understanding in how they operate.
- Improved management of work queues using case management and proactive communication so that customers are kept informed of progress and do not need to contact us for updates or to complain.
- Better management of bill dispatch to prevent high bills being automatically sent by our billing system to customers.
- Enhanced training of front line customer agents with better supporting knowledge and training material being available for them.
- Improved first time responses to customer dissatisfaction to reduce repeat complaints and the number that become escalated.

London and Thames Valley & Home Counties Performance

Our regional performance



Introduction

As part of our business plan for 2020 to 2025, we've been asked by Ofwat to report on London performance separately.

We're reporting regional performance for 18 performance commitments which have been chosen because of our ability to collect the data, benefits for decision making and how useful the information is to our customers and stakeholders if they want to understand our performance at a regional level.

How we define London

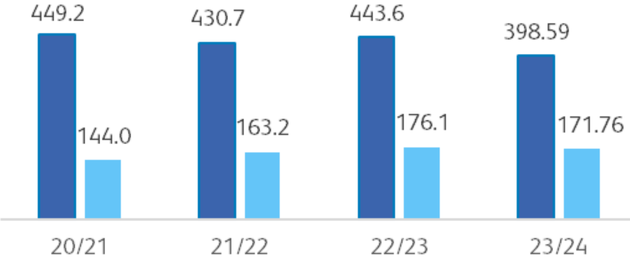
Water: London water resources zones for water.

Wastewater: area covered by the eight large London sewage treatment works.

Our regional performance measures

■ London ■ TVHC

Leakage (annual average)



Leak detection is more difficult in rural areas, hence TVHC's performance is not improving as quickly as London's. TVHC is a complex mix of urban towns surrounded by large rural areas where customer demand fluctuates more significantly in the summer. It is also more likely to be impacted by resource and performance challenges.

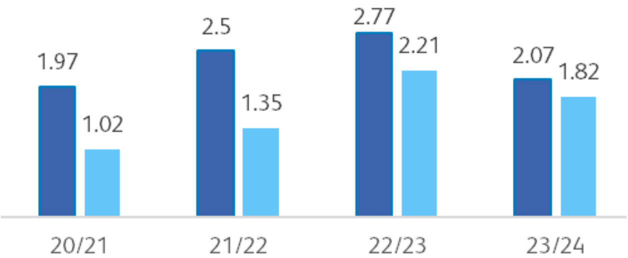
Pollutions (per network length)

The incident rate from waste networks is higher in London due to demographic factors, blockage hotspots and asset layout, whereas STW incidents are comparatively more frequent in TVHC. There are also more rising main bursts in TVHC and infiltration is a greater issue in this region. The DAM tool has had a greater impact in TVHC by providing more visibility of potential incidents which may previously have gone unnoticed, such as on unmanned sites.

Water supply interruptions (mm:ss)

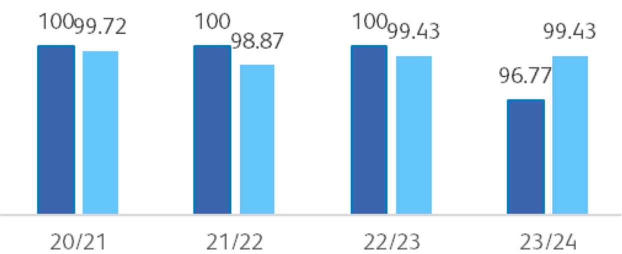
Water supply interruptions tend to be higher in TVHC as alternative supplies are limited by a lack of network interconnectivity and, in some areas, storage.
TVHC also experiences more variations in pressure levels (due to ground height variations) while its more rural nature increases travel time to incidents.

Unplanned outages (%)



This measure is very sensitive to the size of works with an outage. As London has several complex and very large production plants, an outage in London will tend to have more impact on the overall % than one in the TVHC.

Treatment works compliance (%)



Two of our failures this year were in TVHC and one in London. The impact on London looks greater as there are ten times as many STWs in TVHC as London.

Performance

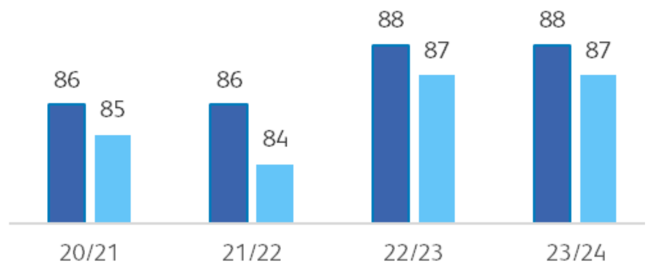
London TVHC

Our regional performance measures

Priority Services for vulnerable customers (reach)

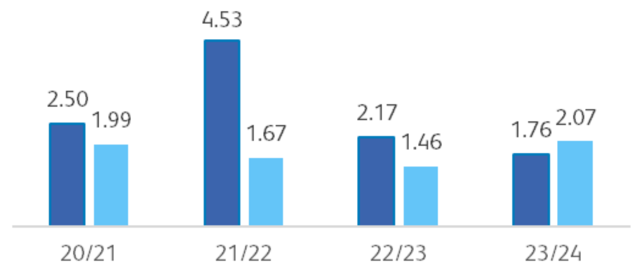
There is a larger proportion of households in TVHC for whom we only provide waste services and PSR is flagged to the billing company, which will be these customers' water only company ('WOC'). This results in a lower ratio of PSR customers in TVHC compared to London.

Satisfied vulnerable customers (%)



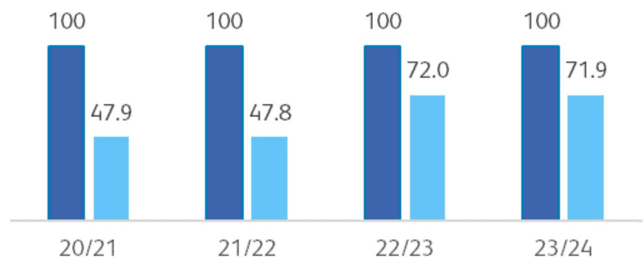
There is no material difference in performance between London and TVHC. Performance has improved in both regions.

Internal sewer flooding (per 10k connections)



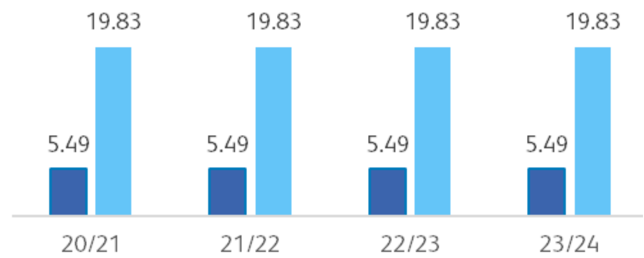
The density of the infrastructure in London means that heavy rainfall is usually more likely to result in internal sewer flooding there than in TVHC. However, prolonged rainfall this year has led to saturated ground in TVHC and greater susceptibility to flooding than usual.
London was abnormally affected by the London Flooding event of July 2021.

Risk of severe restrictions in a drought (%)



The SWOX area of the TVHC is in supply-demand deficit under 1 in 200 drought conditions, while all other Water Resource Zones ('WRZs') are in surplus.

Risk of sewer flooding in a storm (%)

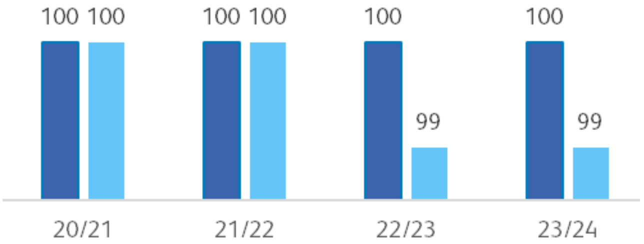


The risk of sewer flooding in a storm is significantly higher in TVHC than in London due to the nature of how this measure is calculated, rather than operational factors.

Our regional performance measures

London TVHC

Security of supply index (score)



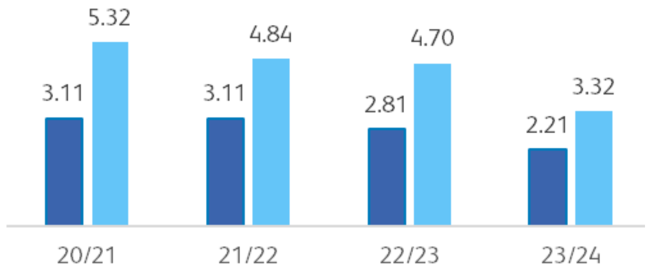
All WRZ across London are in surplus under both annual average conditions and critical period conditions. The only one of our six WRZ not in surplus is SWOX. This reflects the same critical factors as PCC.

Mains repairs (per mains length)

Bursts are more frequent in London due to a significant number of cast iron mains over 100 years old. Some areas in London have soil conditions that are highly corrosive to iron mains and/or highly shrinkable, making it more susceptible to movement through changes in conditions, such as rainfall and temperature.

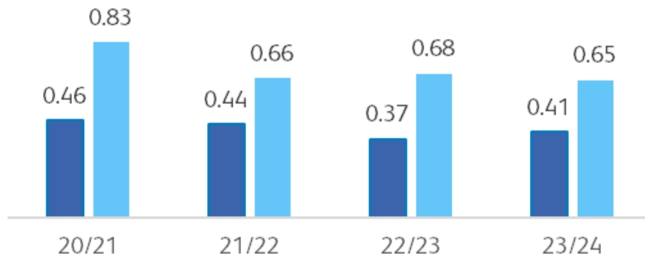
The increased traffic in London also has an impact on pipes due to forces created by increased tonnage, braking and acceleration.

Sewer collapses (per network length)



Approximately 85 % of sewer collapses happen in TVHC. However, we have seen a significant performance improvement in both regions due to operational efficiencies and wetter, milder weather.

Acceptability of water (score)



The biggest cause of contacts is the appearance of water. Contacts about illness generate the smallest volumes. There are no obvious reasons for operational difference between the regions.

The significantly larger population in London means that normalisation results in performance for the TVHC area looking worse.

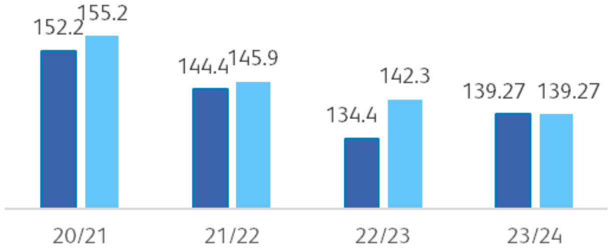
Responding to major trunk mains bursts (hh:mm:ss)

The majority of our trunk mains are contained within the London supply area so trunk mains bursts are much more likely there. However, supplies are more easily rerouted in London so a burst in TVHC, such as the 22/23 Oxford event, can result in a severe impact.

London TVHC

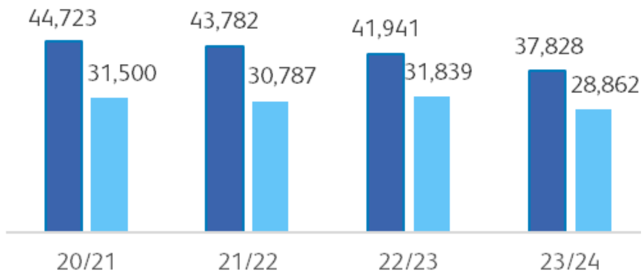
Our regional performance measures

Per Capita Consumption (annual average)



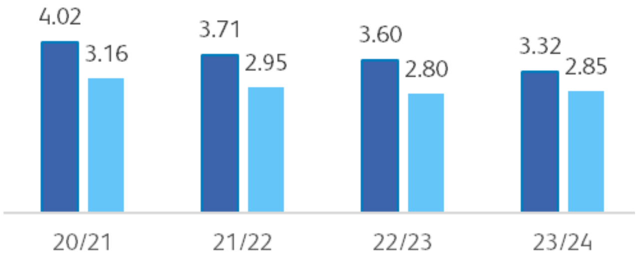
A higher proportion of outside garden space in TVHC causes higher peak demands during warm temperature days. TVHC also continues to see increased demand from post-Covid19 hybrid working patterns.

Blockages (nr.)



There are more blockages in London, consistent with there being more sewers in the region and more blockage hotspots.

Empty household properties (%)



We have more empty properties in London, reflecting the higher levels of customer transiency in the capital and the greater density of flats, which can present access difficulties.

Our 2023/24 regulatory financial reporting (Tables 1A - 1F)

Differences between statutory and RAG definitions

Adjustments are made to the statutory numbers to maintain compliance with the Ofwat guidance detailed in RAG 3.14 and 4.12.

The most significant include:

- Reclassification of current year bad debt from revenue to operating costs (£49.1 million);
- Borrowing costs capitalised within fixed assets in the statutory accounts are recognised as an interest expense for regulatory purposes (£159.4 million). The associated depreciation of borrowing costs is recognised in operating costs (£10.0 million); and,
- Reclassification of certain costs and incomes to align with regulatory presentation requirements.

Full reconciliations of the differences between statutory and regulatory figures for revenue, operating profit, other income, and profit before tax can be found in the section on Accounting Policies.

Non-appointed activities include revenue of £117.1 million and operating costs of £0.5 million relating to Bazalgette Tunnel Limited ('BTL'). BTL is an independent company unrelated to Thames Water Utilities Limited and was appointed in 2015 to construct the Thames Tideway Tunnel. Non appointed activities also include impairment losses recognised on intercompany loans (£118.9 million) and certain exceptional costs incurred (£21.5 million) related to consultants outside normal course of business.

The arrangement with BTL means that the Company has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers during the year ended 31 March 2024. As cash is collected, these amounts are subsequently paid to BTL within a maximum of 50 business days under 'pay when paid' principle.

Accounting standards require the Company to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed. This also gives rise to reporting profit which is taxable.

Non appointed activities also include our tankered waste and property searches businesses.

Interest analysis

1A.7	£m
Interest on external debt	(562.659)
Interest on intra-group debt	(0.274)
RPI accretion on debt	(240.134)
Amortisation of debt issuance costs, premium and discounts	(13.399)
Interest in relation to leases	(3.070)
Trading interest expense	(0.156)
Other financing costs	(1.938)
Per 1A.7	(821.630)

1A.8	£m
Net interest expense on defined benefit obligation	-7.600
Per 1A.8	-7.600

Table 1A: Income statement for the 12 months ended 31 March 2024

This table takes the information from the statutory income statement and shows the adjustments made in order to arrive at the regulatory income statement for the appointed business. The adjustments include both differences between the International Financial Reporting Standards ('IFRS') and the Regulatory Accounting Guidelines ('RAG') and the removal of non-appointed income and costs.

Line description Units: £m	Statutory	Adjustments			Total appointed activities	RAG 4 Ref
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Revenue	2,518.223	46.633	137.184	-90.551	2,427.672	1A.1
Operating costs	-2,268.794	-14.508	-160.862	146.354	-2,122.440	1A.2
Other operating income	148.908	-119.702	0.000	-119.702	29.206	1A.3
Operating profit	398.337	-87.577	-23.678	-63.899	334.438	1A.4
Other income	0.000	107.389	0.239	107.150	107.150	1A.5
Interest income	276.503	0.000	0.000	0.000	276.503	1A.6
Interest expense	-669.799	-151.831	0.000	-151.831	-821.630	1A.7
Other interest expense	0.000	-7.600	0.000	-7.600	-7.600	1A.8
Profit/(loss) before tax and fair value movements	5.041	-139.619	-23.439	-116.180	-111.139	1A.9
Fair value gains/(losses) on financial instruments	152.254	0.000	0.000	0.000	152.254	1A.10
Profit/(loss) before tax	157.295	-139.619	-23.439	-116.180	41.115	1A.11
UK corporation tax	12.658	0.000	0.000	0.000	12.658	1A.12
Deferred tax	-94.516	0.000	0.004	-0.004	-94.520	1A.13
Profit/(loss) for the year	75.437	-139.619	-23.435	-116.184	-40.747	1A.14
Dividends	-195.844	0.000	0.000	0.000	-195.844	1A.15
Tax analysis						
Current year	-41.933	0.000	0.000	0.000	-41.933	1A.16
Adjustment in respect of prior years	54.591	0.000	0.000	0.000	54.591	1A.17
UK corporation tax	12.658	0.000	0.000	0.000	12.658	1A.18
Analysis of non-appointed revenue						
Imported sludge			0.000			1A.19
Tankered waste			8.285			1A.20
Other non-appointed revenue			128.899			1A.21
Total non-appointed Revenue			137.184			1A.22

Additional narrative on the income statement

Fair value gains/(losses) on financial instruments includes the fair value of £309.4 million accreted on index linked swaps during the year.

Within our Annual Report 2023/24 consolidated income statement, we recognised an £118.9 million impairment loss on an intercompany loan. This is classified on its own line below operating profit. Within this APR, on Line 2 operating costs, we've included this and treated the full value as non-appointed. This classification difference is also reflected in the operating profit (Line 3). There's no difference in total profit for the loss.

Table 1B: Statement of comprehensive income for the 12 months ended 31 March 2024

This table shows all of the changes to our financial position reserves from the statutory accounts, adjusting for the differences between IFRS and the RAG, as well as excluding the results of the non-appointed business.

Line description Units: £m	Statutory	Adjustments			Total appointed activities	RAG4 Ref
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year	75.437	-139.619	-23.435	-116.184	-40.747	1B.1
Actuarial gains/(losses) on post-employment plans	18.900	0.000	0.000	0.000	18.900	1B.2
Other comprehensive income	8.100	0.000	0.000	0.000	8.100	1B.3
Total Comprehensive income for the year	102.437	-139.619	-23.435	-116.184	-13.747	1B.4

Table 1C: Statement of financial position for the 12 months ended 31 March 2024

This table details all of the key metrics for assessing our financial position.

Line description Units: £m	Statutory	Adjustments			Total appointed activities	RAG4 Ref
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Non-current assets						
Fixed assets	19,410.374	-1,073.308	7.794	-1,081.102	18,329.272	1C.1
Intangible assets	233.897	-6.250	0.000	-6.250	227.647	1C.2
Investments - loans to group companies	1,200.553	0.000	-118.911	118.911	1,319.464	1C.3
Investments - other	533.379	0.000	493.400	-493.400	39.979	1C.4
Financial instruments	355.348	-69.546	0.000	-69.546	285.802	1C.5
Retirement benefit assets	32.957	0.000	0.000	0.000	32.957	1C.6
Total non-current assets	21,766.508	-1,149.104	382.283	-1,531.387	20,235.121	1C.7
Current assets						
Inventories	23.293	0.000	0.000	0.000	23.293	1C.8
Trade & other receivables	803.376	0.000	33.214	-33.214	770.162	1C.9
Financial instruments	32.973	-28.060	0.000	-28.060	4.913	1C.10
Cash & cash equivalents	1,281.224	0.000	6.345	-6.345	1,274.879	1C.11
Total current assets	2,140.866	-28.060	39.559	-67.619	2,073.247	1C.12
Current liabilities						
Trade & other payables	-1,229.590	45.663	-67.941	113.604	-1,115.986	1C.13
Capex creditor	0.000	-278.761	0.000	-278.761	-278.761	1C.14
Borrowings	-2,210.508	42.640	0.000	42.640	-2,167.868	1C.15
Financial instruments	-245.436	223.255	0.000	223.255	-22.181	1C.16
Current tax liabilities	0.000	0.000	0.000	0.000	0.000	1C.17
Provisions	-65.099	-5.865	0.000	-5.865	-70.964	1C.18
Total current liabilities	-3,750.633	26.932	-67.941	94.873	-3,655.760	1C.19
Net Current assets/ (liabilities)	-1,609.767	-1.128	-28.382	27.254	-1,582.513	1C.20

Table 1C: Statement of financial position for the 12 months ended 31 March 2024 (continued)

The statement of financial position details all of the key metrics for assessing this.

Line description Units: £m	Statutory	Adjustments			Total appointed activities	RAG4 Ref
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Non-current liabilities						
Trade & other payables	-1,039.070	1,070.442	0.000	1,070.442	31.372	1C.21
Borrowings	-14,190.970	-922.911	0.000	-922.911	-15,113.881	1C.22
Financial instruments	-1,490.472	952.442	0.000	952.442	-538.030	1C.23
Retirement benefit obligations	-152.100	0.000	0.000	0.000	-152.100	1C.24
Provisions	-209.559	-11.518	0.000	-11.518	-221.077	1C.25
Deferred income – grants & contributions	0.000	-561.408	0.000	-561.408	-561.408	1C.26
Deferred income - adopted assets	0.000	-469.019	0.000	-469.019	-469.019	1C.27
Preference share capital	0.000	0.000	0.000	0.000	0.000	1C.28
Deferred tax	-1,295.403	0.000	0.042	-0.042	-1,295.445	1C.29
Total non-current liabilities	-18,377.574	58.028	0.042	57.986	-18,319.588	1C.30
Net assets	1,779.167	-1,092.204	353.943	-1,446.147	333.020	1C.31
Called up share capital	76.450	0.000	0.000	0.000	76.450	1C.32
Retained earnings & other reserves	1,702.717	-1,092.204	353.943	-1,446.147	256.570	1C.33
Total Equity	1,779.167	-1,092.204	353.943	-1,446.147	333.020	1C.34

Additional narrative on the statement of financial position

Adjustments are made to the statutory numbers to maintain compliance with the Ofwat guidance detailed in RAG 3.14 and 4.12. The most significant include:

- Capitalised interest of £1,132.0 million for borrowing costs is removed from fixed assets, offset by a £52.4 million adjustment to write back depreciation on capitalised borrowing costs;
- Capital creditors of £278.7 million are disclosed separately;
- A reclassification is made from current borrowings of £242.5 million to trade and other payables in respect of accrued interest, offset by a reclassification from Financial Instruments to Current Borrowings due to Derivative Financial Liabilities (see below reconciliation);
- A reclassification is made from financial instruments to non-current borrowings due to derivative financial liabilities (see below reconciliation); and
- The non-appointed business shows retained earnings of £477.7 million relating to Bazalgette Tunnel Limited ('BTL').

Table 1C: Statement of financial position for the 12 months ended 31 March 2024 (continued)

Borrowings reconciliation

Appointed Activities Units: £m	
Current liabilities	
Current borrowings included in statutory accounts	2,202.667
Lease Liability included in statutory accounts	7.841
Statutory current borrowings	2,210.508
Difference between statutory and regulatory definitions:	
Accretion moved to borrowings from financial instruments	227.453
Accrued interest taken to trade and other payables	(242.505)
FX loss moved to borrowings from financial instruments	(27.588)
Current borrowings included in regulatory accounts (per Table 1C)	2,167.868
Non-current liabilities	
Non-current borrowings included in statutory accounts	14,145.815
Lease Liability included in statutory accounts	45.155
Statutory non-current borrowings	14,190.970
Difference between statutory and regulatory definitions:	
Accretion moved to borrowings from financial instruments	856.385
FX loss moved to borrowings from financial instruments	66.526
Non-current borrowings included in regulatory accounts (per Table 1C)	15,113.881
Total borrowings included in statutory accounts	16,348.482
Total borrowings included in regulatory accounts (per Table 1C)	17,281.749
Add: Unamortised debt issuance costs, discount and IFRS 9 adjustments	74.080
Add bank overdraft from trade and other payables	126.687
Total borrowings included in regulatory accounts (Table 1E)	17,482.516

Table 1D: Statement of cashflows for the 12 months ended 31 March 2024

The statement of cashflows presents a summary of all cashflows in the business.

Line description Units: £m	Statutory	Adjustments			Total appointed activities	RAG4 Ref
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Operating activities						
Operating profit	517.248	-87.577	95.233	-182.810	334.438	1D.1
Other income	0.000	107.389	0.239	107.150	107.150	1D.2
Depreciation	733.432	-9.996	0.000	-9.996	723.436	1D.3
Amortisation – Grants & contributions	0.000	0.000	0.000	0.000	0.000	1D.4
Changes in working capital	-32.978	0.000	-96.128	96.128	63.150	1D.5
Pension contributions	1.900	7.600	0.000	7.600	9.500	1D.6
Movement in provisions	47.009	-9.815	0.000	-9.815	37.194	1D.7
Profit on sale of fixed assets	-22.253	0.000	0.000	0.000	-22.253	1D.8
Cash generated from operations	1,244.358	7.601	-0.656	8.257	1,252.615	1D.9
Net interest paid	-150.821	-174.061	0.000	-174.061	-324.882	1D.10
Tax paid	137.000	0.000	0.000	0.000	137.000	1D.11
Net cash generated from operating activities	1,230.537	-166.460	-0.656	-165.804	1,064.733	1D.12
Investing activities						
Capital expenditure	-2,001.900	159.431	0.000	159.431	-1,842.469	1D.13
Grants & Contributions	0.000	0.000	0.000	0.000	0.000	1D.14
Disposal of fixed assets	6.400	0.000	0.000	0.000	6.400	1D.15
Other	0.000	0.000	0.000	0.000	0.000	1D.16
Net cash used in investing activities	-1,995.500	159.431	0.000	159.431	-1,836.069	1D.17
Net cash generated before financing activities	-764.963	7.030	-0.656	-6.373	-771.336	1D.18

Table 1D: Statement of cashflows for the 12 months ended 31 March 2024

The statement of cashflows presents a summary of all cashflows in the business.

Line description Units: £m	Statutory	Adjustments			Total appointed activities	RAG4 Ref
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Cashflows from financing activities						
Equity dividends paid	-195.800	0.000	0.000	0.000	-195.800	1D.19
Net loans received	278.952	7.030	0.000	7.030	285.982	1D.20
Cash inflow from equity financing	0.000	0.000	0.000	0.000	0.000	1D.21
Net cash generated from financing activities	83.152	7.030	0.000	7.030	90.182	1D.22
Increase (decrease) in net cash	-681.811	0.001	-0.656	0.657	-681.154	1D.23

Differences between statutory and RAG definitions

This table takes the information from the statement of cashflows from the statutory accounts and adjusts for the differences between IFRS and the RAGs, as well as removing the cashflows of the non-appointed business to show the cashflows of our regulated business.

Additional narrative on our statement of cashflows

Statutory operating profit (Line 1) ties to our Annual Report 2023/24. RAG4 states that this value should tie to Line 3 of Table 1A. Line 3 of table 1A includes a non-cash £118.9 million impairment loss on an intercompany loan which does not appear in our Annual Report 2023/24 operating profit (see Table 1A commentary for further details). In order for the APR statutory reduction in cash to align with our Annual Report 2023/24, this is excluded within Table 1D.

Explanation of reconciling items

The cashflow has been prepared to align with the regulatory reporting format. As a result, the net cash position by activity (operating, investing and financing) does not agree to what has been presented in the statutory statement of cashflows.

The difference is primarily due to the classification of all interest related balances including amounts capitalised in the statutory statement of financial position of the 'net interest paid' category and interest costs relating to pensions.

The majority of movement in non-appointed working capital relates to cash paid over to BTL.

The variance between the operating profit in Line 4 of Table 1A and Line 1 of Table 1D is £118.9 million related to impairment losses on intercompany loan receivables

Table 1E: Net debt analysis (appointed activities) at 31 March 2024

This table shows our net debt analysis.

Line description Units: £m	Fixed Rate	Floating Rate	Index Linked		Total	RAG4 Ref
			RPI	CPI/ CPIH		
Interest rate risk profile						
Borrowings (excluding preference shares)	6,281.108	1,651.361	9,550.047	0.000	17,482.516	1E.1
Preference share capital	0.000				0.000	1E.2
Total borrowings	6,281.108	1,651.361	9,550.047	0.000	17,482.516	1E.3
Cash					-14.988	1E.4
Short term deposits					-1,259.891	1E.5
Net Debt					16,207.637	1E.6
Gearing						
Gearing					81.254 %	1E.7
Adjusted Gearing					80.571 %	1E.8
Interest						
Full year equivalent nominal interest cost	311.171	109.864	558.251	0.000	979.286	1E.9
Full year equivalent cash interest payment	311.171	109.864	104.837	0.000	525.872	1E.10
Indicative weighted average nominal interest rate	4.954 %	6.653 %	5.846 %	0.000 %	5.602 %	1E.11
Indicative weighted average cash interest rate	4.954 %	6.653 %	1.098 %	0.000 %	3.008 %	1E.12
Weighted average years to maturity	9.951	2.585	25.387	0.000	12.427	1E.13

Additional notes on net debt analysis

A £200.0 million notional swap instrument's receive leg changes from fixed rate to floating rate in 2032. As at 31 March 2024, the instrument's receive leg has been classified as fixed rate according to its interest rate characteristics on this date.

The weighted average years to maturity is calculated as the multiple of the principal sum and years to maturity for each non-swap instrument (foreign currency debt incorporates the impact of cross currency swaps in line with Table 4B) divided by the principal sum outstanding as at 31 March 2024.

Adjusted gearing is the percentage of the net debt (covenant basis) to the Regulatory Capital Value ('RCV'). It's the measure used when assessing TWUL's gearing against the level stipulated in the whole business securitisation covenants.

The bank overdraft of £126.7m has been included on the fixed rate borrowings. This has arisen due to timing and relates to an accounting overdraft only. No actual interest has been included and therefore an 0.0 % interest rate has been used.

Table 1F: Financial flows for the 12 months ended 31 March 2024 and for the price review to date

The table shows the various components of actual returns achieved for the current financial year and the average for AMP7 to date. The actual return has been benchmarked against the allowed return permitted under the regulatory regime.

All figures quoted are in 2017/18 real CPIH terms unless otherwise stated. Due to rounding, numbers presented may not add up precisely to the totals provided.

	12 months ended 31 March 2024						
Line description	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	RAG4 Ref
Regulatory equity (£m)	6,297.279	6,297.279	3,122.716				1F.1
Return on regulatory equity(%)	3.90 %	1.94 %	3.90 %	245.904	121.939	121.939	1F.2
Impact of movement from notional gearing (%)		1.97 %	1.70 %		123.964	53.182	1F.3
Gearing benefits sharing (%)		-0.14 %	-0.28 %		-8.697	-8.697	1F.4
Variance in corporation tax (%)		-0.02 %	-0.04 %		-1.289	-1.289	1F.5
Group relief (%)		0.00 %	0.00 %		0.000	0.000	1F.6
Cost of debt (%)		3.82 %	10.28 %		240.450	320.957	1F.7
Hedging instruments (%)		-1.16 %	-3.13 %		-73.298	-97.840	1F.8
Return on regulatory equity including Financing adjustments (%)	3.90 %	6.40 %	12.43 %	245.904	403.069	388.253	1F.9
Operational Performance							
Totex out / (under) performance (%)		-5.67 %	-11.44 %		-357.146	-357.146	1F.10
ODI out / (under) performance (%)		-0.78 %	-1.58 %		-49.225	-49.225	1F.11
C-Mex out / (under) performance		-0.21 %	-0.42 %		-13.121	-13.121	1F.12
D-Mex out / (under) performance		-0.08 %	-0.17 %		-5.320	-5.320	1F.13
Retail out / (under) performance		-0.75 %	-1.52 %		-47.367	-47.367	1F.14
Other exceptional items		-0.27 %	-0.55 %		-17.224	-17.224	1F.15
Operational performance total		-7.77 %	-15.67 %		-489.402	-489.402	1F.16

Table 1F: Financial flows for the 12 months ended 31 March 2024 and for the price review to date (continued)

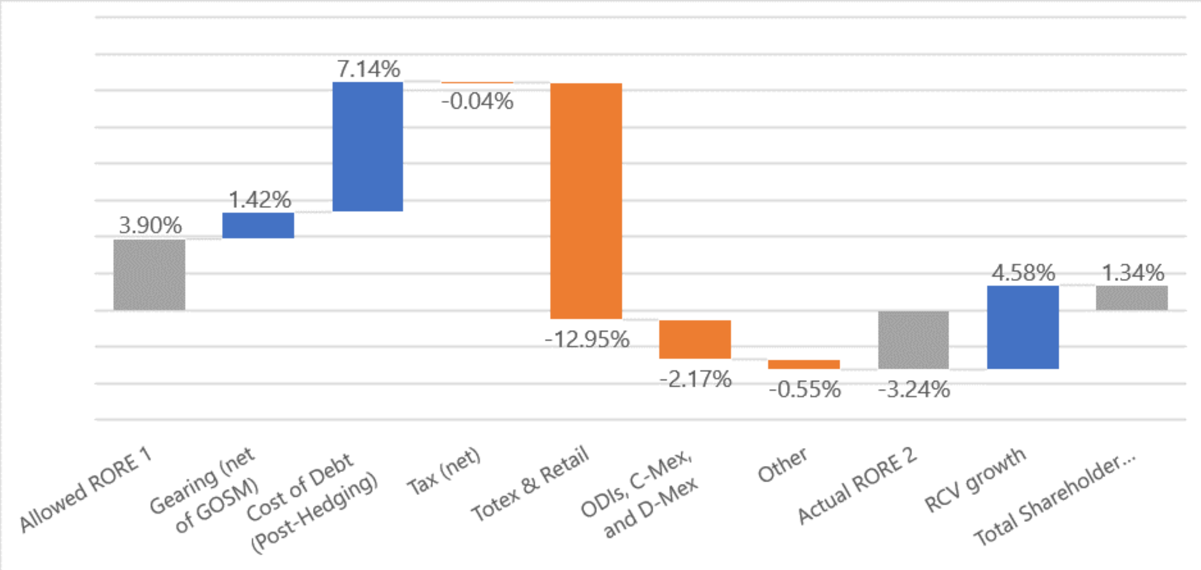
Average 2020/25							
Line description	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	RAG4 Ref
Regulatory equity (£m)	5,983.200	5,983.200	2,851.360				1F.1
Return on regulatory equity(%)	3.90 %	1.86 %	3.90 %	233.345	111.203	111.203	1F.2
Impact of movement from notional gearing (%)		2.04 %	1.75 %		122.142	49.920	1F.3
Gearing benefits sharing (%)		0.00 %	0.00 %		0.000	0.000	1F.4
Variance in corporation tax (%)		-0.05 %	-0.10 %		-2.913	-2.913	1F.5
Group relief (%)		0.00 %	0.00 %		0.000	0.000	1F.6
Cost of debt (%)		2.90 %	8.06 %		173.431	229.719	1F.7
Hedging instruments (%)		-3.03 %	-8.44 %		-181.025	-240.647	1F.8
Return on regulatory equity including Financing adjustments (%)	3.90 %	3.72 %	5.17 %	233.345	222.838	147.282	1F.9
Operational Performance							
Totex out / (under) performance (%)		-1.11 %	-2.33 %		-66.434	-66.434	1F.10
ODI out / (under) performance (%)		-0.88 %	-1.85 %		-52.860	-52.860	1F.11
C-Mex out / (under) performance		-0.26 %	-0.54 %		-15.271	-15.271	1F.12
D-Mex out / (under) performance		-0.05 %	-0.10 %		-2.769	-2.769	1F.13
Retail out / (under) performance		-0.92 %	-1.93 %		-54.951	-54.951	1F.14
Other exceptional items		-0.31 %	-0.64 %		-18.305	-18.305	1F.15
Operational performance total		-3.52 %	-7.39 %		-210.590	-210.590	1F.16

Table 1F: Financial flows for the 12 months ended 31 March 2024 and for the price review to date (continued)

Line description	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	RAG4 Ref
12 months ended 31 March 2024							
RoRE (%) (return on regulatory equity)	3.90 %	-1.37 %	-3.24 %	245.904	-86.333	-101.150	1F.17
RCV growth (%)	4.58 %	4.58 %	4.58 %	288.415	288.415	143.020	1F.18
Voluntary sharing arrangements (%)		0.00 %	0.00 %		0.000	0.000	1F.19
Total shareholder returns (%)	8.48 %	3.21 %	1.34 %	534.319	202.082	41.871	1F.20
Dividends							
Gross dividends (%)	1.79 %	2.50 %	5.03 %	112.721	157.163	157.163	1F.21
Interest Receivable on Intercompany loans (%)		0.90 %	1.81 %		56.395	56.395	1F.22
Retained Value (%)	6.69 %	-0.18 %	-5.50 %	421.598	-11.475	-171.687	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance (%)		-0.02 %	-0.04 %		-1.343	-1.343	1F.24
ODI out / under performance (%)		-0.30 %	-0.61 %		-19.031	-19.031	1F.25
Total out / under performance (%)		-0.32 %	-0.65 %		-20.375	-20.375	1F.26

Average 2020/25							
RoRE (%) (return on regulatory equity)	3.90 %	0.20 %	-2.22 %	233.345	12.248	-63.308	1F.17
RCV growth (%)	5.90 %	5.90 %	5.90 %	353.009	353.009	168.230	1F.18
Voluntary sharing arrangements (%)		0.00 %	0.00 %		0.000	0.000	1F.19
Total shareholder returns (%)	9.80 %	6.10 %	3.68 %	586.354	365.257	104.922	1F.20
Dividends							
Gross dividends (%)	1.80 %	1.04 %	2.17 %	107.698	61.962	61.962	1F.21
Interest Receivable on Intercompany loans (%)		0.49 %	1.02 %		29.183	29.183	1F.22
Retained Value (%)	8.00 %	4.58 %	0.48 %	478.656	274.112	13.777	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance (%)		-0.02 %	-0.05 %		-1.287	-1.287	1F.24
ODI out / under performance (%)		-0.56 %	-1.18 %		-33.545	-33.545	1F.25
Total out / under performance (%)		-0.58 %	-1.22 %		-34.832	-34.832	1F.26

Table 1F: Financial flows for the 12 months ended 31 March 2024 and for the price review to date (continued)



Additional notes on financial flows

Allowed RORE is based on notional capital structure.

Actual RORE is based on actual capital structure.

Additional narrative on financial flows

Line 7: This is calculated as the total cost of debt excluding hedging.

Line 8: This is calculated as the hedging impact, which now includes accretion on index-linked swaps. For consistency, the AMP to date average figures reflect restated 2020/21 and 2021/22 values which include the impact of accretion.

Line 10: In line with Ofwat guidance, unspent conditional allowance has been removed from this calculation. This has also been applied to 2020/21 and 2021/22 for calculating the average.

Line 19: Thames Water does not have any voluntary sharing arrangements for AMP7.

Line 22: This relates to the interest income receivable by TWUL on the loans due from its immediate parent company, Thames Water Utilities Holdings Limited ('TWUHL'). No cash interest payment was made to TWUL by TWUHL during 2023/24.

Our revenues are set according to a very detailed regulatory process which allows for the recovery of efficient costs plus a return for investors in the business. The purpose of financial flows is to provide greater transparency about the financial returns to our shareholders. The financial flows information allows for a comparison between the returns under our actual capital structure and the returns set by the regulator under a notional capital structure, which is 60 % geared.

The total actual return to external shareholders is generally comprised of the base return set in the Final Determination, outturn financial and operational performance compared to our allowances and targets, any retrospective adjustment set in the Final Determination to reflect actual performance over 2015 to 2020, growth in the RCV arising from inflation, and any voluntary sharing arrangements.

Overall total shareholder returns amount to 1.34 % for 2023/24. Negative 5.50 % was retained in the business, with 5.03 % being distributed by way of dividend to cover debt financing costs elsewhere in the group, purchase group relief, and provide pension contributions, with the remaining 1.81 % relating to interest income due to TWUL from its immediate holding company, TWUHL.

No dividends were paid by any group companies to our external shareholders. Please see the dividend policy section for further detail.

Table 1F: Financial flows for the 12 months ended 31 March 2024 and for the price review to date (continued)

The actual RORE to shareholders of (3.24 %) is based on our actual capital structure and can be calculated by taking the allowed RORE (based on notional capital structure) of 3.90 % and adjusting for the above financial and operational performance which amount to 8.53 % and (15.67 %) respectively.

A breakdown of these components is set out in further detail below:

For 2023/24, the Final Determination has set our base return at 3.90 % applicable to Ofwat's notional capital structure with a gearing of 60 %.

Our financing activities increased returns by 8.53 % and can be attributed to the following elements:

- Our cost of debt (unadjusted for hedging instruments) was lower than the allowance set by the Final Determination, in real terms. This is shown in Line 7. This is mainly because c.36 % of our debt is fixed in nominal terms, which provides the benefit of lower interest expense in a high inflation environment;
- The observed outperformance observed in row Line 7 is partially offset when adjusting for hedging instruments, as shown in Line 8. This is driven by the swap accretion incurred during the year (arising from inflation), offset slightly by swap income;
- The impact of hedging instruments presented in Table 1F is consistent with financial derivatives set out in Table 4B which includes various inflation linked swaps and interest rate swaps. Note that the cost of debt (unadjusted for hedging instruments) includes the impact of cross currency swaps;
- Our average gearing of 80.09 % during the financial year is slightly higher than in FY23 which is higher than the 60 % assumed by Ofwat for a notional company. The higher gearing amplifies the percentage return to external shareholder, because debt has a lower required return than equity on a notional basis. Another impact of higher gearing levels is that it increases the volatility of external shareholder returns, which become proportionately more sensitive to levels of out- or under-performance. We are responsible for financing our business as efficiently as possible. Our financing structure, the Whole of Business Securitisation, offers additional protections to debt investors enabling us to have higher levels of debt than would otherwise be the case, without reducing our credit-worthiness. These investor protections place clear limits on permitted operational and financing activities undertaken by the Company and also protect customers' interests. All additional risk associated with having a higher level of debt remains with our external shareholders and is not transferred to customers;
- The cumulative impact of the Gearing Outperformance Sharing Mechanism for AMP7 to date is in a net-reward position, due to positive outturns for both 2021/22 and 2022/23. In line with Ofwat guidance, a value of zero has therefore been recorded; and
- There was no impact from the overall net tax performance during the year.

Table 1F: Financial flows for the 12 months ended 31 March 2024 and for the price review to date (continued)

Our operational performance decreased returns for the financial year by 15.67 % which is due to various factors:

- We under-performed our Wholesale totex largely due to expected acceleration of our capital works programme which was planned in excess of PR19 allowance;
- Since we're coming to the end of the AMP, we've marked any totex variance arising due to inefficiency rather than timing. This amplifies the impact of underperformance on reported RORE;
- As per Ofwat guidance the impact of un-utilised conditional allowances have been removed from the calculation of totex underperformance. In 2023/24, this underspent amounted to c.£6 million (2017/18 real);
- Taking into account the above, reported totex performance was negative and reduced returns by 11.44 %;
- Retail spend remains above our allowance as we continue to invest in service improvement. As this additional spend is not shared with customers, this reduced returns by 1.52 %. On a net basis after customer sharing, the combined impact of wholesale totex and retail spend reduced returns by 12.95 %;
- Over the remainder of AMP7, we continue to plan to spend materially above the levels set under our Final Determination as we continue to strive to improve our customer service which would materially reduce actual RORE versus allowed RORE, all else being equal;
- The business has incurred material ODI penalties as we under-performed against the challenging targets set by Ofwat's PR19 final determination. A detailed breakdown in provided from page 16 onwards. This reduced returns by 1.58 %;
- Whilst we have seen ongoing improvements, we continue to see underperformance on customer measures, C-Mex and D-Mex. There was an overall penalty amount of £18.441 million which has reduced returns by 0.59 %; and
- Other exceptional items (as defined per the RAGs) relate to land sales, pollution fines and customer compensation claims. See Table 2L for further details of land sales.

Inflation, namely the average yearly growth in CPIH, increases RCV growth by 4.58 %.

We do not have any voluntary sharing arrangements for AMP7.

The 2015-20 adjustment reflects the true-ups under the Final Determination for the total out-/under-performance in AMP6 for totex and ODIs, which are reflected in our allowed revenues for AMP7. The reduction of 0.65 % is predominantly driven by the leakage rebate levied as a result of our leakage under-performance in AMP 6.

The average return for AMP 7 (2020/21 to 2023/24)

Our average RORE for AMP7 to date is -1.69 % compared to the allowed RORE of 3.90 %, with financing outperformance offset by operational performance.

Accounting policies

Reporting overview

Our disclosures in this Annual Performance Report have been prepared in accordance with the Regulatory Accounting Guidelines ('RAG') issued by Ofwat, which are based on IFRS as adopted by the UK Endorsement Board, as applied in our Annual Report 2023/24 and clarified within the Ofwat query process.

In completing all tables, we have included all debt relevant to the regulated company. Figures therefore include both Thames Water Utilities Limited ('TWUL') and its direct 100 % owned subsidiary Thames Water Utilities Finance plc ('TWUF').

The following are key differences between Regulatory Accounting Guidelines and accounting policies reported in our Annual Report 2023/24, these are explained further in the policy notes:

- Reclassification of certain costs and incomes to align with regulatory presentation requirements.
- Revenue recognition (IFRS 15) in relation to bad debts; and
- Capitalisation of borrowing costs (IAS 23).

Basis of preparation

The Regulatory Accounting Statements for the twelve months ended 31 March 2024 have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value.

Context

Our business plan for the 2025-30 price control period proposes investing significantly more than the current regulatory period to improve asset resilience, to deliver environmental improvements and to improve performance for our customers and the communities we serve. This relies on securing additional debt and equity funding.

The decision by shareholders not to commit new equity in March 2024 reflecting uncertainty concerning the outcome of the PR24 price review has resulted in credit rating downgrades and forecast trigger events (explained below in the financial covenants section), which highlight this near-term funding challenge. However, we will continue to engage with our regulators, and the Government, to agree a determination that will deliver improvements for our customers and the environment and give our investors the opportunity to earn a fair return on their investment.

The success and timing of securing the capital we need to finance our ambitious business plan, turnaround performance and increase financial resilience depends on securing a PR24 price determination that is both financeable and investable.

These factors are explained further below:

A. PR24 business plan

In October 2023, the Company submitted its PR24 business plan for the 2025-30 regulatory period ('AMP8') to Ofwat. Since this submission, the Company has discussed the content of its PR24business plan extensively with its regulators and key stakeholders. As a result of this engagement, it submitted an update to its PR24 business plan in April 2024 increasing total expenditure in AMP8 to £19.8 billion and proposed that a further £1.9 billion of potential investment is placed into a Deliverability Assessment Mechanism. Ofwat is expected to publish its draft business plan assessment and determination on 11 July 2024 and final determination on 19 December 2024. This process will confirm the Company's allowed revenues and performance targets for AMP8.

The Company's PR24 business plan proposes a significant increase in investment in AMP8 to maintain safe high quality drinking water, ensure security of water supplies, deliver further environmental improvements, and build greater network resilience. This step up in investment will require an increase in customer bills, as well as additional debt and equity funding.

Accounting policies (continued)

There is no assurance of the level of customer funding that will be determined by Ofwat to support this level of proposed investment. However, the Board notes that under Section 2 of Water Industry Act 1991 (as amended), Ofwat is under a duty to "secure that water companies can (in particular through securing reasonable returns on capital) finance the proper carrying out of their statutory functions".

If the Company considers its PR24 final determination is neither financeable nor investible, it has the right to request that Ofwat refers its determination to the Competition and Markets Authority ('CMA') within two months for a full re-determination. There are no set appeal grounds and the CMA will make its own independent judgement as to an appropriate outcome. In reaching its redetermination conclusions, the CMA is required to have regard to Ofwat's duties, strategic priorities and objectives to the same extent as is required of Ofwat, including in relation to Ofwat's duty to exercise its powers in the manner which it considers is best calculated to (among other things) secure that a notional, efficient water company is able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of its functions.

In the event of a referral by the Company, the CMA has six months to issue a decision from the point of referral, which can be extended by another six months. It is therefore possible that an appeal process may take 12 months or longer from the date of referral (as was the case for PR19 referrals to the CMA). Furthermore, there can be no assurance that equity funding could be completed prior to the outcome of any CMA referral, nor that the CMA would make a re-determination that is more investible or financeable than Ofwat's PR24 final determination.

B. Equity funding

In July 2023, the Company announced that its ultimate shareholders (the "Kemble Shareholders") had agreed to provide a further £750 million new equity funding across the current regulatory period (AMP7), the first £500 million tranche of which was anticipated by 31 March 2024. In addition, the Kemble Shareholders acknowledged the possibility of further equity investment in the medium-term, indicatively to be in the region of £2.5 billion.

This funding was subject to satisfaction of certain conditions, including the preparation of a business plan that underpinned a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over three years and was supported by appropriate regulatory arrangements.

Following submission in October 2023. the Company has been in dialogue with Ofwat to seek feedback on its business plan as part of the PR24 price review process. On 28 March 2024, the Company and Kemble's shareholders announced that, based on the feedback provided by Ofwat to the Company at that time, the regulatory arrangements that would be expected to apply to the Company in AMP8 made the PR24 business plan uninvestible. As a result, the conditions attached to the £750 million of new equity were not satisfied at that time and the Kemble Shareholders did not provide the first £500 million tranche of new equity that was originally anticipated in March 2024.

Discussions with Ofwat and other stakeholders are ongoing. the Company aims to secure a PR24 regulatory determination that is affordable for customers, deliverable and financeable for the Company, as well as investible for equity investors. The Company has therefore announced its intention to pursue all options to secure the required equity investment from new or existing shareholders following receipt of the PR24 draft determination. However, the Company does not expect to be able to conclude the planned equity raise until after publication of the PR24 final determination (or conclusion of an appeal if it is referred to the CMA). Consequently, the Board has concluded that although it is possible that equity funding will be received by 31 March 2025, it is not assumed to be received during the going concern assessment period and is therefore not reflected in the going concern base case below or associated financial covenant calculations.

Accounting policies (continued)

In April 2024, events of default occurred under the financing arrangements for Kemble Water Finance Limited, an indirect holding company of the Company, and its financing subsidiary Thames Water (Kemble) Finance plc (together the "Kemble Debtors"). The Kemble Debtors have granted security in favour of their lenders and noteholders, including share security, and consequently the Company could be subject to a change of ultimate beneficial ownership should the lenders and noteholders enforce their security.

The Kemble Debtors have announced that they have approached their lenders and noteholders to request that they take no creditor action so as to provide a stable platform while all options are explored. The Company is not an obligor under such financings and the defaults of the Kemble Debtors does not give their creditors recourse to the Company. However, these events of default would need to be resolved to allow Kemble's existing shareholders or any new investors the option to inject further funds into the Company through the existing corporate structure. Equity funding could be made directly into the Whole Business Securitisation ('WBS') ringfenced group if it was in the best interests of stakeholders.

The Board will continue to carefully monitor progress towards achieving equity funding on a regular basis and has undertaken prudent contingency planning to assess what options may be available to maintain its core water and wastewater services and financial resilience should this be required. The Board further notes that in the event that equity funding would not be forthcoming, the Company would consider all options available at that time and could revise down its business plan expenditure to fit within the then available funding from the PR24 final determination, so as to enable the Company to maintain its financial resilience and efficiently access debt funding.

Going concern

The Directors consider it appropriate to prepare the Regulatory Accounting Statements on a going concern basis as they have a reasonable expectation that the Company will continue in existence for the next 12 months from the date of approval of the Regulatory Accounting Statements (the 'assessment period'). In their assessment, the Directors have identified the following material uncertainties related to events that are outside the control of the Board and which may cast significant doubt on the Company's ability to continue as a going concern:

- The Company does not have sufficient committed liquidity for a period of at least 12 months from the date of approval of these Regulatory Accounting Statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Company's financing arrangements.

In assessing the appropriateness of the going concern basis, the Directors have used a base case scenario which does not assume any new equity or debt is raised within the assessment period, with budgeted cash flows consistent with the Board approved budget for the year ended 31 March 2025 and thereafter our PR24 submission. In forming our conclusions we have considered the matters set out in the Context section above, together with the following factors:

1a. Liquidity runway

The Company's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate.

Accounting policies (continued)

As at 31 March 2024, the Company had financial resources consisting of £1.3 billion of available cash and cash equivalents, access to £2.6 billion of committed credit facilities of which £1.2 billion is undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). The £1.2 billion of undrawn facilities mainly consist of revolving credit facilities from relationship banks.

As at 30 June 2024, the Class A revolving credit facilities and term loans, totalling £2.2 billion, were fully drawn thereby significantly increasing the amount of cash held.

It is projected that under the base case the available liquidity will fund forecast operating cashflows, capital expenditures and service debt until May 2025. This assessment assumes that the Company can continue to draw its existing revolving credit facilities and utilise all cash resources over this period. The Board recognises that it is necessary to extend the Company 's liquidity runway so that the Company has adequate resources, for a period of 12 months from the date of approval of the Regulatory Accounting Statements, to continue operations and discharge its obligations as they fall due. This could be achieved in the short term through any one of a number of actions including implementing cash conservation measures that do not threaten the Company 's statutory duties (actions within the Board's control), securing creditor support to raise new debt or extend the liquidity runway, or raise equity (actions outside of the Board's control).

Scenarios more severe than the base case would cause the base case liquidity runway to shorten further and require the Board to take mitigating actions to fund forecast operating cash flows, capital expenditures and service debt in the assessment period.

Additional debt funding is dependent primarily on the appetite of investors and lenders in public and private debt markets, which would be underpinned by various factors, including the Company's credit ratings and the WBS structure. The terms and conditions of the WBS provide a stable platform for the Company to finance its activities in the debt capital markets:

- It is based on a common set of terms for Secured Creditors that also facilitates debt raising across a range of facilities and debt instruments;
- It establishes a contractual ringfence that enhances the licence ringfence and requires the Company to be clearly segregated from other parts of the Kemble Water Holdings Limited group and their financing arrangements;
- It establishes controls on the Company's activities to ensure a focus is maintained on delivering its regulated business;
- It establishes a framework of financial covenants, historical and prospective, requiring continual monitoring and these are underpinned by information undertakings requiring formal, bi-annual confirmation of compliance; and,
- It is designed to enable the Company to continue to operate through situations where there is financial stress and to maintain sufficient committed liquidity to service debt.

1b. Covenant compliance

Under the terms of its Common Terms Agreement, the Company is required to maintain compliance with financial covenants under the WBS and publish a compliance certificate semi-annually. Non-compliance with financial covenants can result in a cash lock-up, Trigger Event or, in extreme situations, an event of default. Any of these could affect the ability of the Company to attract equity funding.

The Company was compliant with financial covenants in the 2023/24 financial year. However, following the decision by shareholders not to commit new equity in March 2024, the Board has concluded that although it is possible that equity will be received this should no longer be assumed for financial covenant forecast calculation purposes. Consequently, the compliance certificate to be submitted to the Security Trustee in July 2024 shows non-compliance of certain forecast gearing and interest cover ratios with Trigger Event thresholds for the 2024/25 financial year, which will crystallise formally upon delivery of the compliance certificate for the financial year ended 31 March 2024.

Accounting policies (continued)

The Directors have considered the consequences of a Trigger Event under the WBS including, but not limited to, a cash lockup preventing distributions and a prohibition from incurring additional debt unless consent is given by the Secured Creditors, other than utilisations from existing committed facilities. A Trigger Event acts as an early warning sign to provide additional creditor protections. It is designed to maintain the Company's creditworthiness and as such, it does not affect the Company's continued access to its significant existing committed credit facilities, nor would it disrupt the Company's ability to trade. A Trigger Event is not an event of default and gives no right to the Secured Creditors to take enforcement action or accelerate any of the Company's debt. It does require the Company to prepare a remedial plan and provide further information to its Secured Creditors.

In assessing going concern, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected reflecting the economic uncertainty associated with various macro factors such as a decline in real wages, a reduction in economic activity and inflationary pressures on operating costs. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To address the impact on operational cashflows, mitigations involving active working capital management and the release of contingencies embedded within the Business Plan have also been taken into account.

Under a severe but plausible downside scenario, a Trigger Event would continue but financial covenant ratios do not project an event of default. In the event of an event of default, the Company would enter into an automatic 18-month standstill period during which Secured Creditors are prohibited from taking enforcement action or accelerating any of the Company's debt. During this period, £550 million of liquidity facilities would be available to finance specific costs incurred by the business, thereby providing additional runway. However, there would be restrictions on the Company's operations including the cessation of capital expenditure other than for essential maintenance.

2. Regulatory licence compliance

As noted in the 'Equity funding' section above, there are scenarios where a revised business plan would need to be prepared to take account of available funding during the review period.

The implementation of a revised business plan would deliver less for customers, communities, and the environment and may result in a failure to comply with relevant standards, environmental permits and other legislation that could lead to enforcement action by regulators, including Ofwat. Dependent on the severity of non-compliance, this could give rise to grounds for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order. A petition could also be made if the Company is unable to pay its debts. The purpose of the Special Administration Regime is to protect the interests of the customers in the event a water company (the regulated entity) is or is likely to be unable to pay its debts or is in contravention with its principal statutory duties or an enforcement order.

Furthermore, in April 2024 Moody's and Standard & Poor's downgraded their credit ratings for the Company to Baa3 (Moody's) and BBB- (Standard & Poor's), both with a negative outlook, in response to the Company's update on shareholder funding. These downgrade actions cited greater uncertainty due to the delay in raising further equity funding and the potential impact on the Company's plan to turnaround its operational performance. As a result of these downgrades, the Company is now operating in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

Both ratings agencies have stated that Thames Water's ratings could be downgraded if the Company faced difficulties in maintaining its forward-looking liquidity or if existing or new shareholders do not provide sufficient additional equity, for example because of an adverse regulatory determination, to support the company's ongoing investment needs. Any future downgrade of either monitored rating would represent a breach of the Company's licence. If this breach was enforced by Ofwat, it could result in an event of default under the WBS. A credit rating downgrade could also reduce access to capital and increase the cost of debt.

Accounting policies (continued)

Conclusions

In assessing whether the Company has adequate resources, for a period of at least 12 months from the date of approval of the Regulatory Accounting Statements, to continue operations and discharge its obligations as they fall due, the Directors have taken into consideration all of the factors set out above.

Accordingly, the Directors have concluded it is reasonable to assume that actions can be taken such that the Company has adequate resources, for a period of 12 months from the date of approval of the Regulatory Accounting Statements, to continue operations and discharge its obligations as they fall due. However, there exist material uncertainties which may cast significant doubt on the Company's ability to continue as a going concern in relation to the preparation of the Regulatory Accounting Statements given:

- The Company does not have sufficient committed liquidity for a period of at least 12 months from the date of approval of these Regulatory Accounting Statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Company's financing arrangements.

The Regulatory Accounting Statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Revenue recognition

Revenue represents income receivable from regulated water and wastewater activities. For regulatory reporting purposes, Ofwat requires a deviation from IFRS15 whereby revenue for amounts billed and deemed uncollectable in the current year are recognised within operating costs in the Annual Performance Report (instead of a direct reduction to revenue as required by IFRS15).

The difference between the amount recorded as revenue in the statutory accounts and the amount recorded as revenue in the regulatory accounts was £90.5 million for the year ended 31 March 2024, as shown in the following table:

	£m
Statutory revenue	2,518.223
Bad debt reclassified to opex	49.083
Reclassification of sludge cake sales to opex	(0.915)
Reclassification of grants &	(1.535)
Non appointed income	(137.184)
Appointed revenue	2,427.672

Revenue includes an estimate of the amount of water and wastewater charges unbilled at the year end. This accrual is estimated using a defined methodology based on a measure of unbilled water consumed by tariff, calculated from historical billing information. There are no material changes to the methodology applied in the current period.

Price control segments

Price controls relate to specific products and services which we provide to customers. The following price controls are applicable during the financial year:

- Water network plus: transport and storage of raw water, treatment and distribution of water to our customers through our water network;
- Wastewater network plus: our sewer network, treatment of sewage and treatment of sludge liquors;
- Water resources: abstracting raw water;
- Bioresources: the transport, treatment and disposal of sludge;
- Retail Household: provides certain customer-facing activities including billing and revenue collection for household customers;

Accounting policies (continued)

- Retail Non-Household: On 1 April 2017, we transferred our non-household customers to Castle Water Limited, and ceased to act as non-household retailer, however we continue to recognise wholesale revenue from these customers via third-party non-household retailers; and
- Thames Tideway Tunnel: responsible for the construction of interface works to the Thames Tideway Tunnel.

We allocate all costs either directly or indirectly in accordance with 'RAG2.09 – Guideline for classification of costs across the price controls'. The full details of how costs have been allocated is within our Accounting Methodology Statement which can be found on our website.

There are no significant changes in our allocation methodology in the current period.

Financial information within our finance system (SAP) is recorded by expenditure type within specific cost centres. Where possible, operating costs are attributed at the lowest level within the cost centre hierarchy, the relevant process level appropriate to the type of cost and price control. However, certain costs are recorded at a higher level in the cost centre hierarchy where they do not specifically relate to a process or if the cost is a support related cost.

We use a cloud-based business modelling and planning application (SAP Analytics Cloud) to produce the operating expenditure component of our regulatory tables. SAP remains the primary financial accounting and management tool used by the business and is the source of the data used in SAP Analytics Cloud.

Where possible, capital expenditure and associated depreciation are directly attributed to one of the price controls. Where this is not possible, as an asset is used by more than one of the price controls, the capital expenditure and depreciation are reported in the price control where the service of principal use occurs with a recharge for use, equivalent to depreciation, being made to the other price controls reflecting the proportion of the asset used by them.

Occupied household properties policy

An occupier is any person who owns a premises or who has agreed with the Company to pay water and sewerage services in respect of the premises. No bills are raised in the name of "the occupier", other than in the circumstances outlined in the 'Unoccupied properties policy' section below. The property management process is followed to identify whether the property is occupied or not.

The property management process consists of the following:

- Mailings;
- Customer contacts;
- Meter reading for metered properties;
- Land registry checks; and
- Credit reference agency data.

Unoccupied household properties policy

Revenue is not recognised in respect of unoccupied properties. Properties are classified as unoccupied when:

- A new property has been connected but is unoccupied and unfurnished;
- We have been informed that the customer has left the property;
- It is unfurnished and not expected to be reoccupied immediately;
- It has been disconnected following a customer request;
- The identity of the customer is unknown; and
- We have been informed that the customer is in a care home, in long term hospitalisation, in prison or overseas long-term.

The Company only raises bills in the name of the 'occupier' when it has evidence that a property is occupied but cannot confirm the name of the occupier. When the Company identifies the occupant, the bill is cancelled and re-billed in the customer's name. If the Company has not identified an occupant within six months the bill is cancelled, and the property is classified as empty.

When a property is classified as unoccupied, a defined process is followed to verify when the property becomes occupied and/or obtain the name of the customer in order to initiate billing.

Accounting policies (continued)

The residency confirmation process comprises a number of steps which include using external and internal information for desk-top research to confirm the property status (occupied/empty) and, where possible, to identify the occupier's name.

The property will only cease to be classified as unoccupied when a named customer is identified and billed.

The Company does not recognise income in respect of empty properties. If the Company has turned off the supply of water at the mains to a property at a customer's request, then water supply charges are not payable.

A customer may request the supply to be turned off in instances such as the property is to be demolished or where a house previously converted into flats (and additional supplies made) is to be converted back into a house.

If the occupier's name is not obtained at this point, the property will remain classified as unoccupied, and the residency confirmation process will be re-started after one to six months. If these steps confirm that a property appears to be empty, then the supply may be turned off.

The following activities are undertaken to check properties classified as unoccupied are in fact not occupied:

- Where the customer has left a property and it is expected to be occupied by someone else, a welcome letter is sent to the property explaining to the occupier how to register as the new account holder;
- Where there is no response to the welcome letter within two months a further letter is sent to the property explaining that the property has been classified as void and may be scheduled for disconnection as a result;
- Meter readings are taken for metered unoccupied properties and where consumption is recorded a letter is sent to the property; and
- Inspections are organised throughout the year to check for occupancy status.

New household properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy, and this is recognised as revenue.

If the developer is no longer responsible for the property and no new occupier has been identified, the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Household disconnections policy

Premises listed in Schedule 4A of the Water Industry Act 1991 (any dwelling occupied by a person as his or her only or principal home) cannot be disconnected for non-payment of charges. However, the following provisions do apply in respect of any disconnections:

- If the water supply to any premises is disconnected for any reason, but we continue to provide sewerage services to those premises, the customer will be charged the appropriate Sewerage Unmeasured Tariff unless it can be demonstrated that the premises will be unoccupied for the period that the premises are disconnected, in which case there is no charge. Revenue is recognised for sewerage services up to the point we are aware the property becomes unoccupied;
- If it is found subsequently that the premises were occupied for any period when we were advised that the premises would be unoccupied, the appropriate Sewerage Unmeasured Tariff will then apply to that period and appropriate retrospective bills are raised, and revenue recognised at that point; and
- In the event that we suspect that a property is occupied but we have no record of the occupier, we take steps to establish the identity of the occupier in order that billing can commence, and revenue be recognised. An occupier is defined to include any person who owns premises as set out in the 'Occupied properties policy' above and also any person who has agreed with us to pay water supply and/or sewerage charges in respect of any premises (e.g. a Bulk Meter Agreement).

Accounting policies (continued)

Metered sales accrual ('MSA') reconciliation: retrospective review of household measured income accrual

Appointed income for the year ended 31 March 2023 included a measured income accrual of £200.2 million. The value of billing subsequently recognised in the year ended 31 March 2024 for consumption in the prior year was £213.2 million (Total £215.2 million less still in accrual £2.0 million). This has resulted in an increase in the current year's revenue due to the under-estimation of the prior year's measured income accrual:

MSA	£m	£m
System Accrual - Main	184.564	
System Accrual - WaterSure/WaterHelp	(3.624)	
System Accrual		180.902
Excluded (Capped at 2 yrs)	7.387	
Excluded Provision	(1.847)	
Excluded		5.540
New Accounts		1.980
Management Judgement		10.892
Subtotal		199.314
Active to Empty		-
Re-registered in Household		0.919
Total Accrual		200.234

Unwind	£m	£m
Billed	182.713	
Still in accrual	2.038	
		184.751
Excluded		18.020
New Accounts		0.352
Subtotal		203.123
Empty to Active		7.653
Re-registered in Household		1.680
Customer switching from unmeasured to metered		2.780
		215.236

Accounting policies (continued)

Capitalisation

The regulatory accounts policy on Property, Plant and Equipment ('PP&E') follows the statutory accounting policies with the exception of borrowing costs. No changes have been made to this policy since the prior reporting period.

In the statutory accounts, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the associated asset. All other borrowing costs are included as finance expenses within the income statement.

For regulatory reporting purposes borrowing costs may not be capitalised. The regulatory approach, which differs from IAS 23, results in an additional £159.4 million being recognised in interest expense and £10.0 million decrease in depreciation within the regulatory accounts for 2023/24.

Bad debt

The Company applies the IFRS9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable. The Company's assessment for calculating expected credit losses is explained below. In addition, management has considered ongoing cost of living challenges.

During the year ended 31 March 2024, we have seen a decrease in our overall bad debt cost, driven by changes in anticipated collection performance across our debt portfolio.

Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on performance in the year.

The amount that remains will be uncollectable and therefore needs to be covered by a bad debt provision. Debt that is older than 4 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors, which are debts that have not been billed yet but are part of the metered sales accrual.
Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses.

Directly Billed Write Off Policy

Our bad debt write-off policy has remained unchanged and has been consistently applied in the current year. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- Where the value of the debt makes it uneconomic to pursue – all debts of less than £5 are written off;
- Where the age of the debt exceeds the statute of limitations – all debts of greater than 6 years old are written off, taking into account usual business rules;
- Where county court proceedings and attempts to recover the debt-by-debt collection agencies (multiple in some cases) have proved unsuccessful including where the customer does not have any assets/has insufficient assets on which to levy execution;
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

Accounting policies (continued)

For debt to be written off there must be a legitimate charge against the debtor and no reasonable expectation of recovery. Disclosure is made for information regarding financial assets that are written off but are still subject to enforcement activity.

Water Only Companies ('WOCs')

A provision is also made against debts held by WOCs who bill their customers for sewerage services on behalf of us. Since detailed information is limited about the debt held on our behalf by the WOCs, we use an average of two data points when calculating the provisions – WOC Statutory Accounts and TW directly billed ('DB') provision rates - taking a single data point is not appropriate as collection rates, write-off and provisioning policies, differ from company to company.

Where provision rates have been provided by the WOCs this has been used as it accurately reflects the provision required to cover future write-offs.

BTL

The arrangement with BTL means the Company has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to the recognition of revenue within the Company and associated bad debt.

The bad debt methodology is consistent with directly billed customers.

Non-Household Customers

The Company has assessed the risk of credit losses for non-household customers to be low and therefore no bad debt provision has been made.

Accounting policies (continued)

Appointed profit before tax reconciliation

Operating profit:	£m
Statutory operating profit	398.337
Reclassification of grants and contributions to other income	(98.938)
Reclassification of rental income to other income	(7.849)
Capitalised borrowings depreciation	9.997
Derecognition of innovation fund provision	9.815
Reclassification of capital income to other income	(0.602)
Non appointed	23.678
Appointed operating profit	334.438
Other income::	
Statutory other income	0.000
Reclassification of grants and contributions to other income	98.938
Reclassification of rental income to other income	7.849
Reclassification of capital income to other income	0.602
Non appointed	(0.239)
Appointed other income	107.150
Profit before tax:	
Statutory profit before tax	157.295
Capitalised borrowings	(149.434)
Derecognition of innovation fund provision	9.815
Non appointed	23.439
Regulatory profit before tax	41.115

Current tax reconciliation 2023/24

Disallowable expenditure primarily relates to fines included in operating expenses.

Line description Units: £m	Total	Non-appointed	Appointed
Profit / (loss) before tax and fair value movements	5.041	(23.439)	28.480
Differences between statutory and regulatory definitions - mainly interest not shown as capitalised	(139.619)	-	(139.619)
Profit/(loss) on ordinary activities before taxation as shown for regulatory purposes	(134.578)	(23.439)	(111.139)
Tax at 25 %	(33.645)	(5.860)	(27.785)
Charge / (Credit) effects of:			
Depreciation on assets that do not qualify for relief	6.262	-	6.262
Disallowable expenditure	34.900	29.717	5.183

Accounting policies (continued)

Line description Units: £m	Total	Non-appointed	Appointed
Profit / (loss) before tax and fair value movements			
Non-taxable income	(14.053)	-	(14.053)
Property disposals	(1.538)	-	(1.538)
Capital allowances for the year lower than depreciation	132.800	0.004	132.796
Capitalised borrowing costs allowable for tax	(36.759)	-	(36.759)
Losses / (profits) on financial derivatives	(112.388)	-	(112.388)
Pension cost charge (lower than)/ in excess of pension contributions	(9.500)	-	(9.500)
Other short term timing differences	3.071	-	3.071
Tax losses carried forward	(0.186)	-	(0.186)
Differences between statutory and regulatory definitions - mainly capitalised interest	34.905	-	34.905
Differences between statutory and regulatory definitions - Fair value gains/(losses) on financial instruments	38.075	-	38.075
Subtotal	41.933	23.861	18.072
Group relief not paid at standard rate	-	(23.861)	23.861
Charge/(credit) in respect of group relief for the year	41.933	-	41.933
Adjustments in respect of prior periods – group relief	(54.591)	-	(54.591)
Total current tax charge/(credit) on profit/(loss) on ordinary activities	(12.658)	-	(12.658)
Current tax for current year	41.933		
Current tax for prior year	(54.591)		
Total current tax	(12.658)		

Tax reconciliation assumptions

Disallowable expenditure includes an £118.866 million impairment of loans receivable from TWUHL, which results in a tax adjustment of £29.717 million in the appointed business. The remaining adjustment primarily relates to fines included in operating expenses.

Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.

Capital allowances for the year lower than depreciation: In the current year, capital allowances claimed were lower than depreciation in order to maximise tax profits arising in the year

Capitalised borrowing costs are eligible for a full tax deduction in the year.

Fair value losses / (profits) on financial derivatives: Accounting These are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cashflows arise. Deferred tax is provided on all temporary differences.

Tax losses carried forward: In the current year, capital allowances claimed were lower than depreciation to maximise tax profits arising in year which will be offset against group relief received from group companies.

Fair value gains on financial instruments of £139.619 million are booked in the statutory accounts but are not included in Profit/(loss) on ordinary activities before taxation as shown for regulatory purposes above.

Group relief not paid at standard rate: The non-appointed business is sharing tax losses worth £29.117 million with the appointed business, for which no payment is made, as both are within the same company. These losses are related to the prior year adjustment shown lower in this table.

Accounting policies (continued)

Tax charged in the income statement Units £m	Total	Non-appointed	Appointed
UK Corporation tax charge/(credit)	(12.658)	0.000	(12.658)
Deferred tax charge/(credit) including impact of tax rate change	94.506	(0.004)	94.510
Tax charge/(credit) on profit on ordinary activities	81.848	-0.004	81.852

Reconciliation to total current tax charge allowed in price limits Units: £m	Appointed
Current tax charge allowed in price limits	0.000
Charge (credit) in respect of group relief for the year	41.933
Credit in respect of group relief for prior years	(54.591)
Total current tax charge/ (credit) on profit on ordinary activities	(12.658)

Additional notes on our tax reconciliation assumptions

The group relief credit of £12.658 million comprises a current year tax charge of £41.933 million less a prior year credit of £54.591 million, both of which are solely in the appointed business.

The tax credit of £12.658 million in the appointed business comprises £41.933 million in respect of tax profits to be provisionally offset by group relief purchased from group companies for the current year, at the standard rate of tax, and a prior year credit of £54.591 million.

Our 2023/24 price review and other segmental reporting (Tables 2A - 2O)

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Table 2A: Segmental income statement for the 12 months ended 31 March 2024

This table provides information of our appointed business split by the price control units defined by Ofwat.

Further information regarding performance by price control units can be found in Tables 2C (retail cost analysis), 4D and 4E (wholesale totex) and our Accounting Methodology Statement on our website.

Line description Units: £m	Residential retail	Business retail	Water resources	Water Network+	Waste Network+	Bio-resources	TTT	Total	RAG4 Ref
Revenue - price control	126.360	0.000	110.057	1,018.780	893.995	201.139	56.771	2,407.102	2A.1
Revenue - non price control	0.000	0.000	0.000	12.827	7.743	0.000	0.000	20.570	2A.2
Operating expenditure - excluding PU recharge impact	-183.348	0.000	-81.221	-492.579	-524.487	-108.929	-8.440	-1,399.004	2A.3
PU opex recharge	-5.045	0.000	-1.015	-12.212	14.614	3.658	0.000	0.000	2A.4
Operating expenditure - including PU recharge impact	-188.393	0.000	-82.236	-504.791	-509.873	-105.271	-8.440	-1,399.004	2A.5
Depreciation - tangible fixed assets	-3.412	0.000	-9.261	-350.149	-217.734	-72.362	-2.073	-654.991	2A.6
Amortisation - intangible fixed assets	-21.474	0.000	-0.346	-7.917	-38.610	-0.098	0.000	-68.445	2A.7
Other operating income	6.529	0.000	0.761	1.001	15.174	5.509	0.232	29.206	2A.8
Operating profit	-80.390	0.000	18.975	169.751	150.695	28.917	46.490	334.438	2A.9
Surface water drainage rebates									
Surface water drainage rebates								3.688	2A.10

Table 2B: Totex analysis for the 12 months ended 31 March 2024 – by wholesale price controls

This table breaks down the wholesale totex expenditure from Table 2A into the wholesale price control units and cost categories required to be reported on by Ofwat.

Line description Units: £m	Water resources	Water Network+	Wastewater Network+	Bio-resources	TTT	Total	RAG 4 Ref
Base operating expenditure							
Power	27.461	86.838	127.383	-6.740	0.000	234.942	2B.1
Income treated as negative expenditure	-0.093	-0.081	0.000	-14.586	0.000	-14.760	2B.2
Service charges/ discharge consents	25.007	0.000	6.716	0.075	0.000	31.798	2B.3
Bulk Supply/Bulk discharge	5.004	0.000	3.161	0.000	0.000	8.165	2B.4
Renewals expensed in year (Infrastructure)	0.000	76.685	85.913	0.000	0.000	162.598	2B.5
Renewals expensed in year (Non-Infrastructure)	0.000	0.000	0.000	0.000	0.000	0.000	2B.6
Other operating expenditure (including location specific costs & obligations)	16.526	246.086	234.172	125.676	8.440	630.900	2B.7
Local authority and Cumulo rates	3.716	77.135	46.520	0.514	0.000	127.885	2B.8
Total base operating expenditure	77.621	486.663	503.865	104.939	8.440	1,181.528	2B.9
Other operating expenditure							
Enhancement operating expenditure	2.031	9.858	1.816	0.000	0.000	13.705	2B.10
Developer services operating expenditure	0.000	5.760	2.268	0.000	0.000	8.028	2B.11
Total operating expenditure excluding third party services	79.652	502.281	507.949	104.939	8.440	1,203.261	2B.12
Third party services	2.584	2.510	1.924	0.332	0.000	7.350	2B.13
Total operating expenditure	82.236	504.791	509.873	105.271	8.440	1,210.611	2B.14
Grants and contributions							
Grants and contributions - operating expenditure	0.000	1.455	1.831	0.000	0.000	3.286	2B.15
Capital expenditure							
Base capital expenditure	14.662	463.160	486.748	115.247	24.604	1,104.421	2B.16
Enhancement capital expenditure	34.110	259.396	272.813	8.805	5.604	580.728	2B.17
Developer services capital expenditure	0.000	67.666	18.617	0.000	0.000	86.283	2B.18
Total gross capital expenditure excluding third party services	48.772	790.222	778.178	124.052	30.208	1,771.432	2B.19
Third party services	0.000	0.000	0.000	0.000	0.000	0.000	2B.20
Total gross capital expenditure	48.772	790.222	778.178	124.052	30.208	1,771.432	2B.21
Grants and contributions							
Grants and contributions - capital expenditure	4.722	44.891	57.749	0.000	0.000	107.362	2B.22
Net totex	126.286	1,248.667	1,228.471	229.323	38.648	2,871.395	2B.23
Cash expenditure							
Pension deficit recovery payments	0.158	3.664	2.521	0.959	0.000	7.302	2B.24
Other cash items	0.000	0.000	0.000	0.000	0.000	0.000	2B.25
Totex including cash items	126.444	1,252.331	1,230.992	230.282	38.648	2,878.697	2B.26

Table 2C: Cost analysis for the 12 months ended 31 March 2024 – retail

This table breaks down the retail operating costs included from Table 2A into the cost categories required to be reported on by Ofwat.

Line description Units: £m	Residential	Business	Total	RAG4 Ref
Operating expenditure				
Customer services	63.814	0.000	63.814	2C.1
Debt management	22.382	0.000	22.382	2C.2
Doubtful debts	87.012	0.000	87.012	2C.3
Meter reading	9.344	0.000	9.344	2C.4
Services to developers		0.000	0.000	2C.5
Other operating expenditure	0.412	0.000	0.412	2C.6
Local authority and Cumulo rates	0.384	0.000	0.384	2C.7
Total operating expenditure excluding third party services	183.348	0.000	183.348	2C.8
Depreciation				
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	0.143	0.000	0.143	2C.9
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	3.270	0.000	3.270	2C.10
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	0.000	0.000	0.000	2C.11
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	21.474	0.000	21.474	2C.12
Recharges				
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.000	0.000	0.000	2C.13
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	0.000	0.000	0.000	2C.14
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	5.045	0.000	5.045	2C.15
Income from wholesale assets acquired after 1 April 2015 principally used by retail	0.000	0.000	0.000	2C.16
Net recharges costs	5.045	0.000	5.045	2C.17
Total retail costs excluding third party and pension deficit repair costs	213.280	0.000	213.280	2C.18
Third party services operating expenditure	0.000	0.000	0.000	2C.19
Pension deficit repair costs	0.000	0.000	0.000	2C.20
Total retail costs including third party and pension deficit repair costs	213.280	0.000	213.280	2C.21
Debt written off				
Debt written off	96.693	0.000	96.693	2C.22
Capital expenditure				
Capital expenditure	10.616	0.000	10.616	2C.23

Table 2C: Cost analysis for the 12 months ended 31 March 2024 – retail (continued)

Line description Units: £m	Residential	Business	Total	RAG 4 Ref
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale				
Demand-side water efficiency - gross expenditure	2.288			2C.24
Demand-side water efficiency - expenditure funded by wholesale	2.099			2C.25
Demand-side water efficiency - net retail expenditure	0.189			2C.26
Customer-side leak repairs - gross expenditure	3.401			2C.27
Customer-side leak repairs - expenditure funded by wholesale	3.401			2C.28
Customer-side leak repairs - net retail expenditure	0.000			2C.29
Comparison of actual and allowed expenditure				
Cumulative actual retail expenditure to reporting year end	918.900			2C.30
Cumulative allowed expenditure to reporting year end	654.478			2C.31
Total allowed expenditure 2020-25	807.152			2C.32

Additional narrative on the cost analysis for retail

Total operating costs for retail household was £213.3 million in 2023/24. This is £59.4 million higher than the allowed residential expenditure in the FD; and £2.2 million lower than in 2022/23.

The 2023/24 expenditure increase is mainly driven by a reduction in the doubtful debt charge and efficiencies within customer services, offset by increased meter reading and debt management costs as we continue to scale up our metering activities and customer engagement for overdue debt.

Household customer figures in region have increased from 5.7 million in 2022/23 to 5.8 million in the current year.

Thames Water exited the Non household Retail market at Market Opening in April 2017.

Table 2D: Historic cost analysis of tangible fixed assets - by price control

This table shows changes in the fixed assets across our price control units. Our accounting policies with relation to fixed assets and depreciation are set out in full in our Annual Report 2023/24.
The net book value includes £2,864.3 million in respect of assets in the course of construction. An amount of £50 million relating to an investment property is included in the gross cost.

Line description Units: £m	Residential Retail	Business Retail	Water resources	Water Network+	RAG 4 ref
Cost					
At 1 April 2023	111.072	0.000	393.584	11,867.773	2D.1
Disposals	-31.830	0.000	-26.569	-902.438	2D.2
Additions	0.499	0.000	48.667	786.704	2D.3
Adjustments	-2.502	0.000	5.112	18.502	2D.4
Assets adopted at nil cost	0.000	0.000	0.000	28.582	2D.5
At 31 March 2024	77.239	0.000	420.794	11,799.123	2D.6
Depreciation					
At 1 April 2023	-84.560	0.000	-90.629	-3,830.349	2D.7
Disposals	31.830	0.000	26.454	902.457	2D.8
Adjustments	0.924	0.000	-0.170	1.590	2D.9
Charge for year	-3.412	0.000	-9.261	-350.149	2D.10
At 31 March 2024	-55.218	0.000	-73.606	-3,276.451	2D.11
Net book amount at 31 March 2024	22.021	0.000	347.188	8,522.672	2D.12
Net book amount at 1 April 2023	26.512	0.000	302.955	8,037.424	2D.13
Depreciation charge for year					
Principal services	-3.412	0.000	-9.261	-349.519	2D.14
Third party services	0.000	0.000	0.000	-0.630	2D.15
Total	-3.412	0.000	-9.261	-350.149	2D.16

Line description Units: £m	Wastewater Network+	Bio-resources	TTT	Total	RAG 4 ref
Cost					
At 1 April 2023	9,708.843	1,787.643	1,294.523	25,163.438	2D.1
Disposals	-994.586	-357.819	0.000	-2,313.242	2D.2
Additions	758.048	116.955	30.207	1,741.080	2D.3
Adjustments	30.994	-32.071	7.952	27.987	2D.4
Assets adopted at nil cost	79.871	0.000	0.000	108.453	2D.5
At 31 March 2024	9,583.170	1,514.708	1,332.682	24,727.716	2D.6
Depreciation					
At 1 April 2023	-3,146.433	-880.337	-11.634	-8,043.942	2D.7
Disposals	991.800	358.735	0.000	2,311.276	2D.8
Adjustments	-7.114	-6.050	0.033	-10.787	2D.9
Charge for year	-217.734	-72.362	-2.073	-654.991	2D.10
At 31 March 2024	-2,379.481	-600.014	-13.674	-6,398.444	2D.11
Net book amount at 31 March 2024	7,203.689	914.694	1,319.008	18,329.272	2D.12
Net book amount at 1 April 2023	6,562.410	907.306	1,282.889	17,119.496	2D.13
Depreciation charge for year					
Principal services	-217.574	-72.362	-2.073	-654.201	2D.14
Third party services	-0.160	0.000	0.000	-0.790	2D.15
Total	-217.734	-72.362	-2.073	-654.991	2D.16

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Table 2E: Analysis of 'grants and contributions' for the 12 months ended 31 March 2024 – water resources, water network plus and wastewater network plus

This table shows information on capital contributions by other organisations and the related cost of assets constructed.

Line description Units: £m	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total	RAG4 Ref
Grants and contributions - water resources					
Diversions - s185	0.000	0.000	0.000	0.000	2E.1
Other contributions (price control)	4.722	0.000	0.000	4.722	2E.2
Price control grants and contributions	4.722	0.000	0.000	4.722	2E.3
Diversions - NRSWA	0.000	0.000	0.000	0.000	2E.4
Diversions - other non-price control	0.000	0.000	0.000	0.000	2E.5
Other contributions (non-price control)	0.000	0.000	0.000	0.000	2E.6
Total grants and contributions	4.722	0.000	0.000	4.722	2E.7
Value of adopted assets	0.000	0.000		0.000	2E.8
Grants and contributions - water network+					
Connection charges	20.326	0.000	0.000	20.326	2E.9
Infrastructure charge receipts – new connections	0.000	11.113	0.000	11.113	2E.10
Requisitioned mains	5.197	0.000	0.000	5.197	2E.11
Diversions - s185	3.017	0.000	0.000	3.017	2E.12
Other contributions (price control)	0.000	0.000	0.000	0.000	2E.13
Price control grants and contributions before deduction of income offset	28.540	11.113	0.000	39.653	2E.14
Income offset	0.000	2.812	0.000	2.812	2E.15
Price control grants and contributions after deduction of income offset	28.540	8.301	0.000	36.841	2E.16
Diversions - NRSWA	0.886	0.000	0.000	0.886	2E.17
Diversions - other non-price control	3.635	0.000	0.000	3.635	2E.18
Other contributions (non-price control)	4.742	0.243	0.000	4.985	2E.19
Total grants and contributions	37.803	8.544	0.000	46.347	2E.20
Value of adopted assets	0.000	28.611		28.611	2E.21

Table 2E: Analysis of 'grants and contributions' for the 12 months ended 31 March 2024 – water resources, water network plus and wastewater network plus (continued)

Line description Units: £m	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total	RAG4 Ref
Grants and contributions - wastewater network+					
Receipts for on-site work	0.509	0.000	0.000	0.509	2E.22
Infrastructure charge receipts – new connections	0.000	13.406	0.000	13.406	2E.23
Diversions - s185	1.710	0.000	0.000	1.710	2E.24
Other contributions (price control)	1.645	0.000	0.000	1.645	2E.25
Price control grants and contributions before deduction of income offset	3.864	13.406	0.000	17.270	2E.26
Income offset	0.000	0.732	0.000	0.732	2E.27
Price control grants and contributions after deduction of income offset	3.864	12.674	0.000	16.538	2E.28
Diversions - NRSWA	0.380	0.000	0.000	0.380	2E.29
Diversions - other non-price control	10.551	0.000	0.000	10.551	2E.30
Other Contributions (non-price control)	32.029	0.081	0.000	32.110	2E.31
Total grants and contributions	46.824	12.755	0.000	59.579	2E.32
Value of adopted assets	0.000	79.834		79.834	2E.33
Movements in capitalised grants and contributions					
b/f	0.000	210.385	341.244	551.629	2E.34
Capitalised in year	0.000	8.544	12.755	21.299	2E.35
Amortisation (in income statement)	0.000	-3.172	-2.492	-5.664	2E.36
c/f	0.000	215.757	351.507	567.264	2E.37

Table 2F: Residential retail

This table shows an analysis of household retail revenues and customer numbers by customer type.

Line description	Revenue £m	Number of customers 000s	Average residential revenues £	RAG4 Ref
Residential revenue				
Wholesale revenue	1,837.245			2F.1
Retail revenue	126.360			2F.2
Total residential revenue	1,963.605			2F.3
Retail revenue				
Revenue Recovered (‘RR’)	126.360			2F.4
Revenue sacrifice	0.000			2F.5
Actual revenue (net)	126.360			2F.6
Customer information				
Actual customers (‘AC’)		5,768.988		2F.7
Reforecast customers		5,801.215		2F.8
Adjustment				
Allowed revenue (‘R)	124.372			2F.9
Net adjustment	-1.988			2F.10
Other residential information				
Average household retail revenue per customer			21.903	2F.11

Table 2G: Non-household water - revenues by tariff type

This table is only applicable for Welsh companies and therefore has not been included within this report.

Table 2H: Non-household wastewater - revenues by tariff type

This table is only applicable for Welsh companies and therefore has not been included within this report.

Table 2I: Revenue analysis & wholesale control reconciliation for the 12 months ended 31 March 2024

This table shows an analysis of revenue across our price control units split by revenue streams.

Line description Units: £m	Household	Non-household	Total	Water resources	Water network+	Total	RAG 4 Ref
Wholesale charge – water							
Unmeasured	419.135	8.031	427.166	41.647	385.519	427.166	2I.1
Measured	464.007	237.570	701.577	68.401	633.176	701.577	2I.2
Third party revenue	0.000	0.094	0.094	0.009	0.085	0.094	2I.3
Total wholesale water revenue	883.142	245.695	1,128.837	110.057	1,018.780	1,128.837	2I.4
Wholesale charge – wastewater							
Unmeasured - foul charges	278.196	6.703	284.899	232.573	52.326	284.899	2I.5
Unmeasured - surface water charges	60.171	1.268	61.439	50.155	11.284	61.439	2I.6
Unmeasured - highway drainage charges	34.580	0.736	35.316	28.830	6.486	35.316	2I.7
Measured - foul charges	376.913	152.023	528.936	431.788	97.148	528.936	2I.8
Measured - surface water charges	98.616	15.834	114.450	93.429	21.021	114.450	2I.9
Measured - highway drainage charges	58.559	10.450	69.009	56.334	12.675	69.009	2I.10
Third party revenue	0.000	1.085	1.085	0.886	0.199	1.085	2I.11
Total wholesale wastewater revenue	907.035	188.099	1,095.134	893.995	201.139	1,095.134	2I.12
Wholesale charge – TTT							
Unmeasured	19.353	0.452	19.805				2I.13
Measured	27.715	9.251	36.966				2I.14
Total wholesale TTT revenue	47.068	9.703	56.771				2I.15
Wholesale Total	1,837.245	443.497	2,280.742				2I.16
Retail revenue							
Unmeasured	32.612	0.000	32.612				2I.17
Measured	93.748	0.000	93.748				2I.18
Retail third party revenue	0.000	0.000	0.000				2I.19
Total retail revenue	126.360	0.000	126.360				2I.20
Third party revenue - non-price control							
Bulk supplies water			9.274				2I.21
Bulk supplies wastewater			3.110				2I.22
Other third-party revenue - non price control			7.908				2I.23
Principal services - non-price control							
Other appointed revenue			0.278				2I.24
Total appointed revenue			2,427.672				2I.25

Table 2J: Infrastructure network reinforcement costs for the 12 months ended 31 March 2024

This table presents the infrastructure reinforcement costs, as included in totex in tables 4D and 4E, by type of system or facility.

Line description Units: £m	Network reinforcement capex	On site / site specific capex	RAG 4 Ref
Wholesale water network+ (treated water distribution)			
Distribution and trunk mains	10.078	0.000	2J.1
Pumping and storage facilities	0.600	0.000	2J.2
Other	0.000	0.000	2J.3
Total	10.678	0.000	2J.4
Wholesale wastewater network+ (sewage collection)			
Foul and combined systems	3.969	0.000	2J.5
Surface water only systems	0.000	0.000	2J.6
Pumping and storage facilities	1.602	0.000	2J.7
Other	0.000	0.000	2J.8
Total	5.571	0.000	2J.9

Additional notes on infrastructure network reinforcement costs

A review of our network reinforcement schemes has resulted in the assessed cost attributable to network reinforcement being amended and impacting prior period reported expenditure. These total c. £11,000 and will be a reconciling difference to tables 4N and 4O, which only report expenditure in the year.

Table 2K: Infrastructure charges reconciliation for the 12 months ended 31 March 2024

This table compares the revenue and costs of infrastructure charges for new connections.

Line description Units: £m	Water	Wastewater	Total	RAG4 Ref
Infrastructure charges	11.356	13.487	24.843	2K.1
Discounts applied to infrastructure charges	0.000	0.000	0.000	2K.2
Gross Infrastructure charges	11.356	13.487	24.843	2K.3
Variance brought forward	-7.356	19.682	12.326	2K.4
Revenue	11.356	13.487	24.843	2K.5
Costs	-10.678	-5.571	-16.249	2K.6
Variance carried forward	-6.678	27.598	20.920	2K.7

Additional narrative on the infrastructure charges reconciliation

There's contributions from other sources disclosed as infrastructure charges within the above table as these are considered to be their equivalent, although they are disclosed on separate lines within Table 2E. This includes the non-domestic network charges at a value of £0.324 million.

For the 2023/24 financial year, we continued to offer an environmental discount scheme to incentivise more sustainable housing. However, we consider this scheme to be part of balance of charges principle replacing our previous income offset mechanism. It is not considered when setting our infrastructure charges. As such, we have not deducted it from gross infrastructure charges in the table above. Instead, this has been presented within the Income Offset in Table 2E (lines 15 and 27).

Table 2L: Analysis of land sales for the 12 months ended 31 March 2024

This table shows information on income received through the sale of land.

Line description Units: £m	Water resources	Water Network+	Wastewater Network+	TTT	Total	RAG4 Ref
Land sales – proceeds from disposals of protected land	0.000	-0.028	-0.057	0.000	-0.085	2L.1

Additional narrative on land sales

There was a disposal of 5 parcels of land during the year which was below the threshold for reporting to Ofwat.

Table 2M: Revenue reconciliation for the 12 months ended 31 March 2024

This table shows the retail price control difference between the actual revenue recovered and the revenue assumed at the final determination.

Line description Units: £m	Water resources	Water network+	Wastewater network+	Bio-resources	TTT	Total	RAG4 Ref
Revenue recognised							
Wholesale revenue governed by price control	110.057	1,018.780	893.995	201.139	56.771	2,280.742	2M.1
Grants & contributions (price control)	4.722	36.841	16.538	0.000	0.000	58.101	2M.2
Total revenue governed by wholesale price control	114.779	1,055.621	910.533	201.139	56.771	2,338.843	2M.3
Calculation of the revenue cap							
Allowed wholesale revenue before adjustments (or modified by CMA)	108.301	995.927	877.871	197.463	56.289	2,235.851	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	0.000	44.209	20.436	0.000	0.000	64.645	2M.5
Revenue adjustment	3.087	36.294	26.952	4.778	1.340	72.451	2M.6
Other adjustments	0.000	0.000	0.000	0.000	0.000	0.000	2M.7
Revenue cap	111.388	1,076.430	925.259	202.241	57.629	2,372.947	2M.8
Calculation of the revenue imbalance							
Revenue cap	111.388	1,076.430	925.259	202.241	57.629	2,372.947	2M.9
Revenue Recovered	114.779	1,055.621	910.533	201.139	56.771	2,338.843	2M.10
Revenue imbalance	-3.391	20.809	14.726	1.102	0.858	34.104	2M.11

Additional narrative on the revenue reconciliation

Wholesale revenue for 2023/24 of £2,338.8 million is £34.1 million (1.4%) lower than the amount allowed in Ofwat's in-period outcome delivery incentives final determinations.

Wholesale water revenue is £17.4 million (1.5%) and wholesale wastewater revenue (including the Company's delivered element of the Thames Tideway Tunnel) is £16.7 million (1.4%) lower than the allowance.

The causes of the lower revenue in both cases are:

- lower core tariff revenue from household customers, as a result of metered consumption being lower than originally anticipated; and
- lower than forecast capital contributions from connection and infrastructure charge revenue due to cost-of-living pressures reducing activity levels in the house building industry.

This is offset to some extent by higher core tariff revenue from wholesale non-household customers, due to higher than anticipated levels of consumption as businesses increased activity levels as the recovery from the pandemic continued.

The unrecovered revenue in 2023/24, attributable to variances in our customer base between outturn and the forecasts used when tariffs were set, will be recovered from customers during the 2024/25 charging year under Ofwat's Revenue Forecasting Incentive ('RFI') mechanism.

Table 2N: Household affordability support, debt and information on Guaranteed Standards Scheme ('GSS') payments

This table shows the social tariffs and other forms of assistance we provide to improve affordability and accessibility for vulnerable customers.

Line description	Revenue £m	Number of customers 000s	Average amount per customer £	RAG4 Ref
Section A - social tariffs				
Number of residential customers on social tariffs				
Residential water only social tariffs customers		0.417		2N.1
Residential wastewater only social tariffs customers		95.860		2N.2
Residential dual service social tariffs customers		236.241		2N.3
Number of residential customers not on social tariffs				
Residential water only no social tariffs customers		50.068		2N.4
Residential wastewater only no social tariffs customers		1,958.840		2N.5
Residential dual service no social tariffs customers		3,427.562		2N.6
Social tariff discount				
Average discount per water only social tariffs customer			191.847	2N.7
Average discount per wastewater only social tariffs customer			105.633	2N.8
Average discount per dual service social tariffs customer			242.244	2N.9
Social tariff cross-subsidy - residential customers				
Total customer funded cross-subsidies for water only social tariffs customers	0.080			2N.10
Total customer funded cross-subsidies for wastewater only social tariffs customers	10.126			2N.11
Total customer funded cross-subsidies for dual service social tariffs customers	57.228			2N.12
Average customer funded cross-subsidy per water only social tariffs customer			1.585	2N.13
Average customer funded cross-subsidy per wastewater only social tariffs customer			4.928	2N.14
Average customer funded cross-subsidy per dual service social tariffs customer			15.620	2N.15

Table 2N: Household affordability support, debt and information on Guaranteed Standards Scheme ('GSS') payments (continued)

Line description	Revenue £m	Number of customers 000s	Average amount per customer £	RAG4 Ref
Social tariff cross-subsidy – company				
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	0.000			2N.16
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	0.000			2N.17
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	0.000			2N.18
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			0.000	2N.19
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			0.000	2N.20
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			0.000	2N.21
Social tariff support - willingness to pay				
Level of support for social tariff customers reflected in business plan			9.194	2N.22
Maximum contribution to social tariffs supported by customer engagement			24.384	2N.23
Section B - WaterSure tariffs				
WaterSure tariffs				
Number of unique customers on WaterSure		24.741		2N.24
Total reduction in bills for WaterSure customers	6.482			2N.25
Average reduction in bills for WaterSure customers			262.014	2N.26
Section C - other direct bill reduction schemes for household customers struggling to pay				
Other bill reduction schemes	Number of unique households helped by scheme 000s	Total amount bills reduced by through scheme £m	Funding source	RAG4 Ref
Name of scheme 1 - 10	N/A	N/A	N/A	2N.27
Section D - debt metrics				
Total number of household customers served - active and final accounts (000s)	Water only	Wastewater only	Dual service	RAG4 Ref
Number of household customers served – active accounts	50.546	2,061.552	3,680.009	2N.28
Number of household customers served – final accounts	0.651	85.609	152.193	2N.29

Table 2N: Household affordability support, debt and information on Guaranteed Standards Scheme ('GSS') payments (continued)

Line description	Number of households 000s	Total amount of debt £m	RAG4 Ref
Household customers in arrears			
Households in arrears – active accounts with debt repayment arrangements	197.099	87.119	2N.30
Households in arrears – final accounts with debt repayment arrangements	5.667	2.160	2N.31
Households in arrears – active accounts without debt repayment arrangements	453.757	375.902	2N.32
Households in arrears – active accounts without debt repayment arrangements	224.772	92.560	2N.33
Households not having made any payment for the year – active accounts	183.108	158.861	2N.34
Households not having made any payment for the year – final accounts	47.157	165.308	2N.35
Temporary payment suspension	Number of households 000s	Total amount deferred £m	RAG4 Ref
Households with temporarily suspended payments – payment break arrangements	2.022	1.504	2N.36
Households with temporarily suspended payments – breathing space arrangements	2.482	2.198	2N.37
Household debt collection through third party agents where water company remains creditor	Number of households 000s	Total amount of debt £m	RAG4 Ref
Debt collected by external agents – active accounts	512.127	265.657	2N.38
Debt collected by external agents – final accounts	219.292	93.987	2N.39
Number of Priority Services Register customers with debt passed on to external debt collection agents – active and final accounts	19.869	14.191	2N.40

Table 2N: Household affordability support, debt and information on Guaranteed Standards Scheme ('GSS') payments (continued)

Household debt sold to external agencies	Number of accounts 000s	Total value of debt £m	Total sale value of debt £m	RAG4 Ref
Debt sold to an external agency / third party debt purchaser – active accounts	0.000	0.000	0.000	2N.41
Debt sold to an external agency / third party debt purchaser – final accounts	39.076	21.530	1.066	2N.42
Number of Priority Services Register customers with debt sold to an external agency / third party debt purchaser – active and final accounts	0.000	0.000	0.000	2N.43
Unpaid household bills referred to courts	**Number of accounts 000s**	**Total amount involved £m**		**RAG4 Ref**
Number of county court claims	5.352	6.120		2N.44
Number of county court judgements	4.298	5.031		2N.45
Number of county court judgement enforcements	0.000	0.000		2N.46
Number of high court claims	1.836	2.374		2N.47
Number of high court judgements	1.036	1.436		2N.48
Number of high court judgement enforcements	1.024	1.416		2N.49
Section E - Payments to household customers made in accordance with the Guaranteed Standards Scheme (GSS)				
GSS payments to household customers	**Number of payments 000s**	**Total amount £m**	**Number of unique households 000s**	**RAG4 Ref**
Total value of payments made to household customers under GSS		2.077		2N.50
Total number of payments made to household customers under GSS	45.962			2N.51
Total number of unique household customers receiving GSS payments			n/a	2N.52

Table 2N: Household affordability support, debt and information on Guaranteed Standards Scheme ('GSS') payments (continued)

Household debt sold to external agencies	Total number of unique payments made to household customers under GSS 000s	Total value of payments made in relation to column 1 £m	Total number of unique payments to household customers that could be classed as compensation or goodwill (including all payments made under GSS, customer charter payments and/or other payments e.g. goodwill payments) 000s	Column 4 Total value of payments made in relation to column 3 £m	RAG4 Ref
Keeping of appointments	1.456	0.073	1.456	0.073	2N.53
Incidences of low water pressure	0.000	0.000	0.000	0.000	2N.54
Incorrect notice of planned interruptions to supply	3.281	0.099	3.281	0.099	2N.55
Supply not restored	23.801	1.401	30.196	1.688	2N.56
Written account queries and requests to change payment arrangements not actioned on time	0.909	0.018	0.909	0.018	2N.57
Written complaints not responded to within 10 working days	15.658	0.313	15.658	0.313	2N.58
Properties sewer flooded internally	0.685	0.154	1.099	0.244	2N.59
Properties sewer flooded externally	0.172	0.019	0.234	0.025	2N.60
Payment type_1 (extension of columns 3 & 4)			0.782	0.016	2N.61a
Payment type_2 (extension of columns 3 & 4)			0.135	0.004	2N.61b
Payment type_3 (extension of columns 3 & 4)			7.006	0.076	2N.61c
Payment type_4 (extension of columns 3 & 4)			0.000	0.000	2N.61d
Payment type_5 (extension of columns 3 & 4)			0.000	0.000	2N.61e
Payment type_6 (extension of columns 3 & 4)			0.000	0.000	2N.61f
Payment type_7 (extension of columns 3 & 4)			0.000	0.000	2N.61g
Payment type_8 (extension of columns 3 & 4)			0.000	0.000	2N.61h
Payment type_9 (extension of columns 3 & 4)			0.000	0.000	2N.61i
Payment type_10 (extension of columns 3 & 4)			0.000	0.000	2N.61i
Late payment penalties (paid in relation to lines 2N.53 to 2N.60)	7.941	0.159			2N.62

Table 2N: Household affordability support, debt and information on Guaranteed Standards Scheme ('GSS') payments (continued)

Additional narrative on the use of social tariffs

We support our low-income households with the WaterHelp social tariff. If customers qualify, we offer a 50 % discount on their whole bill. Further information is available on our website.

Note that the level of support and maximum contribution to social tariffs, as set out on Lines 22 and 23 above, do not take into account additional customer engagement that was carried out in the autumn of 2022. The additional support obtained through this customer engagement did not feature in our setting of charges for 2022/23 but did feature in our 2023/24 charges. As such, the additional support is reported for the first time in this Annual Performance Report.

Additional narrative on payments to household customers made in accordance with the Guaranteed Standards Scheme ('GSS')

New data requirements within table 2N were set in May 2024 following Ofwat's APR consultation. We have provided all data requested with the exception of the following items:

- Unique customers receiving payments (Line 52): We have not previously been required to report this level of detail and our data is not structured in such a way that allows us to easily extract this information from our systems. This is further complicated by issuing payments to customers who we may not bill directly, such as those billed by other water companies or tenants whose bills are paid by a landlord or managing agent. Another complication is where property data provided does not match up with that held within our systems. We will continue to seek solutions to provide this information in next year's APR.
- Payments made beyond the scope of GSS: Our submission this year contains information on voluntary enhancements that we have made to GSS, such as higher payment amounts or paying penalties automatically instead of having to be claimed and payments made even though the strict GSS criteria may not be met. These are recorded as Enhanced GSS ('EGSS') payments within our systems. We've also included payments for two voluntary standards that we have within our Customer Guarantee Scheme that are not part of GSS. These are recorded as Company Customer Charter payments. We have not been able to include others, such as small goodwill payments made for perceived customer service failings or payments made in respect of public liability claims (insured or uninsured). We will continue to seek solutions to report this information in next year's APR.

Table 20: Historic cost analysis of intangible fixed assets - by price control

This table shows the value of fixed assets across our price control units.

Line description Units: £m	Residential Retail	Business Retail	Water Resources	Water Network+	Wastewater Network+	Bio-resources	TTT	Total	RAG4 Ref
Cost									
At 1 April 2023	176.110	0.000	2.291	60.336	293.339	6.197	0.000	538.273	20.1
Disposals	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	20.2
Additions	10.117	0.000	0.095	3.526	20.130	7.097	0.000	40.965	20.3
Adjustments	2.064	0.000	-0.073	0.570	9.154	-8.111	0.000	3.604	20.4
Assets adopted at nil cost	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	20.5
At 31 March 2024	188.291	0.000	2.313	64.432	322.623	5.183	0.000	582.842	20.6
Amortisation									
At 1 April 2023	-64.646	0.000	-1.861	-37.442	-169.858	-9.679	0.000	-283.486	20.7
Disposals	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	20.8
Adjustments	-1.599	0.000	0.065	1.110	-5.145	2.304	0.000	-3.265	20.9
Charge for year	-21.474	0.000	-0.346	-7.917	-38.610	-0.098	0.000	-68.445	20.10
At 31 March 2024	-87.719	0.000	-2.142	-44.249	-213.613	-7.473	0.000	-355.196	20.11
Net book amount at 31 March 2024	100.572	0.000	0.171	20.183	109.010	-2.290	0.000	227.646	20.12
Net book amount at 1 April 2023	111.464	0.000	0.430	22.894	123.481	-3.482	0.000	254.787	20.13
Amortisation for year									
Principal services	-21.474	0.000	-0.346	-7.917	-38.610	-0.098	0.000	-68.445	20.14
Third party services	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	20.15
Total	-21.474	0.000	-0.346	-7.917	-38.610	-0.098	0.000	-68.445	20.16

Additional notes on intangible fixed assets

The net book value includes £18.4 million in respect of assets in the course of development.

Our independent auditor's report

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Thames Water Utilities Limited

Opinion

We have audited the tables within Thames Water Utilities Limited's (the "Company") Annual Performance Report for the year ended 31 March 2024 (the "Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and

- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis (table 2B), the cost analysis (table 2C), the historical cost analysis of tangible fixed assets (table 2D), the analysis of 'grants and contributions' (table 2E), the residential retail (table 2F), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation (table 2M), the household affordability support, debt and information on guaranteed standards scheme (GSS) payments (table 2N.1 to 2N.26 and 2N.28 to 2N.29) and the historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (tables 3A to 3I) and the additional regulatory information in tables 4A to 4Y, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 11A, the line items 2N.27 and 2N.30 to 2N.62 in table 2N and Section 10. In our opinion, the Company's Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 2.09, RAG 3.14, RAG 4.12 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statements, as defined in RAG 3.14, appendix 2), set out on pages 81 to 94.

a) Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statements, as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom adopted international accounting standards ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Our independent auditor's report (continued)

The Regulatory Accounting Statements on pages 66 to 114 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Emphasis of matter – Material Uncertainty on Going Concern

In forming our opinion on the Regulatory Accounting Statements, which is not modified, we have considered the adequacy of the disclosure made in the Accounting policies to the Regulatory Accounting Statements concerning the Company's ability to continue as a going concern. The directors have identified mitigating actions to allow the Company to operate as a going concern for a 12 month period from the date of approval of the Regulatory Accounting Statements. We note, however, that the Company does not have sufficient committed liquidity for a period of 12 months from the date of approval of the Regulatory Accounting Statements and the ability to extend the period of committed liquidity beyond the assessment period is not wholly within the directors' control. In addition, a credit rating downgrade or a failure to meet legal obligations could lead to a potential breach of the Company's Instrument of Appointment resulting in possible enforcement action by Ofwat and an event of default under the terms of the Company's financing arrangements. These conditions, along with the other matters explained in the Accounting policies to the Regulatory Accounting Statements, indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The Regulatory Accounting Statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

In auditing the Regulatory Accounting Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding and assessed the design and implementation of relevant controls related to the directors' assessment of going concern;
- Understanding and assessing the factors giving rise to the material uncertainties including understanding the consequences of a breach of the Company's licence and/or an event of default under the Whole Business Securitisation. We also assessed the actions available to the directors' on which they have based their assertion that they have a reasonable expectation that the Company has adequate resources to continue for a period of 12 months from the date of approval of the Regulatory Accounting Statements;
- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets;
- Performing a comparison of budget versus actual results for the year ended 31 March 2024 as well as for the year ended 31 March 2023 and understanding where variances had arisen. Through this testing we informed our assessment regarding management's ability to forecast accurately;
- Understanding the key assumptions management has applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of management's base case and downside scenarios including consideration of other potential downside risks that were not factored into management's downside scenario.
- Obtaining and understanding the terms of the Company's financing and credit facilities, the Whole Business Securitisation, and in particular the financial covenants that the Company is subject to. We have verified the existence of the facilities in place on which management has based its liquidity forecast;
- Obtaining the draft covenant compliance certificate to be submitted in July 2024, which indicates forecasts Trigger Events in the assessment period;
- Following a downgrade in April 2024 we have verified Moody's and Standard & Poor's credit ratings for the Company of Baa3 (Moody's) and BBB- (Standard & Poor's), both with a negative outlook. In addition, we have validated that the Company is currently operating in a licence cash lock-up which restricts certain payments to associated companies, including dividend payments;
- Performing inquiries with key stakeholders (from both within and outside of the Company) and reviewing correspondence with regulators and advice from the Company's external legal counsel to corroborate management's position and assess whether there is any contradictory or additional evidence requiring disclosure within the basis of preparation;

Our independent auditor's report (continued)

- We have engaged the use of experts including business restructuring experts to support us in understanding aspects of management's assessment and informing our challenges to management; and
- Assessed the appropriateness of the disclosures within the Regulatory Accounting Statements as disclosed in the accounting policies, relating to the material uncertainty on going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 169, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statements, as defined in RAG 3.14, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the Company's industry and its control environment and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

Our independent auditor's report (continued)

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act 2006, pensions legislation, UK corporation tax legislation etc, Environmental regulations, Listing rules; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- Discussions and enquiries of management, the internal audit function and external and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments, including challenging management in relation to how they have considered climate risk in such critical estimates. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative or contradictory information where available along with considering the appropriateness of the related disclosures in the Regulatory Accounting Statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Performing unpredictable procedures including but not limited to; sampling non-standard payments, checking supplier bank details, and inspection of journal entries from unexpected users or unusual words.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Our independent auditor's report (continued)

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2024 on which we reported on 9 July 2024, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Reading

10 July 2024

Our independent auditor's report (continued)

Page not used

Performance summary (Tables 3A - 3I)

Table 3A: Outcome performance – Water performance commitments (Financial)

Line description	Ref	Unit	Performance level actual	PCL met ?	Out/under performance payment £m	Forecast of total 2020-25 out/under performance payment £m	RAG4 Ref
Water quality compliance	BW06a	nr	1.43 Ⓐ	No	0.000	-19.272	3A.1
Water supply interruptions	BW03	hh:mm:ss	00:16.56 Ⓐ	No	-16.336	-61.108	3A.2
Leakage	BW04	%	12.0 Ⓐ	No	-14.043	-32.632	3A.3
Per capita consumption	BW05	%	3.4 Ⓐ	No	0.000	-12.25	3A.4
Mains repairs	BW01	nr	185.3 Ⓐ	Yes	11.850	2.202	3A.5
Unplanned outage	BW02	%	2.01 Ⓐ	Yes	0.000	0.000	3A.6
Properties at risk of receiving low pressure	BW07	nr	11	Yes	0.000	0.000	3A.7
Acceptability of water to consumers	BW08	nr	0.46	Yes	0.000	0.000	3A.8
Water quality events	BW09	nr	10	No	-0.071	-0.249	3A.9
Reducing risk of lead	BW10	nr	51,557	Yes	0.840	1.933	3A.10
Security of supply index	DW02	score	99 Ⓐ	No	-0.224	-0.672	3A.11
Power resilience	DWS01	nr	4	No	0.000	-10.195	3A.12
SEMD - Securing our sites (2020-25 projects)	DWS02	%	78.6	Yes	0.000	0.000	3A.13
SEMD - Securing our sites (legacy projects)	DWS03	%	93.6	Yes	0.000	0.000	3A.14
Unregistered Household Properties	ER01	text	Process Completed	Yes	0.000	-0.633	3A.15
Empty household properties	ER02	%	3.14	Yes	0.231	0.925	3A.16
Abstraction Incentive Mechanism (AIM)	EW01	nr	-156	Yes	0.001	0.001	3A.17
Empty business properties	EWS08	nr	2,400	Yes	0.274	1.872	3A.18
Installing new smart meters in London	M01	nr	321,380	Yes	0.000	-1.226	3A.19
Replacing existing meters with smart meters in London	M02	nr	118,973	Yes	0.000	0.000	3A.20
Trunk mains renewal (London network conditional allowance)	LWI01	km	4.46	Yes	0.000	0.000	3A.21
Financial water PCs achieved		%	67				3A.27
Overall PCs achieved (excluding C-MEX and D-MEX)		%	62				3A.28

Table 3B: Outcome performance – Wastewater performance commitments (Financial)

Line description	Ref	Unit	Performance level actual	PCL met ?	Out/under performance payment £m	Forecast of total 2020-25 out/under performance payment £m	RAG 4 Ref
Internal sewer flooding	CS03	nr	1.88 Ⓐ	No	-7.375	-56.991	3B.1
Pollution incidents	ES01	nr	32.12	No	-12.325	-42.884	3B.2
Sewer collapses	CS02	nr	2.64 Ⓐ	Yes	1.027	1.940	3B.3
Treatment works compliance	CS01	%	99.22	No	0.000	-1.041	3B.4
Clearance of blockages	CS04	nr	66,690	No	-2.371	-23.798	3B.5
Sewage pumping station availability	CS05	%	98.1	Yes	0.000	0.000	3B.6
Surface water management	DS02	nr	4.56	No	0.000	-2.559	3B.7
Environmental measures delivered	ES02	nr	589	No	-0.308	-3.129	3B.8
Sludge treated before disposal	ES03	%	97.3	No	-0.454	-0.636	3B.9
Readiness to receive tunnel flow at Beckton STW	ET01	Nr	0	Yes	0.000	0.000	3B.10
Critical asset readiness for the London Tideway Tunnels	ET04	text	0	Yes	0.000	0.000	3B.11
Enhancing biodiversity	EWS01	Nr	331	No	0.000	-0.057	3B.12
Smarter Water Catchment Initiatives	EWS02	Nr	2	No	-0.811	-1.622	3B.13
Renewable energy produced	EWS03	GWh	531	Yes	1.531	6.367	3B.14
Managing early handback of Tideway project land	ET07	mths	0	Yes	0.000	0.360	3B.15
Financial wastewater PCs achieved		%	40				3B.19

Additional narrative on our performance commitments

PricewaterhouseCoopers LLP ('PwC') conducted an independent limited assurance engagement on selected Subject Matter Information (shown with the symbol Ⓐ alongside the relevant PCs in Tables 3A and 3B) for the year ended 31 March 2024 in accordance with International Standard on Assurance Engagements 3000 (revised).

PwC's assurance opinion can be seen in Our Regulatory Statements.

The 2020-25 forecast takes a prudent and cautious approach combining operational modelling and budget information for the remaining year of the AMP with our cumulative year four position. We intend to review our forecast outcomes as part of our response to Ofwat's draft determination for PR24.

Table 3C: Customer measure of experience ('C-MeX') table

Item	Unit	Value	RAG 4 Ref
Annual customer satisfaction score for the customer service survey	nr	57.97	3C.1
Annual customer satisfaction score for the customer experience survey	nr	71.74	3C.2
Annual C-MeX score (AR01)	nr	64.86	3C.3
Annual net promoter score	nr	-14.50	3C.4
Total household complaints	nr	83146	3C.5
Total connected household properties	nr	5,979,736	3C.6
Total household complaints per 10,000 connections	nr	139.046	3C.7
Confirmation of communication channels offered	TRUE/ FALSE	TRUE	3C.8

Table 3D: Developer services measure of experience ('D-MeX') table

Item	Unit	Value	RAG 4 Ref
Qualitative component annual results	nr	62.09	3D.1
Quantitative component annual results	nr	86.89	3D.2
D-MeX score (AWS01)	nr	74.49	3D.3
Developer services revenue (water)	£m	44.618	3D.4
Developer services revenue (wastewater)	£m	17.351	3D.5

Table 3D: Developer services measure of experience ('D-MeX') table (continued)

Calculating the D-MeX quantitative component

Water UK performance metric	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)	RAG 4 Ref
W1.1	%	100.00 %		3D.W1
W3.1	%	98.00 %		3D.W2
W4.1	%	89.00 %		3D.W3
W6.1	%	100.00 %		3D.W4
W7.1	%	100.00 %		3D.W5
W8.1	%	56.00 %		3D.W6
W17.1	%	95.00 %		3D.W7
W17.2	%	100.00 %		3D.W8
W18.1	%	81.00 %		3D.W9
W20.1	%			3D.W10
W21.1	%			3D.W11
W23.1	%			3D.W12
W24.1	%			3D.W13
W26.1	%			3D.W14
W27.1	%			3D.W15
W30.1	%	100.00 %		3D.W16
S1.1	%	99.00 %		3D.W17
S3.1	%	92.00 %		3D.W18
S4.1	%	0.00 %		3D.W19
S7.1	%			3D.W20
SN2.2	%	98.00 %		3D.W21
SN4.1	%			3D.W22
WN1.1	%	100.00 %		3D.W23
WN2.2	%	96.00 %		3D.W24
WN4.1	%	45.00 %		3D.W25
WN4.2	%	88.00 %		3D.W26
WN4.3	%	100.00 %		3D.W27
SAM 3/1	%	99.00 %		3D.W28
SAM 4/1	%	90.00 %		3D.W29
SLPM – S1/2	%	100.00 %		3D.W30
SLPM - S2/2a	%	100.00 %		3D.W31
SLPM - S2/2b	%	100.00 %		3D.W32
SLPM – S3	%	95.00 %		3D.W33
SLPM – S4/1	%	62.00 %		3D.W34
SLPM – S5/1a	%	50.00 %		3D.W35
SLPM – S7/1	%	100.00 %		3D.W36
D-MeX quantitative	%	86.89 %		3D.7
D-MeX quantitative score (annual)	nr		0.87	3D.8

Table 3E: Outcome performance – non-financial performance commitments

Line description	Ref	Unit	Performance level actual	PCL met?	RAG 4 Ref
Risk of severe restrictions in a drought	DW01	%	93.7	No	3E.1
Priority services for customers in vulnerable circumstances - PSR reach	AR06	%	7.6	Yes	3E.2
Priority services for customers in vulnerable circumstances - Attempted contacts	AR06	%	91.5	Yes	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	AR06	%	47.7	Yes	3E.4
Risk of sewer flooding in a storm	DS01	%	10.25	Yes	3E.5
Percentage of satisfied vulnerable customers	AR05	%	88	No	3E.6
Proactive customer engagement	AWS02	nr	183,087	No	3E.7
Responding to major trunk mains bursts	BW11	hh:mm:ss	00:01:33	No	3E.8
Households on the Thames Water social tariff	ER03	nr	358,357	Yes	3E.9
Effective stakeholder engagement	ET02	score	5	Yes	3E.10
Establish an effective system operator for the London Tideway Tunnels	ET05	%	90	Yes	3E.11
Maximising the value of Tideway project land sales	ET06	£m	0	Yes	3E.12
Natural Capital Accounting	EWS04	%	100	Yes	3E.13
BSI for fair, flexible inclusive services	AR07	text	Met	Yes	3E.14
WINEP Delivery	NEP01	text	No	No	3E.15
Delivery of DWMPs	DWMP	%	100	Yes	3E.16
Understanding the risk of flooding in the Counters Creek catchment	CC	text	Met	Yes	3E.17
Future London strategy (London network conditional allowance)	LWI02	text	276	Yes	3E.18
Data validation (London network conditional allowance)	LWI03	text	N/A	Yes	3E.19
Non-Financial PCs achieved		%	74		3E.29

Table 3F: Underlying calculations for common performance commitments – water and retail

Performance commitments set in standardised units – Water

Line description	Unit	Standardising data indicator	Standardising data numerical value	Performance level Actual	Performance level - Calculated (i.e. standardised)	RAG 4 Ref
Mains repairs - Reactive	per 1,000km	Mains length in km	32,010.06	3,493	109.12	3F.1
Mains repairs - Proactive	per 1,000km	Mains length in km	32,010.06	2,438	76.16	3F.2
Mains repairs	per 1,000km	Mains length in km	32,010.06	5,931	185.29	3F.3
Per capita consumption (PCC)	l/p/d	Total household population (000s) and consumption (Ml/d)	10,442,459.00	1,442,927	138.20	3F.4

Performance commitments measured against a calculated baseline

Line description	Unit	Actual (2017-18)	Actual (2018-19)	Actual (2019-20)	Baseline (average from 2017-18 to 2019-20)	Actual (2020-21)	Performance level - actual (2021-22)
Leakage	Ml/d	698.3	692.8	627.6	672.9	589.6	591.8
Per capita consumption	lpd	145.2	146.4	144.1	145.2	152.2	143.9

Line description	Unit	Actual (2022-23)	Actual (2023-24)	Actual (2024-25)	Performance level 3 year average (current and previous 2 years)	Calculated performance level to compare against PCLs	RAG4 Ref
Leakage	Ml/d	613.5	570.4		591.9	12.0	3F.5
Per capita consumption	lpd	138.7	138.2		140.3	3.4	3F.6

Water supply interruptions

Line description	Unit	Standardising data indicator	Standardising data numerical value	Total minutes lost	Number of properties supply interrupted	Calculated performance level	RAG4 ref
Water supply interruptions	hh:mm:ss	Number of properties (000s)	4,058.85	68,709,960	99,184	00:16:56	3F.7

Table 3F: Underlying calculations for common performance commitments – water and retail (continued)

Unplanned or planned outage				
Line description	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG4 Ref
Unplanned outage	3,259.52	65.55	2.01 %	3F.8

Priority services for customers in vulnerable circumstances				
Line description	Total residential properties (000s)	Total number of households on the PSR (as at 31 March)	PSR reach	Total number of households on the PSR over a 2-year period
Priority services for customers in vulnerable circumstances	5,790	441,936	7.6 %	215,692

Line description	Number of attempted contacts over a 2-year period	Attempted contacts %	Number of actual contacts over a 2-year period	Actual contacts %	RAG4 ref
Priority services: customers in vulnerable circumstances	197,400	91.5 %	102,948	47.7 %	3F.9

Table 3G: Underlying calculations for common performance commitments – wastewater

Performance commitments set in standardised units							
Line description	Ref	Unit	Standardising data indicator	Standardising data numerical value	Performance level actual current reporting year	Calculated performance level	RAG 4 Ref
Internal sewer flooding - customer proactively reported	CS03	Per 10,000 sewer connections	Number of sewer connections	6,185.24	1,067	1.73	3G.1
Internal sewer flooding - company reactively identified (i.e. neighbouring properties)	CS03	Per 10,000 sewer connections	Number of sewer connections	6,185.24	94	0.15	3G.2
Internal sewer flooding	CS03	Per 10,000 sewer connections	Number of sewer connections	6,185.24	1,161	1.88	3G.3
Pollution incidents	ES01	Per 10,000km of sewer length	Sewer length in km	108,980.00	350	32.12	3G.4
Sewer collapses	CS02	Per 1,000km of all sewers	Sewer length in km	109,400.85	289	2.64	3G.5

Table 3H: Summary information on outcome delivery incentives

Line description Units: £m (2017-18 prices)	Initial calculation of performance payments (excluding C-MeX and D-MeX)	RAG 4 Ref
Initial calculation of in period revenue adjustment by price control		
Water resources	-0.18	3H.1
Water network plus	-17.71	3H.2
Wastewater network plus	-21.83	3H.3
Bioresources (sludge)	0.92	3H.4
Residential retail	0.23	3H.5
Business retail	0.00	3H.6
Dummy control	0.00	3H.7
Initial calculation of end of period revenue adjustment by price control		
Water resources	0.00	3H.8
Water network plus	-6.14	3H.9
Wastewater network plus	-4.51	3H.10
Bioresources (sludge)	0.00	3H.11
Residential retail	0.00	3H.12
Business retail	0.00	3H.13
Dummy control	0.00	3H.14
Initial calculation of end of period RCV adjustment by price control		
Water resources	0.00	3H.15
Water network plus	0.00	3H.16
Wastewater network plus	0.00	3H.17
Bioresources (sludge)	0.00	3H.18
Residential retail	0.00	3H.19
Business retail	0.00	3H.20
Dummy control	0.00	3H.21

Table 3I: Supplementary outcomes information

Unplanned or planned outage

Line description	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG 4 Ref
Planned outage	3,259.52	144.80	4.44 %	3I.1

Risk of severe restrictions in drought

Line description	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk	RAG 4 Ref
Risk of severe restrictions in drought	2,861.01	73.73	2,651.00	114.54	10,564.30	9,880.19	3I.2

Risk of sewer flooding in a storm

Line description	Total PE served	Total PE in excluded catchments	Percentage of total PE in excluded catchments	Total PE Option 1a	Percentage of total PE Option 1a
Risk of sewer flooding in a storm	15,018,284	24,303	0.16 %	936,720	6.24 %

Risk of sewer flooding in a storm (continued)

Line description	Total PE Option 1b	Percentage of total PE Option 1b	Vulnerability Risk Grade			RAG4 Ref
			Low	Medium	High	
			Percentage of total population served			
Risk of sewer flooding in a storm	603,269	4.02 %	89.75 %	0.00 %	10.25 %	3I.3

Sewer collapses

Line description	Number of patch repairs or relining undertaken on sewer and not included in reported sewer collapses.	RAG 4 Ref
Sewer collapses	2,826	3I.4

Additional information to support our regulatory accounts

Table 4A: Bulk supply information for the 12 months ended 31 March 2024

This table shows the value and volume of water bulk supply imported and exported.

There is no additional commentary.

Table 4B: Analysis of debt

This table shows an analysis of our debt.

Additional notes on our assumptions

- Where commitment fees or margin are based on a credit rating grid, information included in the table reflects the percentage which is currently applicable as at 31 March 2024.
- 2058 and 2060 maturity swaps each constitute three restructured transactions; the table shows the combined position.
- Foreign currency debt is shown after incorporating the impact of cross currency swap, hence such swaps are not included in the table. These swaps would fall under Swap category D, aside from one Yen swap which is Category B due to a break clause.
- Where margin is variable a weighted average is shown.
- The fair value of all receive legs and pay legs of the relevant swap should be added together to calculate the total fair value of the swap.
- Any facility related unamortised fees have been included in the column "Issuance costs".
- As a result of modifications in the period, the discount rate on certain leases have been updated to the latest discount rate for the remaining period of the lease in line with the accounting standards.
- Bank overdraft as at 31 March 2024 reflects the impact of £130.0 million committed external payments where cash settlement occurred on 2 and 3 April 2024.

Table 4C: Impact of price control performance to date on Regulatory Capital Value ('RCV')

This table allows the user to anticipate the impact of the RCV at the end of the price control period as a result of cumulative performance to date, along with any anticipated adjustments.

Additional narrative on the impact of price control performance to date

In Line 1, we have amended the allowance figures for water network plus and TTT, as agreed with Ofwat. This is to remove a double count of conditional allowances expenditure (which is already included under the 'totex not subject to cost sharing' section) and to unwind income associated with TTT land sales and rent, which are not subject to cost sharing.

The RCV element of the totex over/(under)spend is a calculated value which reflects the customer's share of the difference between allowed and actual totex, multiplied by (1 – the average AMP7 Pay As You Go Rate %) to arrive at the capitalised portion.

Different customer cost sharing rates are applied to the allowance/actuals variance based on individual price control and type of expenditure. This means the rates are subject to cost sharing, whereas business rates are not subject to cost sharing. This represents a change from 2021/22 and before, which was showing the company's share of over/(under)spend. Conditional allowances and relevant totex spend are included in the 'totex not subject to cost sharing' totals.

We're not subject to any ODI rewards or penalties with an RCV impact; all are taken through allowed revenues.

As we approach the end of the AMP and have a budget for 2024/25 , we have deemed that overspend relates to inefficiency (previously deemed timing). We have deemed the underspend within Water Resources as relating to timing of spend due to delays in capital expenditure. We will reassess this in our 2024/25 Reporting.

Wholesale Water

In 2023/24, our total actual totex (net of disallowable costs, business rates, abstraction licence fees and grants and contributions) for water of £1,107.083 million was £241.319 million higher than the FD allowance of £865.763 million (in 2023/24 prices).

Variances to our FD are as follows:

- Increased investment to improve our response to customers' and stakeholders' needs in key areas of our performance, such as water quality and water supply, leakage and supply interruptions;
- Increased capital delivery, continuing our ramp up in Year 4 following a slow start noted due to the impact of Covid-19 and transition to a more intelligent and efficient delivery model; and
- Increased costs due to higher inflation and price rises driven by macroeconomic factors.

Disallowable costs include costs associated with customer compensation.

The most material balance within 'actual totex – not subject to cost sharing' relates to non-price control grants and contributions.

Wastewater Network Plus

In 2023/24, our total actual totex (net of disallowable costs, business rates, abstraction licence fees and grants and contributions) for waste was £1,045.436 million, £368.611 million higher than our FD allowance of £1,045.436 million (in 2023/24 prices).

Variances to our FD are as follows:

- Increased costs due to higher inflation and price rises driven by macroeconomic factors.

Disallowable costs include costs associated with customer compensation and pollution provisions.

The most material balance within 'actual totex – not subject to cost sharing' relates to non-price control grants and contributions.

Table 4D: Totex analysis for the 12 months ended 31 March 2024 – water resources and water network+

This table provides information about the different activities undertaken as part of delivering upstream services with a breakdown of the total expenditure for carrying out the supply of water services.

There is no additional commentary.

Table 4E: Totex analysis for the 12 months ended 31 March 2024 – wholesale wastewater

This table provides information about the different activities undertaken as part of delivering upstream services with a breakdown of the total expenditure for carrying out the supply of sewerage services.

There is no additional commentary.

Table 4F: Major project capital expenditure by purpose for the 12 months ended 31 March 2024 - wholesale water

This table shows wholesale water major projects' operating and capital expenditure split by purpose category.

There is no additional commentary.

Table 4G: Major project capital expenditure by purpose for the 12 months ended 31 March 2024 - wholesale wastewater

This table shows wholesale wastewater major projects' operating and capital expenditure split by purpose category. No spend is disclosed in this table as there are no waste-related projects within Thames Water that meet Ofwat's definition of 'major projects'.

There is no additional commentary.

Table 4H: Financial metrics

This table shows our key financial metrics: measures of financial performance and financial position, revenue earned, earnings before interest, tax, depreciation and amortisation and an analysis of our borrowings in terms of interest payable and their maturity profile.

Additional narrative on our financial metrics

Under the terms of our Instrument of Appointment, the Group is required to maintain two investment grade credit ratings, as assigned by external rating agencies. This supports our ability to access efficiently priced debt across a range of markets to fund our investment programmes, whilst keeping bills affordable for our customers.

Our credit ratings were downgraded by Moody's and Standard & Poor's in April 2024 following the announcement that £500 million of new equity that had been anticipated by 31 March 2024 would not be provided by Thames Water's shareholders. As a result of these downgrades, the Group is now operating in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

A future downgrade to a sub-investment grade credit rating could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements.

The Group aims to secure a PR24 regulatory determination that is affordable, deliverable and financeable. Accordingly, our PR24 business plan submitted to Ofwat targets credit ratios consistent with a long-term investment grade credit rating of Baa1/ BBB+. Following receipt of the draft PR24 determination in July 2024, the Group intends to pursue all options to secure equity investment from new or existing shareholders.

Breakdown of interest paid

	£m
Net interest paid (1D.10)	(324.882)
Income included in net interest paid but should be added back for the interest cover	
Interest received on Money market deposits	(51.036)
Other finance income	(0.654)
Cost included in the net interest paid but should be reduced for the interest cover	
Interest cost relating to pension	7.600
Interest paid on Intercompany loans	0.454
Facility non-recurring fees	4.372
Other finance cost	0.380
Net interest paid	(363.766)

During the year £126.2 million accretion was cash paid on index-linked borrowings and £152.0 million accretion was cash paid on index-linked swaps. £363.766 million in the table above reflects cash interest paid and doesn't include any cash accretion paid on borrowings or swaps.

As disclosed in Table 1F, the calculation of RORE includes other exceptional items relating to land sales, pollution fines and customer compensation claims.

Table 4I: Financial derivatives

This table provides an analysis of our portfolio of financial derivatives.

Additional notes on our assumptions

Interest rate payable and receivable for floating leg of derivatives has been determined using 31 March 2024 Sonia plus relevant margins.

Instruments which change from "fixed to index linked" to "floating to index linked" during their life have been classified according to their interest rate characteristics as at 31 March 2024.

Mark to Market is presented from Thames Water's Perspective.

Out-of-the money (liability) positions are presented as positive and in-the-money (asset) positions are presented as negative.

The interest rate in column ‘interest rate payable/receivable’ for index-linked debt uses a denominator net of accretion paydowns, whilst the accretion element of the interest rate comes from a larger notional (due to accretion paydowns of £889.6 million).

The total mark-to-market figure in Table 4I excludes (i) FX element of the principal of swaps which hedge foreign currency debt; (ii) accretion on inflation-linked swaps; (iii) accrued interest on swaps. The figures in Table 4V have been presented on the same basis, as stated in 4.76 of the guidelines.

Fair value reconciliation of table 4B to table 4I

	£m
Fair value of swaps as per Table 4B	1,332.209
Add	
Fair value of cross currency swaps included in debt lines fair value figure as foreign currency debt is shown post swap	15.378
FX on cross currency Swaps	(38.938)
Accrued interest on Swaps	44.685
Less	
Accretion on Swaps	(1,083.838)
Fair value of swaps as per table 4I and 1C	269.496

Table 4J: Base expenditure analysis for the 12 months ended 31 March 2024 – water resources and water network plus

This table shows our base expenditure for wholesale water split by cost categories.

There is no additional commentary.

Table 4K: Base expenditure analysis for the 12 months ended 31 March 2024 - wholesale wastewater

This table shows our base expenditure for wholesale wastewater split by cost categories.

There is no additional commentary.

Table 4L: Enhancement expenditure for the 12 months ended 31 March 2024 – water resources and water network+

This table shows our enhancement expenditure for wholesale water split by cost categories.

Additional narrative on our enhancement expenditure

Supply-Demand Management

In August 2023, we published our revised draft WRMP and the revised draft Regional Plan along with our Statement of Response to the 1,600 consultation responses we received. We continue to work in collaboration with four other water companies to develop five strategic regional water resources solutions; these are a reservoir, the Southeast Strategic Resource Option (‘SESRO’), three transfer schemes (the Severn Trent to Thames Water, Thames Water to Southern Water and Thames Water to Affinity Transfers) and London Water Recycling (Teddington direct river abstraction (‘DRA’) and Beckton water recycling).

We’ve continued to develop our strategic resource options (‘SRO’) following successful internal review. We’ve carried out the non-statutory public consultation for Teddington DRA to help shape the design for that scheme and our Master Plan for SESRO will move forward to non-statutory public consultation in July 2024. We’re progressing environmental feasibility reports for the preferred options.

We’ve also continued development of supply side options and development of an interconnector main in our Guildford WRZ.

Smart metering

Our current strategy continue to be to install smart meters in our optant, selective and replacement programmes. These meters can be read in Automatic Meter Reading (‘AMR’) or Advanced Meter Infrastructure (‘AMI’) modes when Local Communications Equipment (‘LCE’) is installed, in areas of fixed network coverage. All meters installed are therefore classified as ‘smart’ based on the definition outlined by Ofwat. However, there will be instances when a non-household (‘NHH’) customer may request a meter that allows third-party logger compatibility through the NHH Retail market, or for our HH customers request a ‘basic’ meter for religious grounds.

More information on our metering programme can be seen in Table 6D.

Additional lines

The following additional lines have been included in comparison to the Ofwat proforma table:

- Unplanned Outage improvement: This relates to an FD allowance, over and above the base allowance, for improvements to unplanned outage performance and provide resilient supplies to customers. This investment is required to achieve the stretching performance commitment target of 2.34 % unplanned outage in 2024/25.
- Improving the performance of London water networks: This relates to an additional FD conditional allowance, over and above the capital maintenance mains replacement programme, to improve the performance of the London water network and improve customer service.
- Feasibility assessments: These relate to impact studies performed within Developer Services, which in the previous AMP were included within ‘New Development & Growth, but disaggregated going forward for transparency. There’s no spend in the current reporting year, but previous cumulative spend from AMP7 is being reported.

Additional Information

Table 4M: Enhancement expenditure for the 12 months ended 31 March 2024 - wastewater network+ and bioresources

This table shows our enhancement expenditure for wholesale wastewater split by cost categories.

Additional narrative on our enhancement expenditure

The following additional lines have been included in comparison to the Ofwat proforma table:

- Lee Tunnel: This line was added to capture and report the expenditure on the Lee Tunnel project separately in order to be consistent with the previous AMP's annual performance reporting submissions.
- New development and growth: This line was added to capture and report the expenditure on new development and growth that cannot be reclaimed through infrastructure charges which is now reported separately in tables 4N, 4O and 4P.

Table 4N: Developer services expenditure for the 12 months ended 31 March 2024 – water resources and water network+

This table shows our developer services expenditure for wholesale water split by cost categories.

Additional narrative on our developer services expenditure

Capital expenditure reported in this table includes asset payments made to self-lay providers and developers. These relate to work quoted under Charging Arrangements prior to April 2020 where the Discounted Aggregate Deficit ('DAD') model was used to determine the value of Thames Water contributions to these schemes.

This table excludes the fair value of adopted assets.

Table 4O: Developer services expenditure for the 12 months ended 31 March 2024 - wastewater network+

This table shows our developer services expenditure for wholesale wastewater split by cost categories.

Additional narrative on our developer services expenditure

This table excludes the fair value of adopted assets.

Table 4P: Expenditure on non-price control diversions for the 12 months ended 31 March 2024

This table shows our expenditure on diversions not covered by a price control.

Additional narrative on our diversions

This table includes all expenditure attributable to work delivered under the High-Speed Rail (London-West Midlands) Act 2017, which may include an element of new asset.

This includes £0.6 million of operating expenditure disclosed within 'Other Developer Services Non-Price Control Totex' attributable to work performed which will ultimately not result in diversionary activity taking place.

This table excludes the fair value of adopted assets.

Table 4Q: Developer services – New connections, properties and mains

This table shows the new connections, properties and new mains laid within the developer services part of the business split by water and wastewater.

There is no additional commentary for this table.

Table 4R: Non-financial information – Properties, customers and population

This table reports our connected properties and our customer and population numbers (in 000s).

Additional narrative on our population data

Both our water and wastewater teams concluded that it was inappropriate to solely use the 2021 Census data to calculate resident populations. If we used Census 2021 population without any adjustment, there would be a reduction in Thames Water's total population numbers of around 3.5% (or circa 350,000 people) between AR22 to AR23. This does not reflect our expectations of growth. Therefore, we've amended both our water and waste methodologies to provide what we believe is the most accurate resident population numbers

2021 Census data concerns include:

- The 2021 Census being conducted during a Covid-19 lockdown when we believe some of the transient population had temporarily moved out of central London;
- The Office for National Statistic ('ONS') have flagged a "potential miscalculation" with a recommendation to use the 2021 Census with caution;
- Some London Boroughs experienced significant reductions in reported population numbers between the 2011 Census and 2021, such as Kensington & Chelsea reducing by 11%; and
- Reviews of other datasets, such as pay-rolled employees in London, show a dip in March 2021 which fully bounced back by Dec 2021.

The 2021 Census reports occupancies in line with expectations for properties providing returns for the Census, but when comparing Ordnance Survey ('OS') property numbers with the 2021 Census, there are large discrepancies between the two. 2021 Experian population data, based on financial footprints, gives much higher populations than reported by the 2021 Census. We've also used insights from population studies by Edge Analytics.

While different methodologies were applied, the year on year increase in water and wastewater resident populations is consistent at c1.6%, and the water to wastewater population ratio constant at 66%.

Line 28: Water resident population

Our resident population has increased from10,379,727 to 10,546,302, an increase of 1.60%.

We used information from our billing systems as our billed household property numbers are the best reflection of the trend in numbers of properties occupied, and hence the trend in population in our supply area. We derived the occupancy rate from 2017/18 to 2019/20 from our reported population divided by "billed household properties". We used this with our 2022/23 and 2023/24 billed household information to derive a consistent trend in population.

We calculated our resident population by multiplying our billed household numbers by our occupancy rate. This approach uses our own best available data and is similar to the way London Borough councils have derived their own populations using their own data.

Line 28: Wastewater resident population

Our resident population has increased from 15,626,994 to 15,890,621, an increase of 1.69%.

We calculated residential population by taking OS property counts (at the lowest level geographical area for ONS statistics, containing between 40 to 250 households) and multiplying them by the Average Household Size ('AVHH') as reported by Census 2021. In addition, we've made allowances for irregular migrants, holidaymakers and short-term residents (including Ukrainian Refugees), which are added to the total. Allowances for unoccupied properties and communal properties, such as sheltered accommodation or houses of multiple occupation ('HMOs') are then subtracted from the total.

Table 4R: Non-financial information – Properties, customers and population (continued)

Additional narrative on our population data

Definitions of visitor nights

Domestic visitor nights: this is the population of domestic overnight visitors into our wastewater area. Edge Analytics have used the Great Britain Tourism Survey ('GBTS'), which provides a 3-year (2016-2018) average annual count of domestic visitor nights for each Local Authority area. The GBTS was suspended in March 2020 due to the Covid-19 pandemic, so no data is available for 2020 and only limited data for 2021. Data for 2022 is yet to be published. To account for the changes in visitors since 2016-2018, regional adjustment factors have been applied using the accommodation occupancy statistics published by Visit Britain, comparing the 2016-2018 annual average occupancy to the 2022 annual average occupancy.

Foreign visitor nights: this is the population of foreign overnight visitors in our wastewater area. The International Passenger Survey ('IPS') provides a count of foreign visitor nights in 2016, 2017 and 2018 for each sub-region of the UK. The 2016-2018 average annual visitor count from the IPS has been adjusted to reflect the post Covid-19 situation. An inbound visitor forecast, generated by Visit Britain, estimated that the number of inbound visits to the UK in 2022 totalled 29.7 million, 74% of the 2016-2018 average levels.

Line 29: Wastewater non-resident population

The non-resident or annual average holiday and tourist population connected to our sewerage system is the sum of Domestic visitor nights and Foreign visitor nights. Both of these have been estimated by Edge Analytics.

For the last two APRs, we adjusted these estimates to take account of the impact of Covid-19 lockdowns and restrictions on tourism. We have not made an adjustment this year as, since February 2022, occupancy rates have returned to the 2016-2018 average, even exceeding this average in October and November 2022.

Table 4S: Green recovery expenditure for the 12 months ended 31 March 2024 – water resources and water network+

This table reports our green recovery expenditure within wholesale water.

Additional information can be found in our Green Economic Recovery statement.

Table 4T: Green recovery expenditure for the 12 months ended 31 March 2024 – wastewater network+ and bioresources

This table is only applicable for companies with wastewater network+ and bioresources green recovery projects, and therefore has not been included within this report.

Table 4U: Impact of green recovery on RCV

This table considers the impact of our green recovery schemes on RCV.

There is no additional commentary for this table.

Table 4V: Mark-to-market of financial derivatives analysed based on payment dates

This table shows the mark-to-market of our financial derivatives.

Additional narrative on mark-to-market

The total mark-to-market figures in Table 4V have been presented on the same basis as in Table 4I, as stated in 4.76 of the guidelines. The total mark-to-market figure excludes:

- FX element of the principal of swaps which hedge foreign currency debt;
- Accretion on inflation-linked swaps; and
- Accrued interest on swaps.

These adjustments have been implemented as follows:

- The FX element has been adjusted on the foreign currency leg of the cross currency swap;
- Accretion has been applied to the pay leg of the inflation-linked swaps; and
- Accrued interest has been adjusted on the gross settled outflows or inflows as relevant for the cross currency swaps, for other swaps these have been adjusted on the net settled section.

Cross currency swaps: All settled on a gross basis, with the credit adjustment element of the mark-to-market either applied to the receive leg to reduce the market value receivable or to the pay leg to reduce the market value owed, depending on signage.

Interest rate swaps: Interest payment dates may not match in every case between pay leg and receive leg, but there is no final principal exchange at maturity. Our valuation system includes a principal exchange at maturity in reporting the valuation of each leg, which nets out in the overall mark-to-market value. For this reason we present all of our interest rate swaps as settled on a net basis.

Index-linked swaps: Interest payment dates may not match in every case between pay leg and receive leg, but there is no final principal exchange at maturity aside from the payment of inflation accretion. Our valuation system includes a principal exchange at maturity in reporting the valuation of each leg, which nets out in the overall mark-to-market value. For this reason we present all of our index-linked swaps as settled on a Net Basis.

Out-of-the money (liability) positions are presented as positive and in-the-money (asset) positions are presented as negative.

Table 4W: Defined benefit pension scheme – additional information for the period ending 31 March 2024

This table reports the details of our defined benefit pension scheme.

There is no additional commentary for this table.

Tables 4X and 4Y: Accelerated infrastructure delivery project expenditure by price controls

These tables are not required to be completed by Thames Water.

Additional Information

Table 5A: Water resources asset and volume data

This table provides data for our water resources assets and volumes.

Additional commentary on water resources assets and volumes

Lines 12 – 14: Baseload groundwater, artificial recharge and aquifer storage and recovery water supply schemes

There have been no changes to the methodology this year. The number of groundwater works in use decreased by 1 due to the much higher rainfall than the previous year. Similarly, the number of artificial recharge schemes reduced from 33 to 9. We do not have any aquifer storage and recovery sources.

Line 22: Total length of raw water abstraction mains and other conveyors

Raw water abstraction mains from river to reservoir are not digitised in our Geographic Information System ('GIS').

The process to estimate this length is the same as last year. In lieu of the digitised position, the raw water reservoirs were identified from the SAP asset register. For each one, the shortest straight-line length was measured using the "measure distance" functionality in the GIS tool to record the distance between the nearest river and the edge of the reservoir. The lengths were then summed to provide the reported figure.

Line 23: Average pumping head ('APH') – raw water abstraction

There have been no significant changes to the methodology this year.

Proportion of data	
76 %	Measured data, where both flow and lift (delivery head) has been obtained from PI AORTA or SCADA. This could include prior year values.
24 %	Partially measured data where either the flow or head is measured (the principal estimation method is to revert to prior year head values)
0 %	Data and static head estimates for water treatment works flows

100 % of sites contributing to APH have measured volumes and/or lift.

Line 25 and 26: Total number of raw water abstraction imports and water imported from third parties' raw water abstraction systems

Our only raw water abstraction import is a licence trading agreement with RWE Didcot. This has not been in use for the past three years.

Line 29: Water resources capacity (measured using water resources yield)

There has been a decrease in Water Resources Capacity of 86 Ml/d this year compared with 2022/23. This is largely due to the inclusion of a new adjustment for climate change which is consistent with the PR24 submission. Our methodology has been updated accordingly. Reduced asset availability has also had an impact on the Water Resources Capacity.

Table 5B: Water resources operating cost analysis for the 12 months ended 31 March 2024

This table shows the operating expenditure for water resources by cost category.

There is no additional commentary for this table.

Table 6A: Raw water transport, raw water storage and water treatment data

This table reports raw water transport and storage data, along with the breakdown of water treatment works (‘WTWs’) by treatment type and size. It also contains additional data associated with the water treatment business area.

Additional commentary on raw water transport, raw water storage and water treatment data

Line 5: Total length of raw water transport mains and other conveyors

There have been no changes to the methodology this year. This represents the total of all raw water mains in our GIS since we do not differentiate between abstraction and transport mains.

Line 6: Average pumping head ~ raw water transport

There have been no significant changes to the methodology this year.

Proportion of data	
77 %	Measured data, where both flow and lift (delivery head) has been obtained from PI AORTA or SCADA. This could include prior year values.
23 %	Partially measured data where either the flow or head is measured (the principal estimation method is to revert to prior year head values)
0 %	Data and static head estimates for water treatment works flows

100 % of sites contributing to APH have either measured volumes and/or lift.

Lines 13 to 27: WTW analysis

The total number of WTWs has decreased from AR23, from 93 to 88 as we continue to disuse WTWs with poor reliability or other operational issues. Water demand was also slightly lower than in AR23 due to increased rainfall.

There were 5 sites not used in the year but not decommissioned, categorised as follows:

Type	2023/24	2022/23
GW2		3
GW3	4	1
GW4		4
GW5		1
SW5	1	1
SW6		1
Total	5	11

Each WTW’s processes have been reassessed and updated this year, resulting in increased movement between water bands; 33 sites have changed their banding. We have made a distinction between chemical dosing and lead control orthodosing as two stages of complex treatment, resulting in 16 sites being upgraded from GW2 to GW3. 5 sites were downgraded from GW4 to GW3 in line with the distinction above and 5 other sites changed banding for similar reasons. 3 sites were downgraded from GW5 to GW4 in recognition of only having one high cost treatment process.

Line 32: Number of treatment works requiring remedial action because of raw water deterioration

There was one works, Baunton WTW, with substantive remedial costs this year. Amazon filters were installed in November 2023.

Table 6A: Raw water transport, raw water storage and water treatment data (continued)

Line 34: Average pumping head – water treatment

There have been no significant changes to the methodology this year.

Proportion of data	
94 %	Measured data, where both flow and lift (delivery head) has been obtained from PI AORTA or SCADA. This could include prior year values.
6 %	Partially measured data where either the flow or head is measured (the principal estimation method is to revert to prior year head values)
0 %	Data and static head estimates for water treatment works flows

100 % of sites contributing to APH have either measured volumes and/or lift.

Table 6B: Treated water distribution - assets and operations

This table reports the assets and operational data for the treated water distribution business area.

Additional commentary on treated water distribution

Lines 16 and 19: Number of potable water pumping stations

This year, there are an additional 6 stations that pump into and within the treated water distribution system, along with an additional 9 stations that re-pump water already within the treated water distribution system.

Line 24: Average pumping head – treated water distribution

This year, the suction and delivery head data for 28 distribution sites has been used to calculate a weighted average reduction percentage of 23.4 %, which has been applied to the distribution calculation.

Proportion of data	
82.5 %	measured data (flow and lift (suction and/or delivery head)
17.5 %	partially measured data where either the flow or head is measured (from a combination of static heads or the previous year's values)
0 %	data and static head estimates for water treatment works flows

In terms of sites contributing to APH, 98 % have measured volumes and/or lift. Our distribution APH includes sites on the Thames Water Ring Main.

Line 29: Peak seven day rolling average distribution input

The peak seven day rolling average distribution input this year was 2771.47Ml/d and occurred in the week ending 27 January 2024. This is a 4 % decrease from 2022/23 due to the milder and wetter weather. The main reason for the increase in distribution input ('DI') during this period was the freeze thaw event, which led to rapidly dropping temperatures, consequently increasing leakage and as a result DI.

Variances from our business plan and water resource management plan proposals are detailed as part of table 6D.

Line 35: Total annual leakage

The narrative for this line can be seen under BW04 Leakage.

Table 6C: Water network+ - Mains, communication pipes and other data

This table reports an analysis of the types of water mains, their age profile, the number of communication pipes and additional data for the water network plus price control.

There is no additional commentary for this table.

Table 6D: Demand management - Metering and leakage activities

This table reports the metering and leakage activities broken down by totex and explanatory variables.

Additional commentary on metering activities

Lines 6-21: Metering installation programme

Our strategy is to only install smart meters in our optant, selective and replacement programmes. These meters can be read in Automatic Meter Reading (‘AMR’) or Advanced Meter Infrastructure (‘AMI’) modes when Local Communications Equipment (‘LCE’) is installed, in areas of fixed network coverage. All meters installed are classified as ‘smart’ based on the definition outlined by Ofwat. However, there will be instances when a customer may request a ‘basic’ meter, either through the non-household retail market (meter to be logged) or for our household customers on religious grounds.

Within our London WRZ, which is covered by our wide area radio network, we deploy meters that can work in AMR mode and be read by driving or walking by the meters. When combined with a LCE, these meters can alternatively operate in AMI mode; this is our preferred deployment mode as it allows meter reads to be collected remotely through our wide area network.

The smart meters allow us to receive a daily profile of either 15 minute or hourly read data. This rich source of data allows us to better understand water usage in our supply area and identify leakage and wastage, enabling us to work with customers to help reduce demand and leakage.

In 2023/24, we installed 139,385 meters, which is a decrease of 12% from the previous year. Our smart metering roll out has delivered slightly lower installation volumes than forecast for AR24, due to high proportion of internal meter installation fits and the challenges associated with property appointments and access. Total AMP installation volumes remain lower than forecast due to carryover of historic external factors such as Covid and global microprocessor shortages.

For the optant programme, we are ahead of the WRMP target for the cumulative AMP position due to a post covid increase in customer optant meter requests. Dependant on customer requests, we expect to exceed the AMP forecast for optant meter installations.

We are behind for the other programmes but are on track to exceed the overall demand reduction benefit’s associated metering and water efficiency due to the success of our workstreams utilising smart meter data to identify high consumption and wastage, enabling us to work with customers to help reduce demand and our Smarter Business Visits.

Our metering penetration has increased to 58.1% which is slightly behind our WRMP forecast.

Table 6D: Demand management - Metering and leakage activities (continued)

Our WRMP forecast aligns to the business plan shown below:

	Business Plan Forecast					Actuals				
Type	2020/ 21	2021/ 22	2022/ 23	2023/ 24	Total	2020/ 21	2021/ 22	2022/ 23	2023/ 24	Total
Residential meters renewed	33,895	33,895	28,256	28,599	124,64 5	25,850	49,285	40,204	34,736	150,075
Business meters renewed	11,000	11,000	11,000	11,000	44,000	11,360	10,639	10,822	12,408	45,219
Optant installs	17,289	17,289	16,156	17,297	68,031	12,353	21,006	16,584	24,372	74,313
Selective meters installed	64,743	88,971	92,773	89,048	335,535	44,137	94,454	88,709	67,809	295,099
New business meters installed	-	-	-	-	-	24	90	82	110	306
Total	126,927	151,155	148,185	145,944	572,211	93,724	175,474	156,401	139,435	565,012

Table 6F: WRMP annual reporting on delivery – non-leakage activities

This table reports the current details of our Water Resources Management Plan ('WRMP'), including costs and benefits by activity type.

Additional commentary on WRMP

Supply-side improvements

Six resource schemes were included in the WRMP19 preferred plan in the London WRZ.

The new temporary licence trade agreement with RWE Npower at Didcot, covering AMP7, was signed and came into force from 1 April 2020. The increase in target output from the trade, from 18 Ml/d to 24 Ml/d, is based on a reassessment of the benefits rather than reflective of a material change to the agreement itself.

The New River Head scheme requires further ground investigation work, which has been scoped, before the availability of the scheme can be confirmed and the solution can be fully defined. The benefit has been removed pending conclusion of these investigations.

Horton Kirby Aquifer Storage and Recovery ('ASR') is being progressed, but due to the length of time required by the aquifer conditioning stage, the scheme will now be delivered by the end of AMP8.

The delivery of Southfleet and Greenhithe has been deferred beyond 2050, in part due to one of the key drivers for the scheme, the London Resort, being indefinitely delayed.

Following the completion of further studies and discussion with the EA, it has been established that the Deephams STW reuse scheme has potential environmental risk. We have therefore withdrawn this option from the preferred programme along with its expected spend and benefits. Other Strategic Resource Options ('SRO') are under consideration as a replacement for this scheme as part of the Water Resources in the South East ('WRSE') WRMP24 process. We have not included any SROs in Table 6F as they are at the conceptual design stage and were funded separately in the PR19 determination.

East London (Addington) ASR is no longer in the preferred programme for WRMP24. It is in one of the alternative programmes, but not in forecast until 2075. Therefore, we have stated no expected spend or benefit against this line.

The London WRZ is forecast to remain in surplus throughout AMP8. To help mitigate the risk of a changing supply demand position, we have brought forward the Addington groundwater supply scheme. This is a new borehole that would feed into the existing Addington WTW in south London, increasing the site yield up to licence and delivering at the end of Year 3 in AMP8.

We've also proposed a new licence trading agreement for RWE Npower Didcot on the same terms for AMP8, which delivers a larger benefit than the sum of the deferred and cancelled schemes at a lower cost.

The Ladymead removal of constraints scheme in the Guildford WRZ is the only other resource scheme included in the WRMP19 preferred plan. The upgrade work is being delivered in two phases. The first was expected to deliver in 2023/24 and improve resilience, including replacing borehole pumps and drives, and upgrading the disinfection. Upgrades to the contact tank and sampling facilities are underway, with these aspects now due to be completed during 2024/25. The upgrade to liquid disinfection programme has been delayed pending final agreement on a new location for an EA depot. The upgrade of borehole pumps at Ladymead and Dapdune groundwater sources has also been impacted by the delay from the disinfection programme, with testing and design work being progressed during 2024/25. The second phase will be the upgrade of the booster pumps, required to realise the deployable output following the removal of constraints in the first phase. Due to the design complexity and delivery timescale, it is expected that work on this will complete at the end of AMP8. The benefit from this scheme has increased from 4.6Ml/d to 5.5Ml/d after reassessment of the base position. Previously, an assumption was made that the Dapdune borehole pumps upgrade would be a separate project, but it's now combined into the "removal of constraints" package of upgrade work, and the deployable output benefit will only be realised once the booster pumps have been upgraded.

Table 6F: WRMP annual reporting on delivery – non-leakage activities (continued)

Additional commentary on internal interconnector improvements

We have one AMP7 scheme which is delivering a new 9km trunk main between Pewley Reservoir and Netley Mill WTW, which will improve resilience and our ability to transfer water across Guildford WRZ. The route of the main was originally from Shalford WTW, but was changed to provide greater flexibility, with Pewley Reservoir being fed by both Shalford WTW and Ladymead WTW. The size of the new main has been increased (from 300 mm to 450 mm) to allow for potential full closure of Netley Mill abstraction in AMP10. A larger main results in higher capex, but provides an associated increase in benefit due to the larger capacity. Due to the change in scope and increased complexity, delivery is now expected in December 2025.

Additional commentary on demand-side improvements

The cumulative Ml/d demand reduction achieved AMP to date is ahead of forecast, with some demand reduction variation seen across all individual activities. The Water Efficiency programme will continue to evolve, using smart meter data and regular monitoring of each activity, with a focus on the total AMP7 demand reduction objective.

Line 9: Smarter Home Visits (‘SHVs’)

Our SHV activity increased from last year and exceeded our forecast. We secured funding to increase the programme and achieve up to 5,000 visits per year until the end of AMP7. This included a period of activity ramp-up, and we did not reach full capacity until the summer. SHVs continued to be targeted at high-use households (over 500 litres per property per day) using smart meter data to select and recruit applicable households.

We use smart meter data to assist with targeting high-use households and maximising the demand reductions achieved per SHV, plus continuous flow data to initiate targeted engagement for both wastage self-fixes and Customer-Side Leakage (’CSL’) action. This insight has been shared with the Government, regulators and other water companies to help inform PR24 programme development.

Line 10: Smarter Business Visits (‘SBVs’) including wastage fixes

Our SBV activity continues to be very effective for demand reduction. This activity also received increased funding this year to assist with reducing leakage, and to maximise the use of continuous flow data in NHH premises. This programme targeted the highest commercial users, including schools, leisure centres, and sports stadiums, with the aim of achieving 10Ml/d savings in-year. This target was exceeded, and demand reduction and leakage sub-benefits were achieved in a highly cost-effective manner.

The Ml/d benefits delivered this year saw a continuation of our productive partnership with the Department for Education, enabling increased school visits, which provide enhanced water saving opportunities and help public sector organisations secure financial savings benefits.

Line 11: Wastage fixes – households

Our wastage fixes are continuing to deliver consistent and useful water savings per visit, but the cumulative demand reduction process is behind the original WRMP19 projection due to the longstanding impacts of COVID restrictions, which resulted in months of no delivery.

Our wastage evidence continues to be shared with regulators, industry and trade bodies, the manufacturing industry and product certification bodies to help inform activities aiming to address the UK’s ‘leaky loo’ issue.

Table 6F: WRMP annual reporting on delivery – non-leakage activities (continued)

Line 12: Greenredeem / household incentive scheme

Our ability to expand our Greenredeem water efficiency incentive, in line with WRMP19 projections, was impacted by reduced SHV activity along with a restricted ability to engage digitally with customers to promote water efficiency incentives due to the updated Privacy and Electronic Communications Regulation ('PCR') ruling on data protection laws, requiring greater levels of customer consent. The demand reduction volumes per customer registered with Greenredeem continue to be very favourable, and we hope to expand the programme in 2024/25.

We have expanded the partnership with Greenredeem to include sewer abuse/ blockage education and customer engagement. We will continue our use of incentives to enable greater demand reduction benefits to smart meters customers.

Line 13: Non-potable water

We have not delivered any non-potable water reduction in AMP7. Our efforts have focused on working with Defra and the Future Homes Hub to inform the development and consultation of Building Regulations changes.

We have also introduced the water sector's first Environmental Incentive for Developers with financial rewards for the take-up of water reuse technology, such as rainwater harvesting and greywater recycling. This aims to accelerate the adoption of non-potable technologies within new housing developments and work towards a 'water neutral' outcome.

Line 14: Housing Associations

We migrated all separate housing association home visits into our larger SHV programme in 21/22. From 22/23 onwards, all water efficiency visits conducted in housing association properties will fall into the SHV delivery and reporting space.

Line 15: Innovation savings

We have continued with our Water Efficiency Incentive for Business Retailers. Insight from this offering is shared with Ofwat, MOSL and retailers to inform future retail market regulation and engagement bilateral arrangements.

We continue to work proactively with external suppliers of new technology and customer engagement opportunities. These can lead to small pilots and trials to inform future water efficiency programmes. In parallel to sharing these results with other water companies through the Water Efficiency Network, we will use these trials to expand our innovation activity into later AMPs.

Line 16: Financial tariffs

As per WRMP19, financial tariffs have been included after 2024/25. They are planned for introduction once our metering programme is complete. Therefore, there are no financial tariffs in AMP7.

Line 17: Green Economic Recovery

We are no longer delivering Green Economic Recovery. See our separate statement for further information.

Table 7A: Wastewater network+ - Functional expenditure for the 12 months ended 31 March 2024

This table shows functional expenditure for our sewage treatment works split by site size.

There is no additional commentary for this table.

Table 7B: Wastewater network+ - Large sewage treatment works

This table shows the operational details of our large sewage treatment works.

Additional commentary on our large STWs

We complete a data reconciliation between Tables 7B and 7D to maintain consistency in what we're reporting for our STWs. There's a difference in the load between Tables 7B and 7D. This is due to one site, Abingdon, being split into Abingdon New and Lagoon in 7D as it has two different consent limits. In 7B, only Abingdon Lagoon is a band 6 large STW when the PE is pro rata-ed by flow between the Lagoon and New streams. Abingdon New is a band 5 STW. In 7D the two works aren't split out as it doesn't require it. All other loads match.

Table 7C: Wastewater network+ - Sewer and volume data

This table reports the sewer and volume data for the wastewater network plus price control.

Additional commentary on sewer and volume data

Line 13: Volume of wastewater receiving treatment at sewage treatment works

We don't include an estimate of the sites with a population equivalent less than 250. However, these are thought to represent 0.1 % of our total flow.

Line 14: Length of gravity sewers rehabilitated

The length of gravity sewer rehabilitation completed in 2023/24 (35,147m) has decreased by 13 % from 2022/23 (40,178m). The number of reactive dig downs and relining jobs completed has increased by 33 % (to 2,590), but many of these activities are patch repairs and short lengths of rehabilitation via excavation, so the overall length has not increased.

Line 15: Length of rising mains replaced or structurally refurbished

The length of rising main repair completed in 2023/24 (6,490m) has increased by 603 % from 2022/23. This is primarily because investment in four planned Capital Delivery projects delivered a significant length of repair (4,897m). In addition, one emergency project delivered a considerable length (904m). The remaining activities were shorter length, reactive rising main bursts and repairs.

Our interpretation of "structurally refurbished" is that it is intended to capture any pipeline rehabilitation technique which results in an improvement in the structural integrity of the pipe such that its expected service life has been materially extended.

Table 7D: Wastewater network+ - Sewage treatment works data

This table reports the sewage treatment works load and numbers categorised by size bands and the population equivalent data.

Additional commentary on sewage treatment works data

Line 21: Population equivalent treatment capacity enhancement

The schemes delayed in delivery from 2022/23 were realised as expected this year. One site scheme (at Benson STW) is thought to be complete, but a delay in the modelling team accessing the build site to provide results means that we are not reporting this site in our numbers until next year.

Table 7E: Wastewater network+ other data including energy consumption and scheme delivery for the 12 months ended 31 March 2024

This table reports the energy consumption and additional data for the wastewater network plus price control.

There is no additional commentary for this table.

Table 7F: Wastewater network+ - WINEP phosphorus removal scheme costs and cost drivers

This table shows the financial and cost benefit details of our phosphorus removal schemes, site by site.

Additional commentary on table 7F

Capex

Our capex data is predominantly sourced from the March 2024 monthly project expenditure report issued by our Finance team. To achieve consistency with the PR19 submission, we have used the closely governed purpose codes for each project (of which three indicate phosphorous removal).

Exceptions from this process are made for four projects containing multiple sites; additional granularity is then sought from the financial modelling provided by Capital Delivery (our mechanism for delivering large and complex capital work).

Future projects originate from the PR19 business plan and have the same purpose codes. New lines that have been added are allocated one or more purpose codes based on the type of work and benefits expected to be delivered.

Actual spend in the reporting year is compared with Table 4M Line35 and the historically reported spend in cost assessment submissions for consistent mapping within table lines and across accounting separations for all projects. However, it should be noted that 7F and 4M are reported in different price bases so the total in 7F will not match the this year’s figure in Table 4M Line35.

The data used to populate table 7F also contains a small number of high-level adjustment lines which cannot be specific to individual projects, such as for uncommitted funding allocated to the phosphorus removal programme but not yet a specific site. This is spread pro-rata across all sites in the model on a cost ratio basis within each reporting year.

Completion dates have been reviewed and updated from AR23 where necessary by our project and investment teams.

There’s three lines of return on investment adjustment, which reflect the contract mechanism for completion of our AMP6 schemes. It’s not possible to reflect these adjustments at a site-specific level.

Opex

For AMP6 schemes, our Opex Impact of Spend (‘OIS’) tool has been used based on the design Population Equivalent (‘PE’) for each site and budgets as at November 2019. This tool combines power data from the Energy and Carbon Team, chemicals budget data and our actual historical unit rates for power and chemicals.

For AMP7 schemes, we have used the PR19 calculation by phosphorus permit limit banding (0.1-0.5mg/l and >0.5mg/l) and PE banding (<10,000 and >10,000). This may result in a higher than expected opex, especially for our smallest sites, but provides a standardised framework.

Across all opex estimation, we have assumed that it is prudent to use the 2022-23 unit rates for future years. For all projects expected to be completed by AR25, the opex has been pro-rated based on the number of months of full scheme use following completion according to the project design details. For projects completing in AMP8 or beyond, we have provided the full year opex according to the RAG requirements.

Population Equivalent Served

These figures are consistent with the PE methodology for Table 7D for this year and prior years. Years 2024/25 and After 2024/25 are also consistent with 7D and use the site-specific growth multipliers calculated for PR24.

Table 7F: Wastewater network+ - WINEP phosphorus removal scheme costs and cost drivers (continued)

Additional commentary on table 7F

Cost Drivers

The scheme design PE figures are as stated in the project briefs, modelled according to our standard growth insights and modelling techniques.

Historical permit levels are taken from our discharge permit database. Enhanced permit levels are as stated in our AMP6 or AMP7 WINEP tracker, according to the completion date of the scheme.

Schemes with only a permit change and no structural works included have been confirmed through design reviews by the Capital Delivery. Similarly, catchment-based solutions would have been identified through the project briefs for future schemes and design reports for those completed in AMP6, but we do not currently have any relating to phosphorus removal.

We now have two transfer pipeline scheme in scope – Rusper STW, which was completed in AMP6 and Thornwood, which has been approved to proceed, however the scheme will not be complete until AMP8 as the capex and OIS profiles show. These are the only schemes showing details for the transfer pipeline and transferred flow cost drivers.

We have not identified any additional company-specific cost drivers.

Table 8A: Bioresources sludge data

This table reports our bioresources sludge data.

Additional commentary on bioresources sludge data

Line 2: Total sewage sludge produced, treated by third party sludge service provider

Due to operational issues with some sludge treatment assets, a small quantity of sludge was treated by third party providers through on-farm liming and exports to Severn Trent.

Line 4: Total sewage sludge produced from non-appointed liquid waste treatment

All cess waste imported into our sewage treatment facilities discharges via cess loggers, which record the volume and solids content of the cess. The majority of incoming cess is too dilute to record a solids content, so these volumes did not contribute to our calculation. As such, only imports that recorded solids above the recording limit of the meters were used. Therefore, the mass of solids due to non-appointed waste was negligible compared to the overall tonnage of sludge produced through the appointed business.

Line 7: Total sewage sludge disposed by third party sludge service provider

The figure for this line has been populated with the same figure as Line 2, because we do not know through which type of treatment the third party service provider will treat the sludge. We feel it is therefore appropriate to record the figures as the same in both lines.

Lines 10, 11, 13, 15, 16 and 18: tanker and truck movements

Internal tankering services were used for intersite movement of liquid sludge, supported by ten framework suppliers. Intersite cake in trucks has been brought in-house for both intersite movements and haulage to land. Some subcontracted vehicles are used to move cake both internally and externally but the operation is managed and operated in-house and therefore all deemed to be undertaken by the incumbent and not a third party. The only sludge transport undertaken by a dedicated pipeline is a transfer between Beckton and Riverside sludge centres in east London.

Contractors were used to undertake haulage and spreading of final product, but under our management. During the period, only dewatered sludge cake was recycled, therefore no liquid tanker operations were employed for final disposal.

Actual road distances were not available, so radial distance inflated by a multiplier of 1.4 was applied. This factor was calculated from a sample set of data where radial distances between sites were compared to actual road distances.

Table 8B: Bioresources operating expenditure analysis for the 12 months ended 31 March 2024

This table shows the bioresources operating expenditure for the upstream services, processes and disposal routes.

There is no additional commentary for this table.

Table 8C: Bioresources energy and liquors analysis

This table shows the energy generated and income received for our bioresources price control.

Additional commentary on bioresources energy and liquors analysis

Lines 15 and 16: Biochemical oxygen demand ('BOD') load and ammonia load of liquor or partially treated liquor returned from bioresources to network plus

During the period, all dewatering centres and sludge treatment facilities produced liquor which was returned to the adjacent STW for treatment. Whilst we have started a programme to routinely measure these loads, we were unable to provide representative samples across all sites, due to difficulties with identifying suitable sampling locations and, in some instances, safe access to the sampling facility.

We have therefore only periodically tested these liquors for BOD and ammonia concentration and have used our generic asset standard loading rates for typical liquor strength according to the dewatering technologies and processes.

Additionally, due to the arrangement on each site, measurement of liquor flows is difficult to assess. Therefore, the annual average daily flows into the dewatering plant and the associated dry solids concentration of the ingoing and outgoing sludge were used to calculate the volume of liquor. These figures were also adjusted to take out the polymer and wash water used during the dewatering process.

Changes year on year for these lines are likely attributable to our focus on continually optimising the sludge management in both transfers between strategic sites and managing locally indigenous sludge. We aim to minimise and balance factors such as the impact of costs to transport, the impact of tanker movements on local communities and other operational costs to the business.

Line 17: Recharge to bioresources by network plus for costs of handling and treating bioresources liquors

The cost to treat the liquor was calculated using the liquor concentrations from lines 15 and 16. Given that the cost is predominantly associated with the ammonia loads, our cost base was the proportion of the secondary treatment process at each STW in operation. We used the estimated modern equivalent asset value ('MEAV') of the secondary treatment process plus the operating costs incurred in treating the load and the associated thickening costs of handling the biological sludge generated.

Table 8D: Bioresources sludge treatment and disposal data

This table reports the percentage of sludge treatment processes and percentage of (un-incinerated) sludge disposal and recycling routes.

There is no additional commentary for this table.

Table 9A: Innovation competition

This table shows how much we have collected from our customers for our innovation fund and how the funds will be spent.

There is no additional commentary for this table.

Section 10: Additional reporting for Green Economic Recovery

We are no longer delivering Green Economic Recovery, so all of our tables in Section 10 are a nil return.

Please see our separate statement for further information.

Table 11A: Greenhouse gas emissions reporting

This table details our greenhouse gas ('GHG') emissions across cost categories.

Additional commentary on greenhouse gas emissions data

Thames Water calculates their Greenhouse Gas emissions using the UK Water Industry Research Carbon Accounting Workbook ('CAW').

The CAW calculations follow the GHG Protocol's Carbon Reporting Standard. Under the GHG Protocol there are two distinct methods to account for Scope 2 emissions, which are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling:

- Location-based - this method reflects the average emissions intensity of the grid on which energy consumption occurs (using a grid-average emission factor data).
- Market-based - this method reflects emissions from electricity that companies have purposefully chosen, and it derives emission factors from contractual instruments.

Using the market-based approach, our net operational emissions decreased by 4.2 ktCO_2e, from 354.6 ktCO_2e in 2022-23 to 350.4 ktCO_2e in 2023/24. Our gross operational emissions also decreased by 5 ktCO_2e from 361 ktCO_2e in 2022-23 to 355.9 ktCO_2e in 2023/24. We primarily achieved this by further reducing our fossil fuel use by using biogas instead of natural gas in boilers.

Using the location-based approach, our net operational emissions increased by 10.4 ktCO2e from 568.4 ktCO_2e in 2022-23 to 578.9 ktCO_2e in 2023/24. Our gross operational emissions also increased by 9.1 ktCO_2e from 576.2 ktCO_2e in 2022-23 to 585.4 ktCO_2e in 2023/24. Scope 2 emissions saw the greatest increase of 13.9 ktCO_2e, primarily due to an increase in grid electricity emissions factor. Electricity purchased from the grid increased due to prioritising biogas in the boilers for renewable heat production and for biomethane production rather than electricity self-generation. The prolonged wet weather experienced this year also increased our electricity consumption.

We used 498 GWh of self-generated renewable energy, covering 27.4 % of our energy needs.

Line 11A.36: Scope three emissions: GHG other types

This line covers the chemicals, waste administration and electricity / fuels for which a breakdown of the emissions is unavailable.

Line 11A.45: Net annual emissions (market-based)

Market based gross and net emissions are equal, because – unlike location-based – the table does not account for emissions reductions (exports).

Line 11A.48: Scope three emissions: GHG other types

All of the electricity we procure is certified through the Renewable Energy Guarantees of Origin ('REGO') scheme.

Line 11A.49: Capital projects (cradle-to-gate)

Our system and tools are based on cradle to build approach and do not currently allow us to present a meaningful number for cradle to gate emissions.

Line 11A.50: Capital projects (cradle-to-build)

This year, we have improved the methodology used to calculate this. The updated methodology increases the consistency of carbon emissions and financial data, as well as improving how each individual carbon emission factor per project is representative of the scope delivered.

Line 11A.51: Purchased goods and services

This is the sum of lines 11A.24 outsourced activities and 11A.29 chemicals. These emissions are already included within our existing operational carbon reporting figures under Scope 3 emissions, and include services provided by third parties related to operational activities, such as transport, mobile plant fuel usage and office services, as well as emissions associated with chemical purchase and usage.

Table 11A: Greenhouse gas emissions reporting (continued)

Strengths, Weaknesses, Opportunities and Threats ('SWOT') analysis of our approach to reducing operational GHG emissions

Our carbon strategy follows a carbon management hierarchy which aligns with best practice and addresses the management of our operational and capital carbon in parallel. For more details, please see our AMP8 Carbon Reduction Strategy. To support the identification of opportunities, and to develop and deliver plans to manage emissions, a 'Net Zero Task Force' has been formed, drawing on expertise from energy management, asset management, engineering, operations, procurement, group services and innovation. Our understanding of emissions and the solutions available to manage them continues to grow.

Carbon accounting is an evolving subject, and we regularly review standards and best practice to maintain appropriate reporting alongside compliance with annual reporting requirements. As the measurement and understanding of GHG emissions matures, assumptions and reporting methodologies will evolve alongside them. It's likely that reported emissions and baselines will change, not through worsening performance, but due to scope changes and the application of improved insight and understanding.

Below is our SWOT analysis for operational and embedded emissions, reflecting guidance to focus on accounting and reporting processes, as well as carbon performance and impact:

Strengths
We're actively engaging within and outside the industry to collaborate on innovative and creative solutions to solve the biggest challenges the industry faces in reducing its carbon emissions, such as decarbonising wastewater process emissions. We're actively working with the wider industry to improve the CAW (the industry standard operational carbon reporting tool). Our approach to capital carbon accounting and management is aligned with the principles of the GHG protocol and PAS2080. We have a detailed capital carbon assessment tool and cradle to build capital carbon reporting for all investments which go through the capital investment process. We have improved capital carbon data capture and reporting, such as through increased automation and granularity this year. We're integrating our carbon thinking into programmes such as the Strategic Resource Options through an updated Carbon Standard which aligns with PAS2080.
Weaknesses
Our capital Carbon Assessment Tool continues to evolve, but currently uses historical emissions data collated from third parties and does not enable cradle to gate emissions reporting. There is no consistent industry approach to Scope 3 carbon reporting beyond what is included within the CAW. Reporting methodologies within the CAW have not yet been developed to demonstrate the benefits of some carbon management interventions, such as real time control. A subgroup within the Water UK Carbon Network is working on options to achieve this. We have started a spend based assessment of all purchased goods and services, and will continue to develop this to form a full scope 3 inventory.

Table 11A: Greenhouse gas emissions reporting (continued)

Strengths, Weaknesses, Opportunities and Threats ('SWOT') analysis of our approach to reducing operational GHG emissions (continued)

Opportunities
We're raising awareness of the challenge of wastewater process emissions to focus the industry and its supply chain on resolving some of our hardest to abate emissions. We're continuing to develop our approach to whole life carbon assessments in our investment decision making processes. We're continuing to build our carbon and energy culture, increasing technical knowledge and competencies across the business. We continue to develop a spend based assessment of Scope 3 emissions. We're working with suppliers to gain an improved understanding of supplier and product specific emissions and opportunities to reduce them. We will review and if necessary, update our Capital Carbon Assessment Tool. We're lobbying the government for the inclusion of existing digestion facilities within the governments Green Gas Support Scheme. We continue to invest in innovation, such as low carbon wastewater treatment processes to reduce fugitive emissions.
Threats
Differences in reporting requirements, such as the location-based version of the CAW for performance commitment reporting, will create inconsistencies with other regulatory reporting, such as the Task Force on Climate-related Financial Disclosures ('TCFD') and Streamlined Energy and Carbon Reporting ('SECR'), and potentially conflicting investment cases. Changes to government policy could negatively impact the pace of decarbonisation within the wider industry. There are challenges to the management of wastewater process emissions; technological solutions and associated investment are not currently available at scale. The electricity grid may not decarbonise in line with Government targets and policies. Waste treatment standards are increasing and considerable infrastructure investment is needed, driving an increase in capital carbon emissions. Additional investment to drive forwards low carbon innovation must be justified when targeting efficiency within the investment governance cycle.

Table 11A: Greenhouse gas emissions reporting (continued)

The embedded GHG traffic light system

We consider our embedded emissions reporting to meet 'Amber' status within the RAG assessment table, aligned to the following three criteria:

- Provision of embedded emissions data relating to capital projects from cradle to build;
- Engagement with one recognised, standard framework or approach for managing and reporting on embedded emissions; PAS2080; and
- Complete and detailed SWOT analysis referring to embedded emissions.

Regarding the fourth criteria ("*clear evidence of external verification and certification by appropriately qualified party as it relates to the use of standards and frameworks and quality of data*"), whilst our processes and standards are aligned with PAS2080, we are yet to commence external verification and certification via a third party. We will consider the value of this as we move forwards.

Emissions data is reported on a cradle to build basis in line with the method statements submitted as part of the annual reporting process. Emissions associated with capital projects are calculated using a capital carbon model for all investments which go through the capital investment governance process.

We're yet to complete a full assessment of embedded Scope 3 emissions for non-capital expenditure (such as for all goods and services) and will continue to develop this over the coming year.

Our AMP8 Carbon Reduction Strategy & Net Zero Bid sets out our carbon management hierarchy and approach to aligning with PAS2080.

Our regulatory statements

Our approach to open data

Since H2Open was published in 2021, we've made significant progress in our available open data, allowing us to create value for water customers, communities and the environment.

Our Application Programme Interface Portal

We have an active Thames Water Application Programme Interface ('API') portal. 7,500 users have created log-ins for it so far. We have set up this portal to help third parties connect to our open data and to provide options that allow them to explore our open APIs, our resources, methods and behaviours.

This year, helping make our year end reporting data accessible and reusable by all, the portal will host our APR data tables for 2023/24 as well as last year's tables from 2022/23. We are publishing our APR data tables on the API in Excel format as well as comma-separated values ('CSV') files for a selection of sub-sheets.

Publishing in Excel allows the data tables to be analysed and accessed in its current form, without the requirements of any specialist application. In addition, having all tables consolidated in one file allows for the simplification of review. The inclusion of last year's tables on the API helps users to carry out trend analysis and we intend to publish future information in this format.

Those sub-sheets selected have been saved in CSV format. The benefits of the CSV format are simplicity and it being a widely supported file format, allowing data to be imported and exported between different applications with ease. CSV files offer a flexible way to transfer and store data, making them suitable for different applications.

In the API portal, we have:

- Published our APR data tables on our API platform in machine readable format so that they can be easily accessed, processed, and analysed by all users;
- Accompanied each dataset with comprehensive metadata, which includes detailed descriptions of the data fields, collection methods and relevant timestamps. This provides users with the necessary context to understand and effectively utilise the data;
- Established a feedback mechanism that enables data users to provide input and suggestions. This ongoing dialogue helps us continuously improve the quality and relevance of the data we provide, so that it meets the needs of our stakeholders;
- Published a subset of our AMP7 accountability matrix, providing users with further information behind our APR data; and
- Offered a non-exclusive licence to use information found within the portal subject to certain conditions.

Developing open data for stakeholders

Our API portal also offers live sewage discharge alerts. Since 2023, we have been publishing these from over 460 permitted locations on our website (the first water company do so). We've now increased to 573 locations. We've also introduced new data sets and enhanced the platform's functionality.

We've got 30 Event Duration Monitors ('EDMs') at tidally influenced sites and we use this data, in conjunction with the EDM sensor data, to determine the current and historical tidal effect so that we can generate accurate discharge alerts.

Our Discharge Alert Manager ('DAM') product provides a near real-time capability to monitor our STWs and Consented Sewer Overflow ('CSO') discharge points combined with other data from our assets (such as pump runtimes, storm tank levels).

This product incorporates open data from the Environment Agency ('EA') tide gauge API to reduce false positive discharge alerts, thus making our operation more efficient and effective. Tidal data is fetched from the API and used to determine the tidal effect at our CSOs within the tideway of the River Thames.

Notably, the new acoustic logger resource offers a collection of acoustic logger waveform files, accompanied by metadata that includes predictions on pipe burst status, file names, and timestamps. This functionality enables consumers to access sound file data necessary for analysing and monitoring the integrity of water infrastructure.

Our approach to open data (continued)

Our open data partnerships

We're significant contributors to three Open/ Shared Data focussed Ofwat Innovation fund projects.

As a case study - in one project, 'Sewer CCTV AI', we (the contributing partners) intend to create an open data set to stimulate innovation and new product development in the market by opening water company data and making it readily useable through standardisation.

The project has already delivered an open reference dataset on sewer defects; it will be open licenced and can be used by anyone to create and train new AI models. Thames Water are contributing time, expertise and data to this project and have shared around 1.8GB of curated data into this project so far.

Partnership working is central to our Smarter Water Catchments initiative and builds on existing relationships with key stakeholders in our catchments. Smarter Water Catchments is trialling a holistic and evidence-based approach to understand and improve three catchments within our operational area.

Working with partners such as the Chilterns Conservation Board and the River Chess Association we have been able to share data, create confidence and build trust in the water quality insight we have on our rivers.

Through these pilot projects, we have purchased real-time water quality radio transmitters which have been monitoring the catchments, detecting issues upstream and downstream of potential sources of pollution.

Two-way data sharing with our partners has allowed us to respond quickly to any potential issues and use multiple sources of information to understand the potential impact on the river.

To date, our partners on the River Chess have been pleased with the actions we have taken, satisfied with our methods of data collection and confident in our approach so that we understand the impacts elsewhere in the catchment. Most importantly being transparent with our data has led to improved levels of trust within the partnership which can be evidence through correspondence, social media posts and a willingness to continue to work in partnership with ourselves.

We want to deliver a website that is easy to use and accessible for everyone. Our website is compliant with the Web Content Accessibility Guidelines version 2.2 AA standard. We understand our website needs to be accessible to any of our customers and we have subsequently made website upgrades so users should be able to:

- Change text size by zooming or changing browser settings;
- Read text clearly against background colours used on webpages;
- Improve colour perception on webpages with a colour enhancer extension or by removing all colour with a grayscale extension;
- Navigate our website and skip main content using a keyboard;
- Listen to most of the website with a screen reader or screen reader extension; and
- Translate web pages with Google translate extension.

In addition to our plan to fix known issues, we will continue to improve and review the website's content, design, accessibility, and structure. We will prioritise improving the website accessibility based on customer demand and need. For more information on our website accessibility, see here.

Open data means making data freely available to everyone to access, use and share

Our approach to open data (continued)

The following open data is readily accessible on our website:

PR24 Investment Plan

We have published our investment plans on our website for the period 2025-2030. Information includes a five-year plan page where we provide customers with the opportunity to view our data tables in Excel format. This allows customers to analyse our tables without the need for any specialist software.

In addition, we have shared a summary of our PR24 business plan and supporting evidence including technical appendices, models and commentaries. We also provide a historical view of previous five-year plans.

We also include metadata such as table descriptions so that users have the right information to understand the data.

Storm Discharge and daily volume flow data

We are open and transparent regarding our storm discharge activity. Our storm discharge page provides users with the option to view interactive maps, activity reports and daily volume data. We also provide a historical view of annual reports. These provide users with the number of times storm overflows were active and for how long.

On this page, users will find a view of our EDM annual return, providing users with an opportunity to view historic returns from 2021-2023 in Excel. We also share our total daily volume ('TDV') flow data. This refers to the total amount of wastewater treated at sewage works each day. We currently provide a view of this data from 2019-2023 in Excel.

Our Service Commitment Plan ('SCP')

We published our SCP in December 2023 and updated it in January 2024. It sets out what we are doing to improve our performance in areas where we know it is currently falling short of expectations.

Our SCP is available on our website in the form of an interactive pdf document with embedded links, to keep our customers up to date. These links include the WCPR, links to previous APRs and a holistic view on performance.

By doing this, we are being transparent, allowing customers to have a better understanding of our performance. We intend to keep our SCP updated, and this format allows us to be more agile in doing so.

Leakage

We provide regular quarterly updates about our leakage performance on our leakage performance page. We do this to be transparent about our performance and the plans we have to reduce leakage.

Customers are able to find out further information regarding what our performance is, what are targets are and useful information such as types of leaks and what we are doing to reduce leaks.

River Health

We've a page on our website dedicated to River Health updates. It provides information to customers on our plans for storm discharges and rivers, including our River Health Action Plan to deliver £1.6 billion investment in sewers and sewage treatment works.

We recently published our 2024 'Improving River Health in the River Thames Catchment' update. It provides an update on our vision for 2050 and the activities/commitments that we are undertaking to play our part in getting all rivers to a standard of which everyone can be proud.

Our approach to open data (continued)

Water Resources in our region

We provide customers with an overview of water resources in our area and a step-by-step guide to our water cycle process, explaining where our water comes from.

Customers can also view a monthly update on our water resources including how much average rain fell in the Thames catchment and an overview of average rainfall on a month-by-month basis across the year. Further updates are provided on soil moisture levels in the region, groundwater levels, river flows in the River Thames and River Lee and water levels in our reservoirs.

Mogden Sewage Treatment Works

Customers are provided with an overview of our third largest treatment works, Mogden.

This page provides updates on future investment plans to upgrade the site to reduce the number of times partially treated sewage overflows into the River Thames when works become overloaded after heavy rain. These plans include £12 million to replace existing assets, £10 million to install three combined heat and power engines and £9 million to replace the air blower feed pipework and blowers to battery activated sludge treatment processes.

We also make available to view copies of Mogden updates between 2019 and 2024.

Customers also have access to sludge gas monitor readings taken between 2020-2024 and site inspections conducted by the London Borough of Hounslow local Environmental Health Officer.

Stream

Thames Water is working with Stream as part of the development and delivery of a national hub for sharing EDM data with Water UK. We are represented by subject matter experts in the technical support group, which is helping to deliver against some of the practical aspects of making the data available for the end product.

Guildford Report

Following the events in the Guildford area in 2023, we have now published a Guildford Incident Report Action Plan for our customers to view. This plan sets out a technical review of the resilience in the area and assesses our performance against our incident management procedures. It also provides further information on the three key areas for improvement, operational resilience, customer support and communication and customer aftercare.

The purpose of the document is to give our customers a view of what we have done and what we are going to do.

Our future pathway for Open Data

The APR data is a step-change use of our API Portal and demonstrates our commitment to increasing the scope of Open Data reporting capabilities and transparency.

Next year, we'll provide all of our APR tables in the API Portal as well as on our website so that our stakeholders have both options available, according to their preferences.

We'll use the APR data to inform future Open Data releases by investigating the potential for other regulatory submissions to be added to our API Portal and for our APR metadata to be added to these files for ease of cross-reference and data building.

We'll engage with digital expertise to consider how our Data Governance, Privacy, and Information Security Policy can evolve to incorporate our approach to Open Data.

RAG definitions and disclosures

Definitions of appointed and non-appointed business

Our appointed business (an appointee) comprises the regulated activities we provide as a monopoly supplier. This includes functions and duties necessary to provide water and sewage services to our customers. This is detailed in Condition A of our licence of appointment and relates to the duties defined within the Water Industry Act 1991.

In addition to our duties as an appointed business, we also carry out certain non-appointed activities. All of these activities are conducted on an arm's length basis from the appointed business. These activities include third-party discharges to sewage treatment works and other commercial activities, including property searches and cess treatment (treatment of waste from private receptacles not linked to our network).

The results of the non-appointed business include payment of charitable donations. These donations are made out of external shareholder interests and are not funded by customers.

Statement of Directors' Responsibilities

In addition to the requirements of Company law, our Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

Separately our Directors are also required to comply with Condition P of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991. The purpose of this condition is to safeguard that:

- Appointed Business is conducted as if it is substantially the Appointee's sole business, and it is a public limited company separate from any other business carried out by the Appointee;
- The Appointee retains sufficient rights and assets and has in place adequate financial resources and facilities, management resources and systems of planning and internal controls;
- Any transfers or transactions entered into by the Appointee do not adversely affect the Appointee's ability to carry out the Regulated Activities; and
- The Appointee demonstrates that it is complying with the requirements of this Condition.

These responsibilities are additional to those already set out in our Annual Report 2023/24. For further details of the additional responsibilities, please see the Ring-fencing Certificate and the Risk and Compliance Statement.

Disclosure of information to auditor

The Directors who held office at the date of approval of this report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Executive pay and performance

We are committed to transparent reporting within our Annual Reports as appropriate and in accordance with legal and regulatory requirements, including Ofwat's Board leadership, transparency and governance principles. This also includes a commitment to reporting any changes in policy and the underlying reasons.

Our Remuneration Committee determines our policy on remuneration of Executive Directors and Non-Executive Directors. Our Remuneration Committee Report within our Annual Report 2023/24 provides a description of the link between Directors' pay and standards of performance (as required by section 35A of the Water Industry Act 1991) and disclosures required under Regulatory Accounting Guidelines.

Our remuneration policy makes certain that executive remuneration has a clear alignment to Thames Water's performance and long-term success, in the interests of colleagues, customers and shareholders. It is designed to be stretching and also provide sustained and long-term value creation.

RAG definitions and disclosures (continued)

Non-Executive Directors

The Chairman and Non-Executive Directors do not participate in any performance related arrangements (Performance Related Pay Plan ('PRPP') and do not participate in the Thames Water pension plans. They are paid Directors' fees only.

Executive Directors

Executive Directors' remuneration includes a mix of fixed and variable pay comprising basic salary plus performance related incentives. Through the recently introduced PRPP, Executive Directors are eligible to receive remuneration linked to the delivery of both short-term and longer-term priorities, for all our stakeholders. As set out in section on the Directors' Remuneration Review, for 2023/24, the Company replaced its Annual Management Bonus and Long-Term Incentive Plan with the PRPP, to better reflect the balance we need to achieve in paying for delivery of short-term priorities and driving the right outcomes for all our colleagues, customers and stakeholders longer-term.

The PRPP comprises two elements: an in-year award opportunity (the 'base award'), designed to reflect colleagues' contribution to delivering in-year performance improvements and a deferred award opportunity, which is linked to the extent that contribution results in improved performance outcomes longer-term. In deciding whether any PRPP payment should be made, the Committee takes into consideration a range of important perspectives:

- performance against the PRPP measure scorecard;
- performance against specific outcomes, including in-year outcomes and year-on-year improvement;
- the level of Outcome Delivery Incentives ('ODI') penalties; and
- the need to reward delivery of, and attract and retain highly talented colleagues to execute, a complex and challenging Turnaround Plan that is critical to our ability to deliver for customers, communities and the environment.

The Remuneration Committee's final decision-making is also underpinned by the need to meet Ofwat's requirement that variable pay reflects performance in the round.

Dividend policy for the appointed business

In the Company's Annual Performance Report 2022/23, the Board noted that modifications to paragraph 30 of Condition P of its instrument of appointment ('Condition P30') came into effect on 17 May 2023. It is standard practice for the Board to review all key polices, including the Company's dividend policy, on a regular basis. The Board stated that, although it was of the view that the Company's dividend policy already had regard to the modified Condition P30 requirements, it would review the wording of the dividend policy during the course of 2023/24 to maintain alignment.

The Board and the Audit, Risk and Reporting Committee (a sub-committee of the Board) maintain the belief that the Company's previous dividend policy had full regard to Ofwat's requirements, but considered that a small number of minor amendments would be beneficial to further clarify alignment with Ofwat's licence modifications and the accompanying guidance (IN 23/04). The Company's updated dividend policy, which was approved at a meeting of the Board on 12 June 2024 and has effect from that date, is set out below.

Dividend policy

The Company's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected legal, regulatory and financial performance, regulatory restrictions (such as those set out in its instrument of appointment), management of economic risks and debt covenants.

In assessing the dividend to be paid, the Directors are required to ascertain that:

- Payment of a proposed dividend rewards efficiency and the effective management of risks;
- Payment of a proposed dividend should not impair the Company's current or short term liquidity or compliance with the Company's covenants;
- Payment of a proposed dividend should not impair the Company's longer-term ability to finance the Company's business including access to both debt and equity capital, and therefore must also take account of future investment needs and financial resilience;

RAG definitions and disclosures (continued)

- An assessment is made to determine if the payment of a dividend reflects the Company's performance against the relevant price review final determination and its commitments to customers and other stakeholders therein; and
- An assessment is made of the impact that payment of the dividend may have on the Company's commitments and obligations, and in turn also its overall performance levels including service delivery to customers, environmental commitments, community commitments and its commitments and obligations to employees and pension members.

Regulatory considerations for the appointed business

Ofwat has outlined an expectation that any dividends that are declared or paid are to be adjusted relative to its 4% dividend yield guidance, and reflecting the Company's performance in meeting its commitments and obligations to customers and other stakeholders.

Ofwat's dividend policy licence modification came into effect on 17 May 2023, such that Condition P of the Company's instrument of appointment requires that an Appointee shall declare or pay dividends only in accordance with a dividend policy which has been approved by the Board of the Appointee and which complies with the following principles:

- that dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business, taking account of current and future investment needs and financial resilience over the longer term;
- that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations; and
- that dividends declared or paid reward efficiency and the effective management of risks to the Appointed Business.

Ofwat's dividend disclosure requirements are reflected in the regulatory accounting guidelines (RAG 3 – Guidelines for the format and disclosures for the annual performance report), which are updated from time to time. RAG 3 requires companies to provide sufficient explanation within the annual performance report such that a reader will understand the process undertaken by the Board in determining the appropriate level of dividend and the basis of their decisions.

Dividends declared in 2023/24

The Company takes its commitments and obligations to customers and other stakeholders (including the environment, communities, employees and pension members) as a supplier of essential services very seriously.

Our external shareholders did not receive a dividend in the 2023/24 financial year for the seventh consecutive year, although Ofwat does not distinguish between dividends paid to service debt in other group companies and dividends paid to external shareholders.

The Board approved dividends of £195.8 million (31 March 2023: £45 million) over the course of 2023/24:

- interim dividends of £37.5 million were declared on 26 October 2023, enabling Kemble Water Finance Limited and its financing subsidiary to service external debt obligations through to 31 January 2024; and
- interim dividends of £158.3 million were declared on 27 March 2024 to enable Kemble Water Eurobond plc and Thames Water Limited to settle amounts owing to the Company for group relief surrendered, and Kemble Water Eurobond plc to make contribution payments to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme defined benefit schemes on behalf of the Company.

In total, the dividend yield of the dividends paid out over the course of 2023/24 represent a yield of 5.2%. The yield for dividends with a cash impact on the Company was 1.0%. Further detail in relation to the dividend payments is set out below.

RAG definitions and disclosures (continued)

After the year-end, credit rating downgrades by Moody's and Standard and Poor's resulted in the Company entering a licence cash lock-up, which restricts the payment of future dividends without the prior approval of Ofwat.

In assessing whether to pay each of the dividends, the Board considered its legal and regulatory obligations in the round, including the need to satisfy itself as to its solvency and the availability of distributable profits, and whether any payment would be aligned with the Company's dividend policy (which itself must comply with the terms of Condition P30 of the licence). In making these assessments, the Board also had regard to third-party expert advice.

Rationale for declaring the dividends

The dividends were declared following a consideration in the round of the Company's legal and regulatory obligations and its dividend policy, including the impact on the Company's ability to secure additional equity required in AMP7 (set out in further detail below).

The Board noted the following context:

KWF solvency: The Company is not obliged to pay dividends to service the debt of KWF. It was however noted that high levels of investment for customers have been partly funded by funding from KWF (which plays a key role in maintaining access to funds either via equity capital provided by shareholders and / or from raising incremental debt at KWF). The Board noted that if the dividends were not declared, KWF would not have had sufficient cash to cover interest payments due from 30 October 2023 onwards. This would have had a number of adverse consequences for the wider Kemble Water Group as well as the Company, in particular in relation to its ability to access debt markets and in turn its future investment needs and financial resilience over the longer term.

At the time that the dividends were declared, the Board considered that the payment of the dividends would best support the Company's plans to bring significant additional equity funding in the business, as anticipated in an equity support letter from shareholders.

Bringing additional equity funding was considered to produce the best outcome for all of the Company's stakeholders, including customers and the environment, and was (at that time) discussed with regulatory authorities including Ofwat.

While the Company's ultimate shareholders supported the equity funding proposal, they had set out certain conditions which would need to be satisfied in order for the shareholders to be willing to provide the additional funding. Because of the nature of these conditions, the Company considered that a decision not to declare the dividends would most likely render the plan to raise equity funding from shareholders unachievable.

On 28 March 2024, the Company announced that the regulatory arrangements that would be expected to apply to the Company in AMP8 made the PR24 plan uninvestible. As a result, the conditions of the equity support letter were not satisfied and the first £500 million of the new equity that had been anticipated was not provided by shareholders.

Legal and regulatory considerations

Through a detailed assessment of the five dividend policy principles, the Board satisfied itself that the dividends were compliant with the Company's dividend policy.

A summary of key considerations noted by the Board at the time are set out below:

Payment of a proposed dividend should not impair short term liquidity or compliance with the Company's covenants

The Board concluded that the dividends would not impair short term liquidity or compliance with the Company's covenants. In particular, the Company:

- had sufficient liquidity as at 29 September 2023 and was forecast to have access to sufficient liquidity for at least the next 12 months;
- had re-financed £325 million of existing loan facilities and issued £300 million of new debt in October 2023 to extend the forecast liquidity runway; and
- was not forecasting a breach of its financial covenants in AMP7.

RAG definitions and disclosures (continued)

Payment of proposed dividends should not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital

The Board concluded that the dividends would not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital. In particular:

- Payment of the dividends was not forecast to result in a Trigger Event or Event of Default;
- If the Company were to enter a Trigger Event, it still had access to committed, undrawn facilities; and
- Non-payment of the dividends could have had adverse consequences for the Company and the wider Kemble Water Group, in particular in relation to the solvency of KWF (which played a key role in maintaining the Company's access to funds either via equity capital provided by shareholders and / or from raising incremental debt).

An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders

In assessing whether it was appropriate to declare the dividends, the Board considered recent information that it had received relating to the financial and operational performance of the Company. This assessment included an update on (among other things): the Company's forecast ODI position; customer service levels; capital delivery; and expected performance against common and bespoke performance commitments.

The Board concluded that the dividends were appropriate, taking into account the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders. In particular:

- The Company had recently embarked on its refocused turnaround plan built around key foundational capabilities, stabilising and improving operational performance, improving business and digital resilience (including incident management) and maximising financial efficiencies;
- There were signs of improvements in the Company's operational performance, with some positive trends across Performance Commitments ('PC' or 'PCs') and other month-on-month improvements;
- While a number of significant challenges remained, these were not, in the view of the Board, a sign of systemic underperformance that would prevent it from declaring the dividends in accordance with legal and regulatory obligations (including Condition P30). Some of those challenges included:
  - PC forecasts included a net ODI penalty in 2023/24, albeit this had improved on a year-to-date and month -on-month basis;
  - The Company was projecting not to meet targets for certain headline PCs;
  - The Company was experiencing higher customer complaints; and
- Actions continued to be taken to manage inflationary pressures in the Company's operating cost base, and net operating expenditure was trending favourably.

An assessment is made of the impact that payment of the dividend may have on its commitments and obligations to customers and other stakeholders as a supplier of essential services, which includes customer commitments, environmental commitments, community commitments, employees and pension members

The Board concluded that the dividends would not have a material adverse impact on the Company's commitments and obligations to customers and other stakeholders as a supplier of essential services. In particular:

- There were signs of improvements in the Company's financial and operational performance, and the Company was committed to its refocused turnaround plan;
- There continued to be reasonable prospects of significant equity funding from shareholders, to service the Company's commitments and obligations to customers and other stakeholders;

RAG definitions and disclosures (continued)

- In the round, the size of the dividends did not impact the Company's ability to service commitments and obligations to customers and other stakeholders; and
- In any event, the decision not to make available dividends to external shareholders reflected the Company's strategy to reinvest operating cashflow into improving customer service, and the resilience of its assets and systems for the benefit of customers, communities and the environment.

An assessment is made of the long-term financial resilience of the Company

The Board concluded that the dividends would not have a material adverse impact on the Company's long term liquidity, covenant ratios or credit ratings.

In addition, the Board noted that:

- if the dividends were not declared, KWF would not have had sufficient cash to cover interest payments due from 30 October 2023 onwards. This would have had a number of adverse consequences for the wider Kemble Water Group as well as the Company, in particular in relation to its ability to access debt markets and in turn its future investment needs and financial resilience over the longer term; and
- at the time that the dividends were declared, the Board considered that the dividend payments would support the raising of equity funding from shareholders.

On 28 March 2024, the Company announced that the regulatory arrangements that would be expected to apply to the Company in AMP8 made the PR24 plan uninvestable. As a result, the conditions of the equity support letter were not satisfied and the first £500 million of the new equity that had been anticipated in March 2024 was not provided by shareholders.

Dividends totalling £158.3 million were declared in March 2024.

Background

The £158.3 million dividends paid in March 2024 were utilised to fund a:

- £27.1 million Internal Inflation Mechanism ('IIM') pension top-up payment that was paid by Kemble Water Eurobond plc ('KWE') on behalf of the Company; and
- payment of £131.3 million to fund the settlement by KWE and TWL of payments due to the Company following the surrender of 2022/23 tax losses from the Company to those companies.

Rationale for declaring the March dividend

The dividends were settled through a net settlement deed with other Group companies and were cash and reserve neutral for the Company. Only £27.1 million was cash settled, which was in relation to the IIM payments to the Company's two defined benefit pension schemes made on behalf of KWE.

Pension payment: IIM top-up payments in relation to the Company's two defined benefit pension schemes totalling £27.1 million were due no later than 2 April 2024. In line with previous practice, these payments were made by KWE on behalf of the Company and funded by a dividend from the Company. In the event that KWE had not fulfilled the payment to the pension schemes, the Company was ultimately responsible for making such payments.

Surrender of 2022/23 tax losses from the Company

In March 2024, the Company surrendered tax losses to KWE and TWL, for which payments totalling £151 million were immediately due from KWE and TWL. The associated interim dividend of £131.3 million which the Company declared was slightly lower, as some other intercompany balances were simultaneously settled. The transactions were net settled under a net settlement deed.

As is its standard practice, the Board considered recent information that it had received relating to the financial and operational performance of the Company when declaring the dividends in March 2024.

RAG definitions and disclosures (continued)

This assessment included an update on (among other things): the Company's forecast ODI position; customer service levels; capital delivery; and expected performance against common and bespoke performance commitments. The Board concluded that the dividend was justified in this context.

Legal and regulatory considerations

Through a detailed assessment of the five dividend policy principles, the Board satisfied itself that the dividends were compliant with the Company's dividend policy. In addition, the Board confirmed the assessment made in the 2022/23 Regulatory Accounts that the Company dividend policy already, in the round, had regard to Ofwat's requirements under the revised Condition P30.

A summary of key considerations noted by the Board at the time are set out below:

Payment of a proposed dividend should not impair short term liquidity or compliance with the Company's covenants

The Board concluded that the dividends would not impair short term liquidity or compliance with the Company's covenants. In particular the:

- dividends were cash neutral, meaning that there was no adverse impact on liquidity or gearing;
- dividend improved financial resilience, increasing operating cashflow; and
- Company was not forecasting non-compliance with its financial covenants in AMP7 during the assessment at that time.

Payment of a proposed dividend should not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital

The Board concluded that the dividends would not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital.

In particular, payment of the dividends was not forecast to result in a Trigger Event or Event of Default.

An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders

In assessing whether it was appropriate to declare the dividends, the Board considered recent information that it had received relating to the financial and operational performance of the Company. This assessment included an update on (among other things): the Company's forecast ODI position; customer service levels; capital delivery; and expected performance against common and bespoke performance commitments.

The Board concluded that the dividends were appropriate taking into account the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders. In particular:

- the Company had continued to report signs of improvement in operational performance, with improved monthly performance in focus PCs;
- the Company had reported month-on-month financial performance which was favourable to the 2023/24 forecast;
- while a number of significant challenges remained, these were not, in the view of the Board, a sign of systemic underperformance. Some of those challenges included:
  - PC forecasts continued to include a net ODI penalty in 2023/24, but this remained at a favourable variance to the budget;
  - The Company was projecting not to meet budget targets for certain headline PCs; and
  - The Company was experiencing higher customer complaints (particularly in relation to billing).

RAG definitions and disclosures (continued)

An assessment is made of the impact that payment of the dividend may have on its commitments and obligations to customers and other stakeholders as a supplier of essential services, which includes customer commitments, environmental commitments, community commitments, employees and pension members.

The Board concluded that the dividends would not have a material adverse impact on the Company's commitments and obligations to customers and other stakeholders as a supplier of essential services. In particular:

- The Company had a clear path to compliance in the form of the refocused turnaround plan, which continued to have reasonable prospects of success;
- The dividend enabled an improvement in the Company's operating cashflows which benefited covenant ratios mitigating the risk of a covenant Trigger Event; and
- The dividend transactions were cash and reserve neutral for the Company, and no cash physically left the Company's bank accounts other than to make the IIM payments to the Company's two defined benefit pension schemes. The dividends were not forecasted to detrimentally impact the Company's financial resilience or operations, and in turn its commitments and obligations.

An assessment is made of the long-term financial resilience of the Company

The Board concluded that the dividends would not have a material adverse impact on the Company's long term liquidity, covenant ratios or credit ratings.

Dividend Yield

The 2023/24 dividends have cumulatively been calculated to represent a yield of 5.2 %. The yield for dividends with a cash impact on the Company was 1.0 %.

This is above the 4 % Ofwat yield guidance set out at PR19, although Ofwat notes that this can be expected to vary depending on the Company's RCV growth and future investment needs. In this context, the Company notes that:

- The Company has committed to a refocused turnaround plan, with a view to creating positive outcomes for customers, communities and the environment. The Board determined that the 2023/24 dividends were aligned with this plan;
- A failure to declare the 2023/24 dividends may have had material adverse effects on the Company's ability to service its commitments and obligations;
- Over the course of 2023/24, the Company noted improvements in financial and operational performance, and the 2023/24 dividends were not forecasted to detrimentally impact on either;
- Only 1 % was used to fund the October dividend, with the remaining 4.2 % constituting the cash neutral March dividend. As explained above, the dividends were declared with a view to the long term financial resilience of the Company.

Conclusion

Having regard to the factors outlined above, as well as the specific discussion and assessment relevant to each of the dividend declarations, the Board concluded that it was reasonable and appropriate to approve the payment of the dividends.

In particular, the Board was satisfied that the declaration of each of the dividends was compliant with all legal and regulatory obligations and also the Company's dividend policy (and in turn, the modified Condition P30 of the licence).

RAG definitions and disclosures (continued)

Tax strategy

Our aim is to be clear and transparent over our approach to tax and our tax profile so that we're a responsible business. Our tax strategy is straightforward and underpinned by five key principles, which are unchanged from the previous year:

We comply with all tax legislation at all times, both within the letter and spirit of the law. We;

- do not use tax avoidance schemes or aggressive tax planning;
- engage fully and transparently with HMRC and other Governmental bodies, and seek to resolve disputes in a co-operative manner;
- adopt a conservative approach to tax risk management and apply a strong tax governance framework; and
- accept only a low level of risk in relation to taxation.

You can find more detail on our tax strategy on our website.

Long-term viability statement

The assessment of our long-term viability can be found in our Annual Report 2023/24. The Directors have conducted this assessment over a six-year period to
31 March 2030, taking into account the Company's current position and principal risks. Based on this assessment, the Board has a reasonable expectation that the Company will be able to operate within its financial covenants, maintain an investment grade credit rating and maintain sufficient liquidity facilities to meet its funding needs over the assessment period, based on the underlying assumptions outlined in the assessment.

Innovation competition

Amounts have been collected from customers relating to an established industry wide innovation fund as disclosed in our Table 9A.

In the current year Annual Report 2023/24 we have provided for the full value of funding we have collected from customers – recognising that we have an obligation to either deliver projects to this value or compensate other companies which win competition funding. In the Annual Performance Report these provisions are excluded in line with direction from Ofwat.

The funding we have collected has been ring-fenced within our accounting records and will only be used to deliver innovation competition projects, it will not fund business as usual activities or spend.

The total amount collected to date is £31.118 million, out of which we have paid out £8.758 million to MOSL ('Market Operator Services Limited'). We have received funding from MOSL of £0.122 million during 2023/24. We have spent £1.012 million of in 2023/24. The total amount held in Table 1C Line 11 cash balance relating to the innovation fund is £21.470 million.

Infrastructure network reinforcement charges

The Network Reinforcement variance has increased to £20.9 million in 2023/24. Our infrastructure charge prices were increased as our 5 year forecast for expenditure on Network Reinforcement is set to increase as per our PR24 submission, however the expenditure in 2023/24 has not yet ramped up to these levels and was impacted by a transition to our new framework suppliers.

Separately disclosed regulatory information

For greater clarity we've chosen to publish tables 4A to 11A in their original template and provide links to the tables from this Annual Performance Report.

RAG definitions and disclosures (continued)

Borrowings and loans

All borrowings from our wholly owned subsidiaries are disclosed in note 42 of our Annual Report 2023/24. All loans to our wholly owned subsidiaries are disclosed in note 38 of the Annual Report 2023/24.

Transfer of assets by or to the appointee

There were no transfers of assets or liabilities by or to our Company in excess of the materiality limit (2023: £Nil).

Guarantees or other forms of security by the appointee

The Company, as part of the Whole Business Securitisation ('WBS') capital structure, guarantees unconditionally and irrevocably all the borrowings and derivatives of Thames Water Utilities Finance plc.

Omissions of rights

There were no omissions of rights during the year (2023: none).

Waiver of any consideration, remuneration or other payment by the appointee

There were no waivers of any consideration, remuneration or other payments by the appointee during the year (2023: none).

Consolidated results

In completing all tables – we have included all debt relevant to the regulated company. Figures therefore include both Thames Water Utilities Limited ('TWUL') and its direct 100 % owned financing subsidiary Thames Water Utilities Finance plc ('TWUF').

Transactions with associates and the non-appointed business

We have disclosed transactions with both associated companies and our non-appointed business in accordance with the guidance provided in RAG 5.07.

Although our appointed business applies International Financial Reporting Standards ('IFRS'), an associated company for the purposes of this disclosure is any company within the Group or a related company as defined by Financial Reporting Standard 102.

The following disclosures comply with RAG 3.14 (The Group means the group of companies headed by Kemble Water Holdings Limited, the ultimate parent company):

- During the year there were no single contracts in excess of 0.5 % (£12.1 million) of the Company's appointed income with any subsidiary of the Kemble Group of companies or related companies;
- The Company has also chosen to voluntarily disclose all transactions with companies for which there is a common Director. The Directors of the Company and their connection to other Group companies is shown on the Directors' interest table; and
- The dividend paid during 2023/24 to the parent company Thames Water Utilities Holdings Limited of £195.8 million was used solely to service group debt obligations and administrative expenses.

RAG definitions and disclosures (continued)

Services provided to the Company by associated companies

	Company principal activity	Services provided	Turnover during 2023/24 (£000s)	Terms of supply 2023/24	Value in £000s
Thames Water Pension Trustees Limited	Pension Trustees	Management of the defined benefit schemes	2,360.7	Recharged at cost	(968.1)
Thames Water Property Services Limited	Property Company	Payroll costs	147.1	Recharged at cost	(124.2)
Thames Water Utilities Holdings Limited	Holding Company	Group Relief	-	No market - actual cost	(58,574.1)
Total value in £000s					(59,666.5)

Note that as Non-Executive Directors are not deemed to exercise control, as such they have not been included in the above analysis.

RAG definitions and disclosures (continued)

Payments to companies with common Directors

Company *(and service provided)*	Common Director	Terms of supply 2023/24	Value (£000s)
SGN Commercial Services Ltd *Liquid and Gas Distribution services*	Michael McNicholas	Negotiated	4,495.0
Dunelm Energy Limited *Management consultancy company*	Ian Marchant	Negotiated	9.5
Southern Gas Networks Plc *Distribution of gaseous fuels through mains*	Michael McNicholas	Negotiated	63.9
Water UK *Memberships & Subscriptions*	Sarah Bentley Chris Weston	Mandatory Fee	686.5
Duchy Of Cornwall Estate *Management of its land holdings*	Ian Marchant	Negotiated	2,240.0
Worldpay (UK) Limited *Transaction fees*	Hannah Nixon	Negotiated	8.2
Cadent Gas Limited *Third Party Damage Charges and Capacity Analysis*	Perry Noble Desmond Wilkins Orlando Wang David Xie	Negotiated	8.1
Church Water Investment Limited *Director fees*	Stephen Deeley Gavin Merchant	Negotiated	220.3
National Gas Transmission plc *Natural Gas Main Replacement*	Abdul Qureshi Jenny Dela Cruz	Negotiated	7.5
Omers Infrastructure Europe Limited *Director fees*	Alastair Hall	Negotiated	158.9
QIC European Investment Services Limited *Director fees*	Giles Tucker	Negotiated	353.9
Fiera Infrastructure UK Limited *Director fees*	Jason Cogley	Negotiated	50.0
Total in £000s			8,301.9

Note that as Non-Executive Directors are not deemed to exercise control, as such they have not been included in the above analysis.

RAG definitions and disclosures (continued)

Services provided by the Company and recharged to associated companies

Associate Company	Company principal activity	Services provided	Turnover during 2023/24 in £000s	Terms of supply 2023/24	Value in £000s
Kemble Water Holdings Limited	Holding Company	Financial Control, Treasury, Company Secretary and Tax support services	-	Actual costs recharged (plus margin*)	674.7
Kemble Water Euro-bond Limited	Holding Company	Financial Control, Treasury, Company Secretary and Tax support services	-	Actual costs recharged (plus margin*)	45.6
Kemble Water Finance Limited	Holding Company	Financial Control, Treasury, Company Secretary and Tax support services	-	Actual costs recharged (plus margin*)	225.7
Thames Water Limited	Holding Company	Financial Control, Treasury, Company Secretary and Tax support services	-	Actual costs recharged (plus margin*)	163.4
Thames Water Limited	Holding Company	Pension employer contributions	-	Recharged at cost	700.8
Thames Water Property Services Limited	Property Company	Payroll costs	147.1	Recharged at cost	124.2
Thames Water Utilities Holdings Limited	Holding Company	Intercompany Loan	-	Negotiated	1,319,548.0
Thames Water Utilities Holdings Limited	Holding Company	Intercompany Interest	-	Negotiated based on market data	70,274.8
Kennet Properties Limited	Property Company	Financial Control, Treasury, Company Secretary and Tax support services	908.1	Actual costs recharged (plus margin*)	45.9
Kennet Properties Limited	Property Company	Third party costs	908.1	Recharged at cost	65.8
Trinzic Developments Limited	Shared Management Service	Sales of land to intercompany	-	Negotiated based on market data	836.0
Trinzic Operations Limited	Shared Management Service	Financial Control, Treasury, Company Secretary and Tax support services	72.2	Actual costs recharged (plus margin*)	938.4
Total value in £000s					1,393,643.3

*Margin is applied for services delivered by Thames Water Utilities Limited, no margin applied to costs which are purely a passthrough.

Statements

RAG definitions and disclosures (continued)

Directorships held in Group Companies

The Company discloses the following information as part of its compliance with RAG 5.07, listing those Directors of the Company who are also Directors of the following Group companies during the year ended 31 March 2024 and up to the date of signing this report:

Director	Thames Water Utilities Ltd	Thames Water Utilities Holdings Ltd	Thames Water Ltd	Kemble Water Finance Ltd	Kemble Water Eurobond Plc	Kemble Water Holdings Ltd	Thames Water Utilities Finance plc
Sarah Bentley	R 07/06/2023						
Christopher Weston	A 08/01/2024						A 22/05/2024
Alastair Cochran	✓						
Michael McNicholas	R 16/05/2024						
Guy Lambert	R 27/03/2024						
John Holland-Kaye	A 01/04/2023						
Ian Marchant	R 10/07/2023						
Nick Land	✓						A 22/05/2024
Catherine Lynn	✓						
Ian Pearson	✓						A 22/05/2024
Jill Shedden	✓						
Hannah Nixon	✓						
David Waboso	R 12/05/2023						
Sir Adrian Montague	A 10/07/2023	A 10/07/2023	A 10/07/2023 R 17/02/2024	A 10/07/2023 R 17/02/2024	A 10/07/2023 R 17/02/2024	A 10/07/2023 R 17/02/2024	A 22/05/2024

Key:

R – resigned, A – appointed

Adherence to assurance requirements set out in Performance Commitment definitions

Our Final Determination ('FD') details where we must obtain assurance so that we meet the requirements associated with certain of our PCs. Our PCs are assured through a mixture of internal and external assurance, however where this assurance is provided by an independent third party it is in the following form:

Independent limited assurance using the International Standard on Assurance Engagements ('ISAE') 3000 auditing standard

This requires the independent third party to perform detailed assurance procedures on the evidence that they obtain and form an opinion. The 2023/24 assurance opinion issued by the independent third party states that "Based on the procedures we have performed, as described under the 'Summary of work performed' and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Subject Matter Information in Thames Water's Report for the year ended 31 March 2024, has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Agreed-Upon-Procedures ('AUP') using the International Standard on Related Services 4400 (Revised) Agreed-Upon-Procedures Engagements standard

This requires the independent third party to execute agreed upon procedures on the evidence that they obtain and communicate the results of those test procedures to us for further review and consideration. We consider the PCs covered by this work to be assured should no findings be noted (or where any noted findings have been corrected) in the independent third party's factual findings report. We define the AUPs to be performed by the independent third party and these include confirmation that the defined methodology has been used to calculate the metric and that this is reflective of Ofwat's requirements in the FD. In some cases, the procedures require the re-performance of calculations that underpinned the PC and/ or non-financial data line/metric and the tracing of data back to source.

Where Ofwat queried the nature of our assurance as part of the APR 2022/23 queries process, we have included a summary of the work undertaken by the independent third party.

The table below provides full details of the assurance obtained for the in-scope PCs:

PC	Assurance obtained for 2023/24
Smarter Water Catchments EWS02	ISRS 4400 (Revised), Agreed-Upon Procedures ('AUP') The independent third party inspected evidence that all appropriate stakeholders in the catchment areas have been approached, including inspection of meeting minutes. This inspection included emails from steering group members, where there has been appropriate sign off for catchment management plans and where appropriate milestones have been completed for each river catchment. They also inspected the catchment plans so that all actions for each river catchment are stated and delivered within the plan. For a sample of those, inspected evidence included the milestone being completed (with evidence being emails and meeting minutes).
Counters Creek CC	This PC does not have a target this year. However, we published our full report on its understanding of the risk in July 2023. The third party assurance completed can be found here.

Adherence to assurance requirements set out in Performance Commitment definitions (continued)

PC	Assurance obtained for 2023/24
Renewable energy produced EWS03	ISRS 4400 (Revised), Agreed-Upon Procedures (AUP) The independent third party, for a sample of combination of months and meters spread over the various renewable sources (heat, solar, electricity and methane), tested source evidence from the invoicing data base (Optima) to support the relevant energy figures for that month and confirm the values included were from a reliable source. In addition, the detailed listing was inspected and reconciled to the reported figure to confirm accuracy. They also obtained a master list of meters used for renewable purposes, selected a sample of meters, and inspected them via the conformity certification of use, to confirm that they meet the Elexon CoP4. For EWS03, the independent third party did not identify any findings as a result of the performance of their procedures.
Surface water management DS02	Due to a wider business reprioritisation, this performance commitment has been deprioritised and progress against it is minimal. Given this, we have not deemed it appropriate to acquire third party assurance of this metric this year.
SEMD DWS02/DWS03	This PC has been externally assured as part of the annual SEMD submission to Defra by an SEMD approved certifier.
Proactive customer engagement AWS02	We're not able to calculate the NPS due to systems changes, therefore the third-party assurance over this calculation is not appropriate.
Power resilience DWS01	Due to a wider business reprioritisation this programme has been halted so we have not delivered anything against this commitment this year. Additional assurance is therefore not required. At the next price review, we'll publish assurance by an appropriately qualified external third party that sites continue to operate and have clear deliverable plans to be completed by March 2025.
Unregistered household properties ER01	ISRS 4400 (Revised), Agreed-Upon Procedures (AUP) The independent third party completed procedures to check that the approach used to calculate this metric was consistent with the methodology supplied by Thames Water. For ER01, the independent third party did not identify any findings as a result of the performance of their procedures.

Adherence to assurance requirements set out in Performance Commitment definitions (continued)

PC	Assurance obtained for 2023/24
Critical asset readiness for the London Tideway Tunnels ET04	None, as this PC does not have a target for this year.
Maximising the value of Tideway project land sales ET06	None, as no land parcels have been sold in this period.
Empty Business Properties EWS08	ISRS 4400 (Revised), Agreed-Upon Procedures (AUP) The independent third party inspected the March 2024 ODI claim spreadsheet, which listed all business properties qualifying for the metric, including the appropriate filters that were used to determine the relevant date. In addition to this, they selected a sample of empty business properties to inspect evidence to confirm that the properties were vacant for 6 months before notification and were billed for at least 6 months after notification. This included evidence from the Central Market Operating System ('CMOS') detailing the date the property was vacant, the date of retailer notification, and transaction dates where retailers have updated occupancy status. They also inspected the method statement to confirm that the work completed is in line with processes detailed.
WINEP ES02	The company secures confirmation from the EA that performance has been correctly reported.
Enhancing Biodiversity EWS01	ISRS 4400 (Revised), Agreed-Upon Procedures (AUP) Due to business reprioritisation, our performance hasn't changed from last year. At the next price review, we'll publish assurance by an appropriately qualified external third party that sites have been appropriately selected, and the calculation of biodiversity units at those sites, is in accordance with the Defra Offsetting Metric v1.0.
Delivery of WINEP requirements NEP01	This PC follows the same assurance process as for ES02.

Independent Limited Assurance Report

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Independent Limited Assurance Report to the Directors of Thames Water Utilities Limited on the Selected Performance Commitments

Our limited assurance conclusion

Based on the procedures we have performed, as described under the "Summary of work performed" and the "Key Assurance Matters" sections below and the evidence we have obtained, nothing has come to our attention that causes us to believe that the information marked with the symbol in Thames Water Utilities Limited's ("TWUL") Annual Performance Report for the year ended 31 March 2024 (the "Report") and summarised below (together, the 'Subject Matter Information'), has not been prepared, in all material respects, in accordance with Thames Water Utilities Limited's Reporting Criteria (the 'Reporting Criteria') set out in the 'What we were engaged to assure' section below.

What we were engaged to assure

The Subject Matter Information needs to be read and understood together with the Reporting Criteria which TWUL Directors are solely responsible for selecting and applying. The Subject Matter Information and the Reporting Criteria are as set out in the table below:

Performance Commitment	Ref.	RAG 4 Ref.	Unit	Reporting Period[1]	Performance Level Actual	Reporting Criteria
Water quality compliance (CRI)	BW06a	3A.1	Measured with the Compliance Risk Index ('CRI'), the annual aggregated score of our level of treated water compliance incidents	Calendar year	1.43	https://www.thameswater.co.uk/about-us/performance [2]
Water supply interruptions	BW03	3A.2	Length of time our customers don't have water (in hh:mm:ss)	Reporting period	00:16:56	
Leakage	BW04	3A.3	% reduction in leakage using a 3-year average from the 2019/20 baseline	Reporting period	12.0	
Per capita consumption (PCC)	BW05	3A.4	Three-year average % reduction in the average water usage of household customers	Reporting period	3.4	
Mains repairs	BW01	3A.5	Number of repairs we have made to the network per 1,000 kms of mains	Reporting period	185.3	
Unplanned outage	BW02	3A.6	% of water we were unable to supply due to unforeseen circumstances	Reporting period	2.01	
Security of supply index (SoSI)	DW02	3A.11	Our ability to maintain a water supply, particularly during a drought (index of 100)	Reporting period	99	
Internal sewer flooding	CS03	3B.1	Number of internal sewer flooding incidents per 10,000 sewer connections	Reporting period	1.88	
Sewer collapses	CS02	3B.3	Number of sewer collapses per 1,000 km of sewer network	Reporting period	2.64	

1 Please note that those performance commitments with a 'Calendar year' reporting period cover the period from 1 January 2023 to 31 December 2023 and 'Reporting period' cover the period from 1 April 2023 to 31 March 2024.

2 The maintenance and integrity of TWUL's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Subject Matter Information or Reporting Criteria when presented on TWUL's website.

Independent Limited Assurance Report (continued)

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The scope of our work did not extend to information in respect of earlier periods or to any other information included in, or linked from, the Report. In addition, the scope of our assurance did not extend to certain underlying data inputs into key systems and/or models where they are derived from scientific or mechanical data sources or where they come from generally accepted industry standard data.

Our work

Professional standards applied

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board.

Our independence and quality control

We have complied with the Institute of Chartered Accountants in England and Wales Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code).

We apply International Standard on Quality Management (UK) 1 and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

We performed a limited assurance engagement. Because the level of assurance obtained in limited assurance can vary, we give more detail about the procedures performed, so that the intended users of the Subject Matter Information can understand the nature, timing and extent of procedures we performed as context for our conclusion. These procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

In performing our assurance procedures, which were based on our professional judgement, we performed the following:

- evaluated the suitability in the circumstances of TWUL's use of the Reporting Criteria as the basis for preparing the Subject Matter Information including considering the associated reporting boundaries;
- considered the Subject Matter Information and the Reporting Criteria in the context of Ofwat's PR19 Final Determination and other reporting guidance relevant to the Subject Matter Information;
- through inquiries, obtained an understanding of TWUL's control environment, processes and systems relevant to the preparation of the Subject Matter Information. Our procedures did not include evaluating the suitability of design, obtaining evidence about their implementation or testing operating effectiveness of particular control activities;
- evaluated whether TWUL's methods for developing estimates are appropriate and had been consistently applied, noting that our procedures did not involve testing the data on which the estimates are based or separately developing our own estimates against which to evaluate TWUL's estimates;
- compared year on year movements and obtained explanations from management for significant differences we identified;
- performed limited substantive testing of the Subject Matter Information, testing involved: agreeing arithmetical accuracy of calculations, and agreeing data points to or from source information to check that the underlying subject matter had been appropriately evaluated or measured, recorded, collated and reported;
- based on the inherent risk of the Distribution Input component of the Water Balance, we undertook a site visit at the Thames Water Control Room at Kemble Court with the purpose of establishing whether TWUL's data collection and processing systems are appropriate;
- recalculated the performance level of the Subject Matter Information against the Reporting Criteria and compared to the Ofwat targets and deadbands;
- made enquiries of relevant company management, personnel and third parties;
- considered significant estimates and judgements made by management in the preparation of the selected information; and
- evaluated the disclosures in, and overall presentation of, the Subject Matter Information.

Independent Limited Assurance Report (continued)

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Materiality

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the Subject Matter Information is likely to arise. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our procedures in support of our conclusion. We believe that it is important that the intended users of the Subject Matter Information have the information they need to understand the concept and the level of materiality to place our conclusion in context. Based on our professional judgement, we determined materiality for the Subject Matter Information as follows:

Overall materiality	We apply professional judgement to consider the most appropriate materiality benchmark for each aspect of the Subject Matter Information, having considered how the intended users of the Subject Matter Information may use the information. The materiality approach for each Performance Commitment is based upon its performance against target and the associated reward and penalty deadbands as defined in the Ofwat PR19 Final Determination for TWUL. For each Performance Commitment we consider how far the performance is away from target and either the associated reward or penalty deadbands (where applicable). The smallest difference between performance and target/reward/penalty will be used to calculate materiality, as the closer TWUL is to target, the more sensitive a reward/penalty outcome is to changes in performance. The smaller the difference the lower the materiality to a minimum of 1%. Materiality is capped at a maximum of 5%.

We also agreed to report to the Directors misstatements ('reportable misstatements') identified during our work at a level below overall materiality, as well as misstatements below that lower level that in our view warranted reporting for qualitative reasons. The Directors are responsible for deciding whether adjustments should be made to the Subject Matter Information in respect of those items.

Key Assurance Matters

Key Assurance Matters are those areas of our work that in our professional judgement required particular focus and attention, including those which had the greatest effect on the overall assurance strategy, the allocation of resources, and directing the efforts of the engagement team.

We considered the following areas to be Key Assurance Matters and discussed these with TWUL's management:

Leakage (BW04) and Per Capita Consumption (BW05)	
Nature of the issue	The calculation and reporting of performance in relation to the Leakage and Per Capita Consumption (PCC) performance commitments is inherently complex and requires TWUL to follow detailed methodology and guidance outlined by Ofwat. As part of the calculation processes, TWUL validate and apply a number of assumptions, source and validate historical data sets, perform estimates and determine any required adjustments and utilise complex spreadsheets and models. For more background, definitions and details behind the Leakage and PCC metrics, please refer to TWUL's Reporting Criteria. https://www.thameswater.co.uk/about-us/performance

Independent Limited Assurance Report (continued)

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Leakage (BW04) and Per Capita Consumption (BW05)	
How our work addressed the key assurance matter	Performed a walkthrough of the methodology followed by TWUL to calculate the components of Leakage and PCC contributing to the Water Balance. When changes had occurred over the reporting period or where there are valid deviations from the Ofwat Leakage Reporting Guidance, assessed their reasonableness and confirmed the reporting criteria remained appropriate. The following procedures outline our work over the more inherently complex areas. • Performed limited substantive testing over the calculation of the distribution input ("DI") of water supply to the network from TWUL's water treatment works: ○ For a limited number of sites and days, traced through the daily flow values to the source meter flow data. ○ Reperformed the reconciliation of the total distribution input from the Measured DI regulatory spreadsheet to the DI telemetry data source. ○ Inspected the adjustments made to the Water in Supply to determine the final distribution input figure and assessed the reasonableness of the adjustments. ○ For a limited number of meters and sites, traced through calibration data to third party certification to justify conformity to standards. • Performed limited substantive testing over the determination of the population and occupancy figures used in application of the Water Balance: ○ Assessed the reasonableness of the change in approach and reasons for not using the 2021 Census within the current year and confirmed that approach changes have been reflected in the reporting criteria. ○ Reperformed the reconciliation of the total population from the final Water Balance figures through to the aggregate breakdowns contained within the Netbase Properties Workbook and the supporting calculations spreadsheet. ○ Reperformed the calculations and computational tables within the supporting calculations spreadsheet. • Performed limited substantive testing over the determination of the properties figures which are relevant to deriving the occupancy figures used in application of the Water Balance: ○ Reperformed the reconciliation of the total properties from the final Water Balance figures through to the aggregate breakdowns contained within the Netbase Properties Workbook and the supporting calculations spreadsheet. ○ For a limited number of individual properties, traced through properties data back to the source billing systems. • Performed limited substantive testing over the leakage estimation due to household night use: ○ Reperformed the reconciliation of the billed households night use figures from the total final Water Balance figures through to the Leakage Calculator, Netbase Properties Workbook and the LNU model. ○ For a limited number of meters, traced through the final night use figures and percentages through to source meter and consumption data. ○ Reperformed the calculations for billed households night use calculations to assess mathematical accuracy.

Independent Limited Assurance Report (continued)

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<table>
<tr><th colspan="2">Leakage (BW04) and Per Capita Consumption (BW05)</th></tr>
<tr><td>How our work addressed the key assurance matter</td><td>
• Performed limited substantive testing over inputs into TWUL's LNU model with respect to Weather, Seasonality and Ramadan factors:
○ For a limited number of items, traced through the weather data per the model to weather data per external third party data sources.
○ Reperformed the calculations used in the application of the Seasonality and Ramadan factors within the LNU model.
○ Reperformed the calculation of the adjustments to the Night Use calculation.
• Performed limited substantive testing over the LNU model including:
○ Inspected the demographics code to assess the accuracy of the logic and calculations within the model. Additionally, inspected where in the code the input data comes in order to assess the reasonableness of any data validation and data cleansing steps applied.
○ Inspected the model for accuracy of calculations made and consistency of formulae applied throughout key input and summary tabs.
The following procedures have been performed to address the changes of methodology being applied to the Water Balance relating to the rebaselining of the leakage calculation:
• Performed a walkthrough of the rebaselining methodology applied to understand the process and ensure that it is appropriately capturing all of the required elements and being consistently applied across all relevant prior periods.
• For a limited number of properties across each of the four (4) Bulk Metered Area ('BMA') panels, traced through property data to the underlying source consumption data.
• Reperformed the rebaselining calculation for material components of the Water Balance and Leakage Calculator.
• Inspected the Leakage Calculators and Water Balances for the prior periods to ensure that the rebaselined components have been appropriately applied and carried through AR18 to AR23.
</td></tr>
<tr><td>Element(s) of the Subject Matter Information most significantly impacted</td><td>
Leakage (BW04): measured as the % reduction in leakage using a three-year average from the 2019/20 baseline, between the period from 1 April 2023 to 31 March 2024.

Per Capita Consumption (BW05): measured as the three-year average % reduction in the average water usage of household customers, between the period from 1 April 2023 to 31 March 2024.
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Challenges of non-financial information

The absence of a significant body of established practice upon which to draw to evaluate and measure non-financial information allows for different, but acceptable, evaluation and measurement techniques that can affect comparability between entities, and over time.

Non-financial information is subject to more inherent limitations than financial information, given the characteristics of the underlying subject matter and the methods used for measuring or evaluating it. The precision of different measurement techniques may also vary.

Independent Limited Assurance Report (continued)

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Reporting on Other Information

The other information comprises all of the information in the Report other than the Subject Matter Information and our assurance report. The Directors are responsible for the other information. As explained above, our conclusion does not extend to the other information and, accordingly, we do not express any form of assurance thereon. In connection with our assurance of the Subject Matter Information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the Subject Matter Information or our knowledge obtained during the assurance engagement, or otherwise appears to contain a material misstatement of fact. If we identify an apparent material inconsistency or material misstatement of fact, we are required to perform procedures to conclude whether there is a material misstatement of the Subject Matter Information or a material misstatement of the other information, and to take appropriate actions in the circumstances.

Responsibilities of the Directors

Directors of TWUL are responsible for:

- determining appropriate reporting topics and selecting or establishing suitable criteria for measuring or evaluating the underlying subject matter;
- ensuring that those criteria are relevant and appropriate to TWUL and the intended users of the Subject Matter Information in the Report;
- the preparation of the Subject Matter Information in accordance with the Reporting Criteria including designing, implementing and maintaining systems, processes and internal controls over the evaluation or measurement of the underlying subject matter to result in Subject Matter Information that is free from material misstatement, whether due to fraud or error;
- documenting and retaining underlying data and records to support the Subject Matter Information;
- producing the Report that provides a balanced reflection of TWUL performance in this area and discloses, with supporting rationale, matters relevant to the intended users of the Subject Matter Information in the Report; and
- producing a statement of Directors' responsibility

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Subject Matter Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of TWUL.

Use of our report

Our report, including our conclusion, has been prepared solely for the Directors of TWUL in accordance with the agreement between us dated 26 January 2024 (the "agreement"). To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Board of Directors and TWUL for our work or our report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

Chartered Accountants

Watford

10 July 2024

Green economic recovery ('GER') statement

We've had to stop our GER programme as we are unlikely to be able to recover our costs and this programme is not funded within our AMP7 determination.

In 2021, we put forward a proposal to Ofwat to deliver an additional 204,700 smart meters as part of the Government's Green Economic Recovery ('GER') programme post the global pandemic. Ofwat agreed to an allowance of £71,917 million in order to enable Thames Water to accelerate its customer roll out of smart meters.

The allowance was conditional and included a requirement to deliver at least 98 % of its 20.5 % AMP7 leakage performance commitment target, over the whole AMP (2020-2025). Further, it stated that if we delivered below 98 % of our target, we would not be able to recover any of the GER funding allowance.

We met our leakage target in years 1 and 2 of this AMP (2020/21 and 2021/22). However, the impact of drought and freeze-thaw events in 2022/23 meant we fell short of our year 3 target. As annual leakage targets are based on a three-year rolling average calculation, the impact of our 2022/23 outturn will be felt, not just in 2022/23, but for the last two years of this AMP.

Consequently, in September 2023, we wrote to Ofwat to ask it to consider adjusting the GER funding conditions to reflect the impact that the summer 2022 drought and December 2022 freeze-thaw events had on our leakage performance, and enable the continuation of the programme, whilst still holding us to account for reducing leakage.

On 6 October, Ofwat rejected our request, concluding that "the proposed change does not represent a material improvement which is in customers' interests because the proposed change would deliver no additional benefits to customers; and could undermine incentives for Thames Water to deliver its 2020-25 investment plan (and in particular the PR19 leakage performance commitment) in full.".

Our ODI regime already provides very strong incentives to deliver against targets. As such, Thames Water is disappointed by Ofwat's conclusion. South East England is a water stressed region and we need to act now to protect water resources.

Smart meters help us to reduce and identify leaks and meet the unprecedented demand for water, while giving customers greater control over their water use and bills. The additional support offered by the GER programme, would have meant we could have gone faster and further in our smart meter programme rollout. This would have accelerated benefits to customers and to the environment.

In light of Ofwat's decision, we were left with no alternative but to stop the GER programme as we are unlikely to be able to recover our costs and this programme is not funded within our AMP7 determination.

We know that this decision will come as a disappointment to some customers and stakeholders. We remain committed to investing additional shareholder investment towards the most cost-effective outcomes prioritised within our refocussed turnaround plan.

Compliance with sanctions against Russia and Belarus related to the conflict with Ukraine

Thames Water recognises the increasing extent and reach of sanction legislation following the Russian invasion of Ukraine.

As such, we have processes in place to deal with UK sanctions and to carry out a range of targeted and proportionate due diligence in relation to counterparties where this is necessary.

Following the imposition of sanction legislation, we obtained advice from our legal advisers on the steps that need to be taken to comply with these sanctions, both from a supply chain and customer perspective.

This advice has been circulated to the appropriate senior managers around the business and is being acted upon.

Assurance work around compliance has also been carried out. This confirmed initial sanctions screening had been completed across the business including for new appointments and variations ('NAVs'), non-household ('NHH') retailers, and for our suppliers.

Risk and Compliance Statement

Introduction

This statement sets out the processes we have in place to demonstrate to our customers, to Ofwat and to our other stakeholders, our compliance with relevant statutory, licence and regulatory obligations, where Ofwat is the relevant enforcement authority. The obligations pertinent to our functions as a statutory Water and Sewerage Undertaker are primarily set out in the Water Industry Act 1991 and our Instrument of Appointment – our "Licence". The Licence also requires us to perform duties imposed under any other statutory and regulatory guidelines as necessary to fully discharge our obligations.

Providing high standards of customer care is a key part of our purpose and we have standards and codes of practice which aim to meet the recent amendment to Condition G: Principles for Customer Care part of our Licence and the associated guidance.

Our approach to compliance with our statutory, licence and regulatory obligations is based on establishing and maintaining robust governance, risk management and system of internal controls.

This statement covers the reporting year and is set out in the following sections.

1. Understanding and meeting our customers' expectations

We need to understand and respond to our customers' expectations in both our day to day operations and long-term plans. Our programme of customer engagement is led by our Retail Director and overseen by the Customer Service Committee and, for our long-term planning, the Regulatory Strategy Committee (both sub-committees of our Board).

In order to understand what customers want, we have a customer engagement programme that gathers insights into customers' needs and behaviours. Our insights are gained from working with diverse customer groups, using a wide variety of techniques. This includes bespoke research into specific topics, surveys on brand perception and service satisfaction, analysing complaints and listening to social media.

Customers' overarching expectations are clear:

- A water and wastewater service that works today and in the future;
- Easy customer experience and tailored support;
- A thriving environment and part of the community; and
- Fair and affordable bills.

Our performance commitments are a response to customer expectations and provide a transparent way of demonstrating the extent to which we are delivering for customers (provided in our performance section of this document).

For our household customers, C-MeX is the key measure Ofwat uses to evaluate customer satisfaction and compare water companies (with D-MeX the equivalent measure for developer customers). The C-MeX survey uses small samples and does not give us the depth of insights we need to improve our service, so we also monitor and manage our performance against three internal measures.

These are:

a) Service survey customer satisfaction

b) Brand perception survey customer satisfaction and net promotor score ('NPS'), a widely used measure of customer advocacy,

c) Complaints

We are ranked 17th, at the bottom of the industry league table for C-MeX performance. Our aim remains to improve our service, move up the table and reduce the gap between us and the industry median. We have begun this journey by focussing on fixing the basics, for example by reducing complaints over time and responding to them more quickly (complaints performance is summarised in the Responding to Customer Complaints section in this document).

However, there is still much more to do, and this is reflected in our plans to transform our key customer journeys. This aligns to the continuous improvement principle of the customer care licence condition.

Risk and Compliance Statement (continued)

Central to our plans is empowering Team Thames to deliver exceptional customer service. We have relaunched our values and have commenced a personal leadership programme to embed our behaviours throughout our organisation, putting customers at the heart of all we do in every role.

Key areas of focus in the last year to meet our customer expectations and drive improvements in customer satisfaction, brand perceptions and complaints include:

Water and wastewater service that 'works' today and in the future

- We've fitted and exchanged over 139,000 smart meters across London, the Thames Valley and Home Counties to give customers greater control over their water use and bills, and to help us find and fix leaks;
- We've sustained our extensive sewer cleaning programme (1,500km) and increased the number of sewer depth monitors to over 19,000, which help to proactively detect 400 potential blockages each month; and
- We've run the 'It's Everyone's Water' campaign featuring our Otis the Otter character, showing how we're investing in protecting our water supply for the future.

Easy customer experience and tailored support

- We've transformed our digital messaging channels, introducing more choice, and enhancing with Artificial Intelligence to better assist and support customers;
- We launched a new View and Report a Problem online experience to enable customers to self-serve, with over 6,000 issues reported per month;
- We introduced real-time speech analytics on agent phone lines to identify unhappy or vulnerable customers, and get them the help they need quicker;
- We've increased the number of people on our priority services register by almost 85,000 to over 450,000;
- We've upgraded our inclusive service accreditation from the British Standard to the International ISO22458 standard; and
- Continuing our efforts to build trust, improve performance, and enhance transparency, we've published investment plans for over 250 of our sites, alongside the launch of our open data portal which includes Event Duration Monitor data. So far, we have over 7,500 registered users on this portal.

A thriving environment and part of the community

- Our five-year Catchment Partnership support fund ('CaPs') has allocated more than £1.3 million in funding across our region to date, enabling our Catchment Partnerships to enhance the water environment for both wildlife and people;
- Our employees volunteered over 4,600 hours in the local community via our Time to Give programme; and
- We partnered with Actionfunder to continue a Justice, Equity, Diversity and Inclusion ('JEDI') and microgrants programme, to deliver water and nature-based activities to young people and groups from marginalised communities or who are underrepresented in environmental conservation.

Fair and affordable bills

- Our social tariff, which gives customers a 50 % discount, now benefits over 358,000 customers, an increase of nearly 52,000.
- We have a trust fund of £500k per year to support customers in hardship.

2. Processes and the assurances we have in place to achieve compliance with our obligations

The Board is accountable and responsible for the prosperity of Thames Water for the benefit of customers, investors and other stakeholders. Our Executive develop and deliver our strategy and make day-to-day financial, operational and regulatory decisions. This includes responsibility for maintaining sound systems of planning, risk management, internal control and performance management.

Risk and Compliance Statement (continued)

The Board and Executive are provided with a range of information sources and evidence, to enable them to broadly assess our overall compliance with our obligations. This includes the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives, and for ensuring that an appropriate risk culture has been embedded throughout the organisation.

The company reports to its stakeholders primarily through the Annual Report 2023/24, and financial statements. This is where we publish our approach to risk management, principal risks and uncertainties and our long-term viability statement. Together these set out the material and emerging risks the company is currently facing, together with mitigation steps.

Our internal control environment (or 'system of internal control') has been designed to:

- Align and be integrated with our risk management approach;
- Meet the requirements of the UK Corporate Governance Code; and
- Fully consider Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

We use the 'three lines' assurance model to distinguish between first line processes and controls, second line oversight and third line independent assurance.

We employ relevant expertise so that we understand our statutory, regulatory and licence obligations and can translate them into policies, standards and procedures.

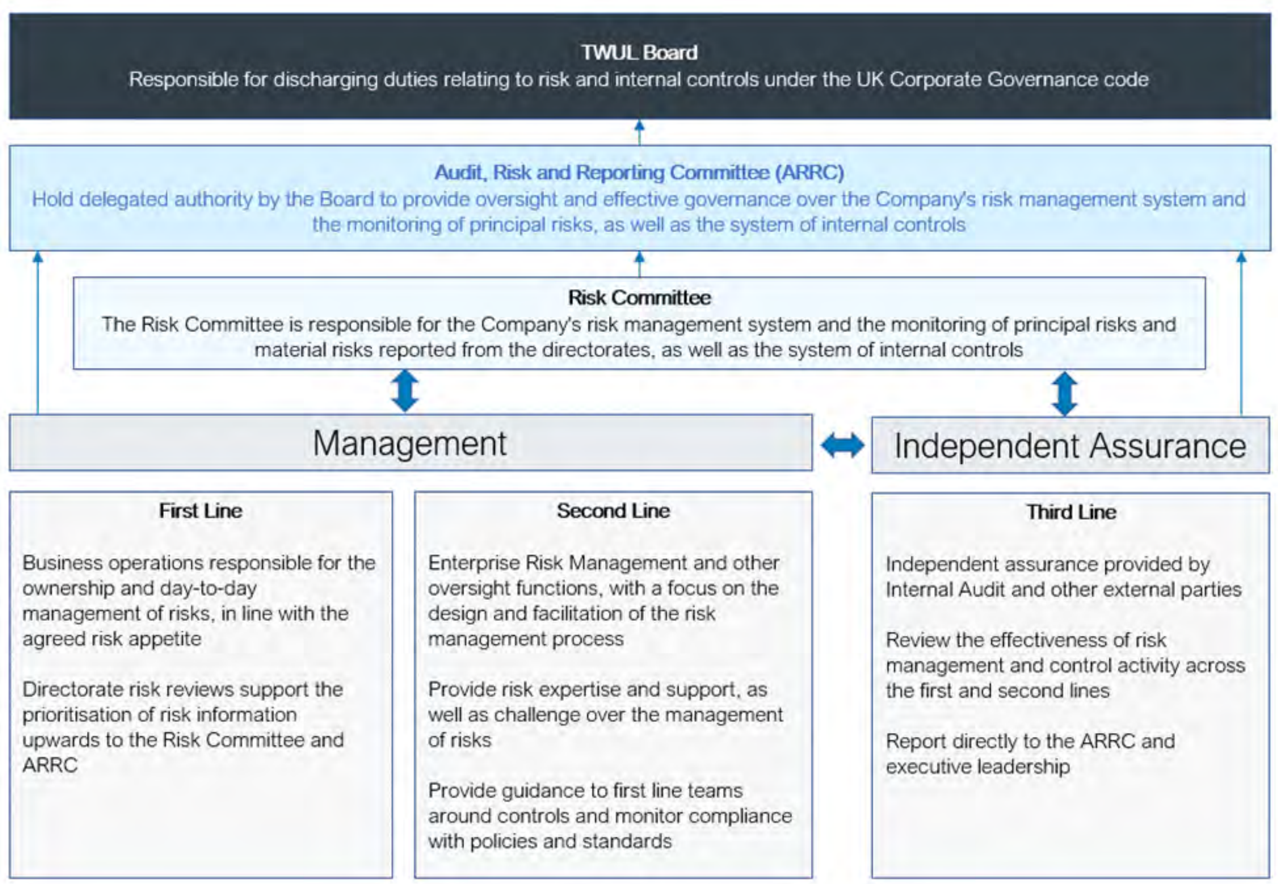
This expertise includes, but is not limited to, legal, financial, regulatory, health and safety, asset and process engineers and environmental professionals.

We also draw upon additional external expertise where necessary, so that any new, or changes to our existing, obligations are appropriately interpreted and applied.

Management and oversight teams monitor compliance with approved policies and procedures on an ongoing basis.

We have also developed and deployed a compliance controls framework where we have translated our compliance obligations into a set of minimum control operating requirements. We are continuing to enhance our working practices and processes to deliver operating effectiveness against these requirements.

The diagram below demonstrates how this structure is being applied across our business:



Risk and Compliance Statement (continued)

3. Processes and assurance we have in place to report accurately on our performance

Our external reporting process is designed to provide our customers and stakeholders with information that is easy to understand, provides transparency and can be relied upon, in order to build trust and confidence in our reporting.

To achieve confidence over the quality of the information we publish, including our regulatory submissions, we again apply our "three lines" assurance model.

This best practice approach means that we, and our customers, have a good level of assurance that our publications are accurate, complete and have been prepared correctly.

The approach we take is also guided by our external regulatory reporting (Ofwat) standard.

This establishes the minimum controls over the preparation and submission of information to deliver our response on time and to quality. For example, those submissions with the highest risk require approval of the Board and external independent assurance.

4. Exceptions to our compliance, data and information

We set out in the table below material exceptions to our compliance with our statutory, licence and regulatory obligations.

In addition, our annual Control Self-Assessment process, by which all senior leaders across the business confirm their awareness and compliance with our obligations, has not identified any other incidences of material non-compliance for reporting.

Duty or obligation	Disclosure	Actions being taken to improve
Environmental permitting regulations and section 94 of the Water Industry Act 1991, general duty to provide sewerage system	TWUL remains under investigation by the EA with regard to its compliance with environmental permits and by Ofwat with regard to its compliance with Section 94 of the Water Industry Act. On 11 December 2023, we received Ofwat's draft decision regarding compliance with flow to full treatment (FFT) at our wastewater treatment works.	The turnaround plan includes focus on significantly improving performance and safeguarding the environment. We've fully supported Ofwat and EA with their investigations. We await the EA's and Ofwat next steps. For more information, see the Directors' Ring-fencing Certificate.
Performance commitments	For 2023/2024, we achieved 29 of our 55 performance commitments. Full details on our performance can be found in the "Summary of our 2023/24 performance" section of this document.	The turnaround plan includes focus on significantly improving performance. For more information see the Directors' Ring-fencing Certificate.

Risk and Compliance Statement (continued)

5. Board Assurance Statement

The Board of Thames Water Utilities is satisfied that we have, except where otherwise detailed:

- Taken appropriate steps to understand and meet the expectations of our customers;
- A full understanding and have compliance with, in all material respects, our statutory, licence and regulatory obligations;
- Appropriate systems and processes in place to identify, manage and review our material risks;
- Processes and systems of internal control to deliver our services to customers and meet our obligations; and
- Provided data and information to Ofwat which is accurate and complete in all material respects.

We also confirm that we have:

- Committed to maintain robust standards of corporate governance, following the requirements of both the UK Corporate Governance Code and Ofwat's Board Leadership, Transparency and Governance Principles (further details can be found in our Annual Report 2023/24);
- Provided Ofwat with assurance that we have sufficient financial and management resources to enable us to carry out our regulated activities for the next 12 months (as detailed within our Ring-Fencing Certificate in this document);
- Sufficient rights and resources to enable a special administrator to run our Company if such an order were to be made (as detailed within our Ring-Fencing Certificate);
- Taken steps so that all trade with associated companies in the year has been at arm's length, as set out in Regulatory Accounting Guidance (RAG 5 – Guideline for transfer pricing and RAG 3 – Transactions with associates and the non-appointed business as found within the section "RAG 3/5 statements and other disclosures" in this document;
- Maintained investment grade credit rating (as detailed in additional commentary on Table 4H of our Regulatory Accounts);
- A principles-based dividend policy in place (details of which can be seen in the section "RAG definitions and other disclosures" in this document);
- Considered if the business is able to withstand various severe but plausible scenarios where operations and financing arrangements are able to continue to deliver critical customer service in the instance such adverse events materialised (full details can be found in the Long-term Viability Statement within our Annual Report 2023/24);
- Explained how we link Directors' pay to standards of performance as set out in section 35A of the Water Industry Act 1991 (further details can be found in the Directors' Remuneration Report in our Annual Report 2023/24);
- Considered our Contingent Liabilities disclosures (full details can be found in Notes to the Consolidated Financial Statements within our Annual Report 2023/24);
- Made our auditors aware of all relevant information (as required under the Companies Act 2006);
- Engaged and challenged management on their data and information assurance approaches through, for example, review and approval of the Statement of Risks, Strengths and Weaknesses and Final Regulatory Reporting Assurance Plans;
- Taken action so that any exceptions and weaknesses in the data and information assurance approaches have been addressed, such as through the use of external independent assurance;
- Satisfied ourselves that the assurance approaches have appropriately identified and addressed any risks to the provision of accurate and complete data through reports from Management and Director deep dive sessions, predominantly with the Chairman and/or members of the Audit, Risk and Reporting Committee; and
- Reported where we have not achieved the level of performance agreed in our final determination. Further information is available within the Our 2023/24 performance section of this document.

Risk and Compliance Statement (continued)

During the course of its work, our independent auditor, PwC, is required to report if there are any material inconsistencies between the Regulatory Accounting Statements and other information contained within the Annual Performance Report; this includes the information contained within this Risk and Compliance statement.

PwC has not identified anything to report in respect of this responsibility. A copy of the Independent Auditors' Report is provided in the Regulatory Accounting section of this document.

Signed by the Board of Thames Water Utilities:

Sir Adrian Montague
Chairman

Chris Weston
Chief Executive Officer

Alastair Cochran
Chief Financial Officer

Nick Land
Deputy Chairman and Senior Independent Non-Executive Director

Hannah Nixon
Independent Non-Executive Director

Catherine Lynn
Independent Non-Executive Director

Ian Pearson
Independent Non-Executive Director

Jill Shedden
Independent Non-Executive Director

John Holland-Kaye
Non-Executive Director

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment

This is to certify that at their meeting on 5 July 2024, the Directors of Thames Water Utilities Limited ("the Appointee") resolved that, in their opinion, for the next 12 months and subject to the material uncertainties, issues and circumstances disclosed in the list of factors below:

- The Appointee will have available to it sufficient:
  - financial resources and facilities;
  - management resources;
  - systems of planning and internal control; and
  - rights and resources other than financial resources:

  enabling it to carry out the Regulated Activities necessary to fulfil the Appointee's obligations under the Instrument of Appointment without being dependent upon the discharge by another person of any obligation under, or arising from, any agreement or arrangement under which that other person has agreed to provide any services to the Appointee in its capacity as a Relevant Undertaker;
- The Appointee will ensure that, as far as reasonably practicable, it has available to it sufficient rights and resources other than financial resources, so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage the affairs, business and property of the Appointee in accordance with the purposes of the special administration order. The Appointee notes that it is working to secure additional shareholder funding but is making prudent preparation should this not occur or be sufficient;
- All contracts entered into between the Appointee and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry out the Regulated Activities; and
- Any issues or circumstances that may materially affect the Appointee's ability to carry out its Regulated Activities are noted below and/or within the Risk and Compliance Statement.

This Ring-fencing Certificate is an annual requirement under Condition P of the Instrument of Appointment (also known as the 'Licence').

The Board notes that the latest Ofwat guidance set out in IN20/01 for completion of the Ring-fencing Certificate requires the Board to state its opinion on whether the Appointee has 'sufficient' resources to deliver its regulated activities. Condition P of our Licence requires that we have 'adequate' resources in place. The Board is satisfied that its stated opinion set out above regarding the sufficiency of the Appointee's resources also addresses its Licence obligation to maintain 'adequate' resources.

The Licence also requires a statement of the main factors which the Board has taken into account in giving its opinion for the Ring-fencing Certificate.

In providing this opinion, the Directors have considered several factors as part of their enquiries prior to signing this certificate, including but not limited to:

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Financial resources and facilities

- The Appointee's Final Determination for the 2020 to 2025 regulatory period, accepted by the Company in February 2020;
- The Appointee's available cash resources and borrowing facilities, and taking into account the Appointee's projected net cash flow for the next 12 months from the date of signing the Ring-fencing Certificate. As at 31 March 2024, such liquidity consisted of £1.3 billion of available cash and cash equivalents, access to £2.6 billion of committed credit facilities, of which £1.2 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). As at 30 June 2024, the Class A revolving credit facilities and term loans, totalling £2.2 billion, were fully drawn thereby significantly increasing the amount of cash held;
- The Appointee's investment grade ratings, as shown in this report;
- The Appointee's compliance with its event of default financial covenants as disclosed in our Annual Report 2023/24;
- The preparation of the Appointee's statutory accounts on a going concern basis, although subject to material uncertainties and its long-term viability in our Annual Report 2023/24;
- The provision of £500 million of shareholder funding by the shareholders in March 2023;
- The Appointee's intention to pursue all options to secure required equity investment from new or existing shareholders; and
- See section on 'material issues or circumstances' below for further discussion and the latest position in relation to each of the above.

Management resources

The Appointee's People Strategy and People Plans which aim to ensure that the Appointee has continued access, having regard to current labour market challenges in respect of recruitment and retention, to personnel which will enable it to deliver its regulatory obligations. In particular:

- The Appointee's leadership and organisational structure, operating model and human resources (succession) planning strategy that enable effective leadership of the organisation;
- The Appointee's ongoing process to streamline and simplify its organisational design, including alignment of the whole asset lifecycle under its Chief Operating Officer, taking opportunities to improve efficiency and effectiveness while mitigating risk to service delivery during the change process;
- The Appointee's learning and development programme and culture enables its people to gain skills appropriate to their roles;
- The Appointee's recruitment, reward and recognition strategy to attract high calibre candidates and retain employees with appropriate skills and experience, which is increasingly challenging given the profile of the Appointee and the water sector in general; and
- The Appointee's ongoing commitment to diversity and inclusion enables attraction and retention of diverse talent and allows it to harness the unique skills, experiences and backgrounds that each individual brings - for more detail see our Annual Report 2023/24.

The Appointee's confirmation, as shown in our Annual Report 2023/24, of how it seeks to meet the Board leadership, transparency and governance objectives set out in its Instrument of Appointment.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

This includes:

- The independence of the Appointee's Board from management; and
- Continued review of its Board committees, their scope and composition.

The Appointee's comprehensive programme of Board and Executive meetings, the latter including performance and Turnaround-focused monthly and quarterly business reviews, supported by appropriate reports and information to enable high quality decision making.

Systems of planning and internal control

- The Appointee's corporate risk register, enterprise risk management and assurance process, which reviews, monitors and reports on exposure to, and mitigating controls over, risks and uncertainties as disclosed in our Annual Report 2023/24;
- The Appointee's performance in respect of its Performance Commitments as disclosed in tables 3A-E in this report and made reference to in the Risk and Compliance Statement;
- The Appointee's generation and use of relevant, quality information in support of the functioning of internal control;
- The Appointee's business continuity planning process, including plans for loss of people (including to address loss of skilled resource risk), corporate sites, systems (including cyber security and power resilience) and supply chain;
- The Appointee's incident management processes in place which include incident command structure, defined roles and responsibilities, a dedicated customer incident response team and hazard briefs. These arrangements are supported by incident management training, audits, learning and Director-led incident management updates at Executive performance meetings.

See section on 'material issues or circumstances' below for further discussion on how the actions arising from the 2021 London flooding events;

- Improving river health and reducing pollutions is a key priority for the Appointee. Thames Water has been clear that any sewage pollution is unacceptable, no matter what the circumstances. Making the necessary changes will take time and collaborative working to achieve;
- The Appointee's Pollution Incident Reduction Plan ('PIRP') is a key component of the River Health Plan to enable delivery of this priority. Steps include the installation of additional sewer monitors, impact of weather studies and focus on combined sewer overflows ('CSO') on the network and discharges from sewage treatment works. The Appointee also published its first 25-year Drainage and Wastewater Management Plan ('DWMP') in May 2023 for a resilient and sustainable wastewater service that is fit for the future and which reflects Defra's Storm Overflows Discharge Reduction Plan targets. See section on 'material issues or circumstances' below for further discussion on the Appointee's potential non-compliance with its environmental permits;
- The Appointee's commitment to integrity and ethical values. Its policies to prevent fraud and other unethical behaviour, mandatory training for employees on ethical behaviours (94% compliance rate as at the end of April 2024) and an anonymous whistleblowing hotline which has been supported by proactive campaigning to raise awareness; and

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

- The Appointee's ability to meet its legal obligations and its processes to comply with UK sanctions legislation, noting that the Appointee has encountered some challenges in the past twelve months in relation to the implementation of a robust and automated sanctions screening programme in relation to its retail customer base. This is primarily down to the quality of customer data, together with ongoing budgetary constraints. The Appointee is in the process of addressing these concerns and will be implementing a refreshed sanctions screening procedure in the coming weeks to ensure compliance with the OFSI General Licence issued in September 2023. Legally binding undertakings, commitments and other actions in progress to address historic and current exceptions to this relating to leakage, smart metering, and non-household market data together with work to address potential non-compliance with environmental permits are set out in the material issues or circumstances section below.

Rights and resources other than financial resources

- The Appointee's purpose, strategy, values and behaviours, which set the 'tone from the top' and a clear direction for everyone across the business and its development of standards and practices relating to health and safety. These guide people to do the right thing, make decisions and what to do if things go wrong;
- The Appointee's digital strategy and design principles are supporting ongoing transformation of IT performance and resilience through its Turnaround Plan – including significant investment in modernisation of underlying infrastructure. This is underpinned by IT policies which seek to ensure the operation and security of the technology assets essential to service provision. The risk of cyber-attack is increasing as a result of the wider geopolitical climate. Through its dedicated cyber security programme the Appointee continues to improve its cyber security controls and to invest in its cyber defences, strengthen its IT capability and enhance its respond and recover capabilities;
- The Appointee's ability to be resilient by anticipating, coping with, recovering from and learning from disruptive events in order to maintain and improve quality of services for its customers and protecting the natural environment both now and in the future;
- The Appointee's integrated planning systems and continued development towards a systems thinking approach;
- The Appointee's asset maintenance policies, systems, data analytics and modelling to monitor asset health, which are helping it to act with intelligence using data from customers, operations and the environment, to make more accurate and proactive business decisions that improve productivity, help to manage risk of asset deterioration and to improve the service that it provides to its customers; and
- The Appointee's insurance programmes, including terms, counterparties and cover limits, which have been reviewed by an independent insurance adviser and approved by the Board.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Contracting

- The Appointee's procurement and supplier management arrangements are appropriate for the Appointee to meet its regulatory requirements. These are enabled through a suite of contracts and supply arrangements for third party goods and services which enable the organisation to operate effectively;
- Transactions between the Appointed Business and any Associated Company being at arm's length, as made reference to in this report within the Regulatory Statements (relating to RAG5) and related party disclosures on page 178;
- The Appointee neither gives nor receives any cross-subsidy from any other business or activity; and
- The Appointee has no agreements or other legal instruments incorporating a Cross-Default Obligation without Ofwat approval.

Material issues or circumstances

Requirement for significant new equity and debt financing, and associated compliance risks

The Appointee's shareholders (the "Kemble Shareholders") provided £500 million of new equity to the Appointee in March 2023 and in July 2023 agreed to provide a further £750 million in new equity funding across AMP7, the first £500 million of which was anticipated by 31 March 2024. In addition, in July 2023 the Kemble Shareholders acknowledged the possibility of further equity investment in the medium-term, indicatively expected to be in the region of £2.5 billion.

This funding was subject to satisfaction of certain conditions, including the preparation of a business plan that underpinned a more focused turnaround, delivers targeted performance improvements for customers, the environment and other stakeholders over three years and was supported by appropriate regulatory arrangements.

Following submission in October 2023, the Appointee has been in dialogue with Ofwat to seek feedback on its business plan as part of the PR24 price review process. On 28 March 2024, the Appointee and the Kemble Shareholders announced that, based on the feedback provided by Ofwat to the Appointee at that time, the regulatory arrangements that would be expected to apply to the Appointee in AMP8 (the "AMP8 Regulatory Arrangements") made the PR24 Business Plan uninvestible. As a result, the conditions attached to the £750 million of new equity were not satisfied at that time and the Kemble Shareholders did not provide the first £500 million of the new equity that had been anticipated in March 2024.

In April 2024 events of default occurred under the financing arrangements for Kemble Water Finance Limited ("KWF"), an indirect holding company of the Appointee, and KWF's financing subsidiary Thames Water (Kemble) Finance plc ("TW(K)F", together with KWF the "Kemble Debtors"). The Kemble Debtors have granted security in favour of their lenders and noteholders, including share security and as such, the Appointee may be subject to a change of ultimate beneficial ownership should the lenders and noteholders to the Kemble Debtors enforce such security. There is no certainty that any new owner(s) would be willing to invest further equity into the Appointee.

The Kemble Debtors have announced that they have approached their lenders and noteholders to request that they take no creditor action so as to provide a stable platform while all options are explored. The Appointee is not an obligor under such financings and the default of the Kemble Debtors does not give their creditors recourse to the Appointee. However, these events of default would need to be resolved to allow Kemble's existing shareholders or any new investors the option to inject further funds into the Appointee through the existing corporate structure.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

In connection with Kemble Debtor defaults, there have been governance changes in respect of the Appointee. Michael McNicholas and Guy Lambert, who were directors of the Appointee appointed by the Kemble Shareholders, OMERS Infrastructure and ADIA respectively, resigned from the Board. Whilst Kemble Water Holdings Limited and the appropriate Kemble Shareholders have provided Ultimate Controller Undertakings in respect of the Appointee, as required under Condition P4 of the Appointee's Instrument of Appointment, the future governance relationship with Kemble Water Holdings Limited and the Kemble Shareholders is uncertain.

On 22 April 2024 the Appointee submitted an update to its PR24 Business Plan to Ofwat showing (in 2022/2023 prices) a £1.1 billion increase in total expenditure, to £19.8 billion, which will be principally directed to projects benefitting the environment and has additionally proposed a further £1.9 billion of potential investment is placed into a "deliverability assessment mechanism". This updated Business Plan assumes equity investment of at least £750 million in AMP7 and £2.5 billion in AMP8.

In order to fund the PR24 Business Plan, the Appointee announced that following receipt of the PR24 draft determination it intends to pursue all options to secure the required equity investment from new or existing shareholders. The Appointee will therefore be seeking to raise at least £3.25 billion in equity funding. Such process is subject to the PR24 draft determination (which provides an indication of the AMP8 Regulatory Arrangements) which Ofwat will publish on 11 July 2024, and the PR24 Final Determination, which is expected to be published on 19 December 2024. The Appointee will consider the indication of the AMP8 Regulatory Arrangements as set out in the PR24 draft determination and will make representations in respect of the PR24 draft determination to Ofwat by the required due date of 28 August 2024. The Appointee will also need to finalise its corporate business plan based on the detailed information set out in the PR24 draft determination. It is expected that prospective investors in the Appointee will require this corporate business plan, together with significant due diligence, in order to assess whether the Appointee is investible or financeable. It is expected that any equity raise process, if successful, would only be capable of concluding following the PR24 Final Determination.

The Appointee has the right to request that Ofwat refer the PR24 Final Determination to the Competition and Markets Authority ("CMA") for a full re-determination within two months of the PR24 Final Determination being made. If the Appointee, informed by the offers (if any) from prospective investors, considered that the PR24 Final Determination is not investible or financeable, then the Appointee may decide to exercise its right to request a referral to the CMA.

There are no set appeal grounds and the CMA will make its own independent judgement as to the right outcome, based on the facts and evidence it has and any compelling arguments presented to it by any disputing company through the Statement of Case, the main party hearings or otherwise. In reaching its decision, the CMA is required to have regard to Ofwat's duties, strategic priorities and objectives (as set out in the Water Industry Act 1991) to the same extent as is required of Ofwat, including in relation to Ofwat's duty to exercise its powers in the manner which it considers is best calculated to (among other things) secure that water and sewerage undertakers are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions. The CMA has six months to issue a decision from the point of referral, which can be extended by another six months. It is therefore possible that the process may take 12 months or longer from the date of referral (as was the case at PR19 for referrals to the CMA) and this would be more likely if multiple water companies request referrals to the CMA. There can be no assurance that equity funding could be completed prior to the outcome of any CMA referral, nor that the CMA would make a re-determination that is more investible or financeable than Ofwat's PR24 Final Determination.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

As at 31 March 2024 the Appointee had available liquidity consisting of £1.3 billion of available cash and cash equivalents, access to £2.6 billion of committed credit facilities, of which £1.2 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). As at 30 June 2024, the Class A revolving credit facilities and term loans, totalling £2.2 billion, were fully drawn thereby significantly increasing the amount of cash held.

It is projected that the available liquidity will fund forecast operating cashflows, capital expenditures and service debt until May 2025. This assessment assumes that the Appointee can continue to draw its existing revolving credit facilities and utilise all cash resources over this period. The Board recognises that it is necessary to extend the Appointee's liquidity runway so that it has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. This could be achieved in the short term through any one of a number of actions including implementing cash conservation measures that do not threaten the Appointee's statutory duties (actions within the Board's control), securing creditor support to raise new debt or extend the liquidity runway, or raise equity (actions outside of the Board's control).

For reasons described further below, there can be no assurance that the Appointee will be able to raise debt in the debt capital markets and access existing committed debt facilities in sufficient amounts to fund its payment obligations (including operating cash flows, capital expenditures and debt service) in full to allow the PR24 Draft Determination, PR24 Final Determination and (if required) CMA referral to be completed.

The Appointee faces significant incomplete enquiries, investigations and litigation that could lead to significant fines and penalties, unfunded expenditure costs and claims in damages. The impact of these could place restraints on returns to equity investors and further affect the investibility and financeability of the Appointee.

In addition the next triennial valuation of the Thames Water Pension Scheme (i.e., as at 31 March 2022) is currently underway but has not been completed within the statutory deadline of 15 months from the effective date of the valuation. The Pensions Regulator is aware and has commenced its failure to agree process. One result of this process is that The Pensions Regulator could issue a direction concerning the Thames Water Pension Scheme's funding. There is therefore uncertainty as to the Appointee's future funding obligations in respect of the Thames Water Pension Scheme.

The Appointee is subject to financial ratio tests which monitor interest cover and leverage. It was compliant with financial covenants in the 2023/24 financial year. However, following the decision by shareholders not to commit new equity in March 2024, the Board has concluded that although it is possible that equity will be received by 31 March 2025 this should no longer be assumed for financial covenant forecast calculation purposes. Consequently, the compliance certificate to be submitted to the Security Trustee in July 2024 shows non-compliance of certain forecast gearing and interest cover ratios with Trigger Event thresholds for the 2024/25 financial year, which will crystallise formally upon delivery of the compliance certificate for the financial year ended 31 March 2024.

The Directors have considered the consequences of a Trigger Event including, but not limited to, a cash lockup preventing distributions and a prohibition from incurring additional debt unless consent is given by the Secured Creditors, other than utilisations from existing committed facilities. A Trigger Event acts as an early warning sign to provide additional creditor protections. It is designed to maintain the Appointee's creditworthiness and as such, it does not affect its continued access to its significant existing committed credit facilities, nor would it disrupt the Appointee's ability to trade. A Trigger Event is not an event of default and gives no right to the Secured Creditors to take enforcement action or accelerate any of the Company's debt. It does require the Appointee to prepare a remedial plan and provide further information to its Secured Creditors.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

On 4 April 2024, Standard & Poor's downgraded the ratings of the Appointee's Class A Unwrapped Bonds to BBB- and of its Class B Unwrapped Bonds to BB, in each case with a negative outlook. On 3 April 2024, Moody's downgraded the ratings of the Appointee's Class A Unwrapped Bonds to Baa2 and of its Class B Unwrapped Bonds Ba3, in each case with a negative outlook. Moody's also downgraded TWUL's Corporate Family Rating to Baa3 with a negative outlook. As the relevant credit ratings are currently at BBB- and Baa3, the cash lock up mechanism under TWUL's Instrument of Appointment has been triggered which, as set out in more detail in the Instrument of Appointment, means that TWUL, among other things, cannot pay a dividend.

In addition, on 10 May 2024 the Appointee was notified by Ofwat of its preliminary findings (via a 'minded to' letter) in relation to a decision by the Appointee in October 2023 to make interim dividend payments to its holding company, Thames Water Utilities Holdings Limited. Ofwat's preliminary view is that the Appointee failed to comply with its obligations under Condition P30 of the Instrument of Appointment. The Appointee provided a detailed response to Ofwat's 'minded to' letter on 31 May 2024. Subject to Ofwat's consideration of this as part of Ofwat's process, interested parties may be invited to comment on Ofwat's proposed decision or a revised proposed decision through a public consultation, as required by the Water Industry Act 1991. Ofwat will then take representations received into account before making a final decision on whether to issue an enforcement order and the terms of that enforcement order, as well as on whether to impose a penalty and the level of that penalty.

Separately, on 24 June 2024, the Appointee received a request for information from Ofwat in relation to the March 2024 interim dividend and in particular the Appointee's decision to approve a dividend for the purpose of surrender of 2022/23 tax losses from the Appointee. The Appointee responded to Ofwat's request on 5 July 2024.

The inability of the Appointee to pay a dividend as a result of the cash lock up and the uncertainty in relation to the decision process for the Appointee's declaration of dividends in the future as a result of the provisional finding of Ofwat in relation to the October 2023 interim dividends would affect the equity proposition that the Appointee represents.

Given the uncertainties facing the Appointee, the Appointee may face further credit rating agency downgrades. If either Standard & Poor's downgraded the ratings of the Appointee's Class A Unwrapped Bonds from BBB- to BB+ or lower or Moody's downgraded the Appointee's Corporate Family Rating from Baa3 to Ba1 or lower, this could result in a breach of the Appointee's Instrument of Appointment and consideration would need to be given in the then circumstances as to whether this had triggered a breach of covenant under the Appointee's financing.

In addition, the Appointee is aware that its creditors have started to form groups and anticipates that further creditor engagement will be required in connection with the equity raise process and creditor support which may be required in connection thereto. This engagement process could cause significant instability for the Appointee and could cause significant distraction to the operation of the Appointee's business.

A downgrade and these uncertainties more generally could have a significant adverse impact to the debt capital market's appetite for the Appointee's debt, which may result in significant volatility in the price of the Appointee's debt, it becoming increasingly challenging and/or expensive for the Appointee to raise debt in the debt capital markets (which the Appointee cannot currently raise in any event given the occurrence of a Trigger Event), and, in certain circumstances, the Appointee being unable to access its existing committed debt facilities. In these circumstances it could be possible that the Appointee is or is likely to be unable to pay its debts and give rise to a ground for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Such uncertainty may also affect the Appointee's supply chain and ability to attract and retain employees and management at all levels.

There can therefore be no assurance that the equity raise process will raise sufficient (or any) funds for the Appointee to be able to fund the PR24 Business Plan. In the event that the Appointee cannot implement the PR24 Business Plan in full, it is likely that it would over time breach the conditions of its Instrument of Appointment, the Water Industry Act 1991, its environmental permits and other legislation. These could be breached (or be likely to be breached) in such a way that would be serious enough to make it inappropriate for the Appointee to continue to hold its appointment and give rise to a ground for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order.

Any or all of these factors, or analogous factors, singularly or in combination, may lead to Special Administration.

The Board has concluded it is reasonable to assume that actions can be taken such that the Appointee has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. However, there exist material uncertainties which may cast significant doubt on the Appointee's ability to continue as a going concern basis in relation to the preparation of the financial statements given:

- The Appointee does not have sufficient committed liquidity for a period of 12 months from the date of approval of the financial statements and its ability to extend its liquidity runway is not wholly within its control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Appointee's Instrument of Appointment and possibly a consequent event of default under the terms of the Appointee's financing arrangements.

The above factors in combination or alone could affect whether the Appointee has available to it sufficient financial resources and facilities enabling it to carry out the Regulated Activities necessary to fulfil the Appointee's obligations under the Instrument of Appointment without being dependent upon the discharge by another person of any obligation under, or arising from, any agreement or arrangement under which that other person has agreed to provide any services to the Appointee in its capacity as a Relevant Undertaker.

Turnaround plan and current performance

In accepting the Final Determination ('FD') for the 2020 to 2025 regulatory period the Appointee said that it did not necessarily expect to be able to operate within the cost and service thresholds set out in the FD. The Appointee's central expectation was that it would incur net overspends and net penalties. In accepting, the Appointee's Board did so fully understanding the challenge presented by the FD (including regard to externally assured financial forecasting of key metrics and likely impact on covenants and credit ratings) and the support provided at that time by the shareholders in making its decisions.

The Board recognises that the position has deteriorated further with significant forecast performance penalties and costs beyond those anticipated when the FD was accepted including the impact of Covid-19, significant inflationary headwinds in core areas of expenditure (including labour, energy prices and chemicals) and increasing costs of delivering against some AMP7 requirements including WINEP and IED. In addition, the Appointee is meeting more than 50% of its Performance Commitments, but it is currently underperforming on some commitments which its customers see as being the most important and Ofwat has assessed the Appointee as 'lagging behind' compared to some of the other water companies in the sector. This is why, in March 2021, the Executive developed a turnaround plan to transform the performance of the Appointee, which was approved by the Board.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Nevertheless, the Appointee has since faced several unexpected challenges, again impacted by weather events with a record drought and freeze / thaw event affecting progress on water metrics, including a risk to water quality (CRI) (a metric on which the Appointee has made substantial progress over the last year), leakage and pollutions performance. These impacts have been exacerbated by the Appointee's asset health deficit, which has accumulated over decades. High inflation, particularly on key costs such as power and chemicals alongside the decline in real wages (the 'cost of living crisis') through to 2023, has also materially impacted financial performance causing significant financial strain on the Company.

As work progressed on the original turnaround plan it became clear that the capacity of the business to deliver change alongside the pressure of day to day operations was more limited than the Executive had expected. The Executive therefore produced a more focussed turnaround plan ('TAP2'), which was approved by the Board in November 2023. TAP2 also focusses on what can be delivered over a shorter, 3-year, timeframe making it easier for people inside and outside the business to engage on the basis of more tangible near term progress towards a more resilient and investable Thames Water that delivers positive outcomes for customers, communities and the environment.

This plan is built on four key pillars:

- Foundational Capabilities;
- Operational Performance;
- Resilience; and
- Financial Efficiency.

Against these four pillars, there are 20 specific initiatives, each of which has a single accountable owner and dedicated resource where appropriate. These focus on specific performance outcomes and KPIs, and include reprioritisation and deprioritising certain activities not deemed core to Turnaround. The plan includes key metrics (crucially involving leading as well as lagging indicators) and is aligned with the Appointee's PR24 Business Plan submission.

As part of its prioritisation work the Appointee implemented a programme of operating cost efficiencies which was designed to enable the company to continue to operate within its budget and to meet its financial covenants.

In updating the Turnaround Plan and associated prioritisation work, the Appointee considered impacts on compliance and the material issues raised in this certificate and believes that reasonable steps are being taken to enable delivery of the company's obligations in the medium term, and to progress resolution of the material issues reported on in this Certificate. The Appointee is clear that there is a considerable lag between investment and performance improvements with large programmes of work spanning multiple years which will take time to reap the benefits.

Until the end of AMP7, the turnaround plan remains focussed on the health and safety of our customers, the public, our colleagues and contractors; stemming further deterioration of our asset base as far as possible; and performance improvement in targeted areas that matter most to our customers.

TAP2 is now fully mobilised and operationally supported by a Turnaround Management Office and a regular cadence of Executive and Board-led progress reviews.

Ofwat published its Water Company Performance Report 2022-23 in September 2023, in which it again rated the Appointee as 'lagging behind' based on how it has performed against its performance commitments.

In December 2023 we published our Service Commitment Plan ('SCP'). This sets out the steps that we are taking to drive better performance between now and the end of the AMP. In January 2024, we further updated this document to fully reflect TAP2. In our SCP we explain our performance in key areas that matter most to our customers and the environment, notably leakage and pollutions, supply interruptions and water quality. We explain why we are falling short, what we will be doing differently and how we will improve performance.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Further detail for each performance commitment can be found in our SCP, in the performance section of this report and in Tables 3A-E.

As at 30 June 2024, we had completed 18 of the 19 deliverables due with the remaining deliverable now submitted for regulatory approval.

During 2023/24 we have made progress against a number of our key performance commitments (including Leakage, CRI, Supply Interruptions, Mains Repairs, Unplanned Outages, Internal Sewer Flooding and Sewer Collapses) and have reported a much-improved net ODI position compared to 2022/23 (£56 million compared to £101 million). The performance commitment section of our APR provides more detailed information on our attainment against individual performance commitments.

Leakage

In 2022/23, due to the 2022 summer drought and the December 2022 freeze-thaw events, the Appointee missed its target to reduce leakage by 14.1 %. Despite delivering 25 % more activity we achieved a leakage reduction of 10.7 %. As annual leakage targets are based on a three-year rolling average, our 2022/23 outturn has continued to impact our performance in 2023/24.

During the first five months of 2023/24, the Appointee made good progress reducing leakage by 60Ml/d. However, we were not able to sustain this performance in the second half of the year, particularly as we saw a significant spike in leakage in September 2023 following a period of hot weather (seven consecutive days where the temperature was above 30 degrees Celsius) which exposed the underlying fragility of our assets. Notwithstanding this, the Appointee has delivered a 43 Ml/d (7 %) reduction in its annual average leakage position during 2023/24 and leakage is now at its lowest ever reported level. However, given the impact of the summer 2022 drought and December 2022 freeze-thaw event and recognising that leakage is calculated by Ofwat on a three-year rolling average basis we are now adrift of our AMP7 regulatory target with leakage having improved by 12.0 % on a three-year rolling average basis against a target of 17.4 %.

Notwithstanding improvements delivered in 2023/24, with 36 % of our mains network over 100 years old, performance remains highly sensitive to environmental factors (particularly prolonged periods of hot and cold weather), while reporting to a three-year average target makes recovery from major events difficult (as the impact is felt for several years).

Continuing to reduce leakage is a key priority for Thames Water as part of its Turnaround Plan and leakage transformation programme, which, taken together will:

- Change the operational and cultural approach to find and fix, working with suppliers to enhance detection performance and support "fixing bigger leaks faster";
- Use smart meter data to better understand consumption and target detection more effectively "dynamic demand"; and
- Improve data - increasing DMA operability (75 %), availability (79 %) & zonal availability (91 %) to improve accuracy of reporting and targeting.

By the end of 2025/26, the Appointee is intending to deliver an annual target of 479Ml/d which represents a 23 % improvement compared to 2022/23 (subject to PR24 Final business plan) – albeit it is acknowledged that this is very ambitious. Despite our shortfall in performance against the regulatory target, we believe that we are doing everything reasonably practicable to comply with our S.19 undertakings, a conclusion which is supported by the findings of KPMG's assurance report on the status of our S.19 undertakings where they have concluded that 'there is evidence to suggest TWUL is currently compliant with the undertakings'. We have continued to keep Ofwat updated on our leakage performance through quarterly meetings that have taken place throughout 2023/24.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Commitments relating to smart metering

The Appointee believes that it has delivered on its formal commitments in relation to the provision of access to smart meters and digital data services following an Ofwat investigation into compliance with the Competition Act 1998 and is working with Ofwat to confirm that the overarching commitments have been completed to its satisfaction. We delivered our final report to Ofwat in January 2023, and Ofwat began consultation on releasing Thames Water from the commitments in May 2024.

Undertakings relating to data accuracy

The Appointee believes that it has delivered the formal undertakings accepted by Ofwat on 6 December 2021 under Section 19 of the Water Industry Act 1991 regarding data accuracy in the non-household market to secure compliance with Condition P of its Licence and its obligations under the Wholesale Retail Code and is working with Ofwat to confirm that the overarching undertakings have been completed to its satisfaction. We delivered our final report to Ofwat in January 2023, and Ofwat began consultation on releasing Thames Water from the undertakings in May 2024.

London flooding events

In the Appointee's response to David Black's letter on 26 October 2021 related to the extreme (nearly 1-in-200 year) flooding events in London it recognised that it failed to meet customers' expectations and the levels of service they received was unacceptable. The final (stage 4) report by the independent London Flood Review ('LFR') was issued on 12 July 2022 and found that the intensity of the storm was well beyond the design capacity of the Appointee's systems and that its systems generally performed well, considering the magnitude of the event. The review made 28 recommendations, 25 of which are beyond the direct control of the Appointee as they either require collective action or are for others to lead.

The London Surface Water Strategic Group ('LSWSG'), a high-level, multi-agency partnership of the key surface water flood risk management agencies, including the GLA, TfL, London Boroughs, the EA and Thames Water, was formed to drive collaboration between the partners on managing surface water in London. The LSWSG also leads the development and delivery of a London-level surface water management strategy and associated action plans. The work programme for the LSWSG and the scope of the strategy has been informed by the recommendations of the LFR and other reviews on the July 2021 floods.

The Appointee will track and report annually on the delivery of the LFR's recommendations, including those delivered by external parties and directly by the Appointee. We expect that the next update will be published ahead of the third anniversary of the July 2021 storms.

Drought

Following the drought of 2022, the Appointee's overall water resources position has continued to improve and is now at an above average position at the lowest risk level (DEL-0). A Supply Demand Balance Index score of 100 has been confirmed by the EA as part of its annual Environmental Performance Assessment. The Appointee continues to monitor the situation closely, and has introduced improvements identified through an extensive lessons learnt review to improve its overall preparedness ahead of future droughts. All business owners including the Executive and Board have been trained in Drought Management and bi -yearly readiness checkpoints and annual refresher training has been introduced.

Planned asset improvement work during 2022/23 to recommission the Gateway water treatment (desalination) plant is complete and following deliveries of carbon dioxide, commissioning of the remineralisation process started in June 2023 and the site entered supply at the end of July 2023. It was then taken out of supply, as planned at the end of September 2023 reflecting the end of the drought risk period.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

The Appointee is planning to return the site to supply in June 2024, with the duration of operation dependent on the prevailing water resource situation and forward view at the time. It should be noted that the carbon dioxide supply chain has stabilised domestically, but continues to be monitored closely as plant operation is entirely dependent on securing regular supplies of this essential gas. In addition, the supplier of the reverse osmosis membranes has yet to receive Water Quality Regulation 31 approval of the membranes that are needed to operate the plant above an average of 25 Ml/d. Until such time as the use of the new membranes has been approved, output of the plant is capped at an average flow of approximately 25 Ml/d. The Appointee expects to trial the site at a maximum 50Ml/d during 2024. Further asset improvement works are planned for later in 2024/5 and throughout the AMP8 price review period.

Water Quality Regulations

All products used within the process for the treatment or distribution of drinking water must pass two phases of testing and be approved by the Drinking Water Inspectorate, with a timescale of five years between recertification or if there are changes within the product. These requirements are detailed within Regulation 31 of the Drinking Water Regulations. The sole laboratory able to conduct the final part of the testing closed over 12 months ago and since that time no new products have been approved. One laboratory is currently working through the very complex accreditation process to be able to test products to Regulation 31, with no timescale to completion currently available. The reverse osmosis membranes, used at Gateway WTW are one of the products where certification has lapsed and there are no other approved products that can fulfil the same function – see 'Drought' factor above for further information.

Environmental permit conditions

The Appointee is at risk of non-compliance with flow to full treatment permit requirements at a number of its wastewater treatment sites. It has produced a Wastewater Asset Assurance Programme ('WAAP'), which includes significant investment in flow monitoring to enable it to better understand the potential risk of non-compliance at each site. Delivery of that plan and any associated corrective actions at sites would reduce the number of sites at potential risk of non-compliance by around a quarter by the end of AMP7, with the remainder to be addressed in AMP8. The WAAP is part of the business plan for the remainder of AMP7 that has been approved by the TWUL Board. The Board has confidence that this plan will address the risks of non-compliance identified and will closely monitor progress, adjusting the plan as necessary to ensure that it remains appropriate for reducing TWUL's potential compliance risk.

Due to historic poor asset information there are 109 confirmed unconsented Combined Sewer Overflows ('uCSOs') owned by the Appointee. Event Duration Monitors ('EDMs') were installed at these locations in 2023 and were included in the Appointee's 2023 EDM Annual Return to the Environment Agency, however any storm discharges from these assets would occur without a permit. This may result in pollutions being attributed to any discharge. There is a programme of work in 2024 to make applications for Environmental Permits at these locations.

As part of its turnaround plan the Appointee is also enhancing its internal governance. This includes enhancing its approach to environmental compliance risks to further strengthen the line of sight of its environmental permit compliance risks through the Executive Risk Committee, into the Audit, Risk and Reporting Committee (ARRC) and ultimately its Board.

The Appointee remains under investigation by the EA with regard to its compliance with these environmental permits and by Ofwat with regard to its compliance with Section 94 of the Water Industry Act and certain conditions of its Instrument of Appointment. The Appointee is also one of several companies subject to a pending Competition Appeal Tribunal class action by Leigh Day regarding reporting of pollution incidents at wastewater treatment works.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

WINEP programme

The Appointee's business plan for the remainder of AMP7, as approved by the TWUL Board will enable substantial delivery of its WINEP programme for AMP7. The Appointee has faced financial and delivery-related constraints associated with the WINEP in AMP7, which means that a number of schemes will be delivered late, both within and beyond AMP7. In its PR24 Plan the Appointee reported that 108 "actions" would be delivered in AMP8 (and it is now expected to be 123 schemes that are delivered after AMP7). The majority of the late AMP7 WINEP schemes are required to meet statutory obligations. The Appointee has developed plans for the delivery of the late schemes and is continuing to discuss these plans with regulators.

Looking ahead to AMP8, in its April 2024 updated PR24 business plan the Appointee identified over £3.0 billion of WINEP investment required to meet statutory requirements from environmental legislation in AMP8. This very significant increase in investment requirements is beyond the Appointee's forecast capacity to deliver, even considering the significant ramp-up of capacity planned – partly due to limitations in the supply chain. A Delivery Mechanism has been proposed to Ofwat as part of the updated PR24 Business Plan that would enable funding to be unlocked for schemes not currently included as part of the Appointee's plan provided the Appointee can demonstrate to Ofwat that it is delivering its plan on track and that additional delivery capacity has been found to enable additional schemes to be delivered. In the Appointee's updated April 2024 PR24 business plan half of the AMP8 WINEP has been proposed for inclusion in the mechanism, with the remaining half in the main Plan, but this may be subject to change through the draft determination process.

SEMD

Our 2023/24 outcomes submitted on 1 April 2024 reported 10 'green', 12 'amber' and 11 'red' (compared to 15, 14 and 4 respectively last year). Performance has been impacted by large incidents (in Guildford and Reading and DWI security audits).

On 1 July 2024, the Appointee was notified by the Drinking Water Inspectorate ("DWI") of its intention to make a final enforcement order under Section 18 of the Water Industry Act 1991 (the "Act") in relation to alleged contraventions by the Appointee relating to the physical security of its assets under the Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction 2022, and therefore Section 208 of the Act. The draft order does not seek to impose any financial penalty on the Appointee under Section 22A of the Act, although it does include a draft schedule of works that requires the Appointee to complete certain actions by prescribed dates ranging from 2025 to 2040.

The Appointee continues to engage with the DWI and has until 1 August 2024 to make representations and/or objections to the proposed enforcement order, which the DWI is required to consider before making the enforcement order. The Appointee is currently assessing the extent to which the works required by the draft enforcement order during AMP8 are included in its PR24 Business Plan, and if so, the Appointee will only have an indication of the extent to which the costs of such work will be funded when it has received Ofwat's Draft Determination due on 11 July 2024. Consequently, the outcome of this matter and the existence of any possible future financial consequences of the investigation is not yet conclusive at this time.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

In addition to this, the Appointee resubmitted its PR24 AMP8 SEMD enhancement case following discussions with Ofwat, Defra, DWI, DLUHC, London Resilience Group and Local Authorities to consider the provision of alternative water supplies ('AWS') to 1.5% of Thames Water's domestic population. The AMP8 plan will provide sufficient alternative water to meet this demand. However, there remains a logistical challenge in deploying such quantities across London during a major supply outage and work continues with the aforementioned parties to resolve this, but the challenge in achieving compliance is one which applies to the wider industry. The AMP8 plan also includes investment at designated Critical National Infrastructure sites, although our current view is the full scope set out in the guidance is unlikely to be deliverable by 2030, but we are working with our supply chain to identify opportunities to unlock additional delivery capability. A Delivery Mechanism is currently under discussion with Ofwat to address this.

Asset resilience risk

The Appointee is committed to improving the management of asset resilience risk, to avoid asset failure and to avoid increasing its asset health deficit.

Following development of an asset strategy aligned to its long-term vision and design of a new operating model, the Appointee has continued to develop its management systems and bring further capability back in-house.

The Appointee is managing its asset risk through investment and higher operating expenditure in AMP7. In addition, the Appointee is investing in excess of £700 million to address asset performance, integrity and resilience through its London Water Improvement ('LWI') and Water Supply System Resilience Programme ('WSSRP') Conditional Allowances.

Both programmes have now been approved by Ofwat and will see the Appointee undertake works including the replacement of 112km of distribution mains and seven large trunk mains in London and major asset resilience improvements at two of its largest water treatment works in London – Coppermills and Hampton. Linked to the LWI investment our Shareholders have additionally provided funding for £400 million of clean water projects that range from source to tap across London and Thames Valley and the Home Counties. They include investments in areas such as raw water tunnels and aqueducts, water treatment works, trunk mains and customer metering.

The Appointee completed its assessment of asset health in September 2023. This built on the initial top-down review from April 2023 and introduced more detailed evidence to support and update the assessment. This included the collection, organisation and categorisation of materials, including site-specific information that supports, and in some cases, supersedes the top-down analysis. To align with the PR24 plan, the assessment is now in 2022/23 prices and includes corporate overhead. The Appointee estimates that its current asset health deficit is £19.3 billion and to maintain this deficit at a stable level, it would need to make an investment of approximately £4.7 billion during AMP8. For PR24, the Appointee is asking for funding to cover this 'stable' investment from three sources: botex, enhancement cases and cost adjustment claims.

In addition, its PR24 plan requests an additional £1.9 billion to start repairing its asset health deficit.

An external assessment on the approach was undertaken in July 2023, this concluded that the Appointee's overall approach to its assessment is sound. It identified three main recommendations to enable continuous improvement of future assessments, the Appointee is building on these recommendations as part of the business resilience workstream in its refocussed turnaround plan.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

Industrial Emissions Directive

The Appointee supports the objectives of the Industrial Emissions Directive ('IED'). However, it cannot commit to meeting the requirements using Best Available Techniques ('BAT') within the timescales set by the EA. It also queries the interpretation of BAT adopted by the EA in respect of certain matters.

The Appointee continues to face issues with regard to timing, deliverability and affordability of the IED programme in AMP7 and AMP8 (no funding was approved at PR19 for AMP7). Despite ongoing conversations with regulators, the work required is much more extensive than was envisaged when IED was adopted for sludge treatment facilities by the EA. The Appointee's current plan for compliance with IED does not align with the deadline for full compliance stipulated by the EA of 31 March 2025. As required by the EA, the Appointee submitted all permit applications by 20 December 2023, however it is impractical for it to deliver the improvement requirements within the timelines specified in the permits, especially since the EA has not yet determined all of the required improvement conditions. On 25 January 2024 the Appointee submitted an appeal of the Reading STC IED permit due to ongoing clarifications required on the scope and complexity of schemes, with the hearing and site visit listed for 2-3 July 2024. On 8 May 2024, the Appointee submitted an appeal of the Camberley STC IED permit but this is in abeyance until the outcome of the Reading appeal. The Appointee intends to submit further appeals on the remaining permits to be issued by the EA. The appointee has been granted 3 of the 25 IED permits, the deadline for appeal of the third permit is September 2024.

Discussions are ongoing both at an industry level through Water UK and between the Executive and with our regulators to identify an appropriate way forward.

The Appointee is developing a delivery plan by March 2025 that allows for known site outages whilst providing sufficient capacity across its sludge centres to treat its daily sludge production.

Additional constraints still remain on delivering more quickly, these include the availability of skilled resources and additional capability to manage such a large investment programme, and the ability of the supply chain to ramp up to the rates required. The Appointee and other companies will need to do significant work to create the necessary pathways and recruit the required skilled individuals to support this programme.

WRMP

The Appointee is working with the five other water companies in the South East to develop an overarching regional plan addressing future water challenges. Drawing from the regional plan developed through Water Resources South East ('WRSE'), and following feedback on its draft Water Resources Management Plan 2024 ('dWRMP24') the Appointee published in August 2023 its revised draft ('rdWRMP24') focused on its own supply area, setting out how it will provide a secure water supply for a growing population; protect against the growing risk of drought and water shortages; and improve the environment. The Appointee responded on 29 April 2024 to a request from Defra for further information to support the plan. Defra will then refer the plan to the Secretary of State for a decision on whether the plan can be published. There is no set timeline for the Secretary of State to provide direction, the earliest we expect a decision is in summer 2024. If the plan has unresolved issues or significant public interest there may be a public hearing, inquiry or examination in public which could take a further two years for a decision.

For the next twelve months the Appointee will plan for the risk of a public hearing, inquiry or examination, commence preparations for WRMP29 and AMP8 and monitor and report on operational performance against the plan. The WRMP provides the needs case for the London Water Recycling ('LWR') and South East Strategic Reservoir Option ('SESRO') national significant infrastructure projects which consult on their preferred solutions and submit the Regulators' Alliance for Progressing Infrastructure Development ('RAPID') Gate 3 reports in this period.

Directors' Ring-fencing Certificate under Condition P of the Company's Instrument of appointment (continued)

In addition to taking all of the above into account, the Directors:

- Procured a 'Review and Recommend' report from PwC, as part of the Directors' Water Industry Act Section 19 Undertaking, to help inform them on their ability to sign the Directors' Ring-fencing Certificate set out in the 2023/24 Annual Performance Report;
- Procured a report from PwC, as the Appointee's auditor, stating whether they were aware of any inconsistencies between this Ring-fencing Certificate and the financial statements or any information obtained in the course of their work; see pages 115 - 120 for PwC's audit report on the Annual Performance Report and the PwC report on the Ring-fencing Certificate which has been provided separately to Ofwat; and
- Undertook quarterly reviews and enquiries during 2023/24 of compliance with the Ring-fencing Certificate included in the 2022/23 Annual Performance Report, to assess the appropriateness of the factors, risk exposure and associated disclosures on an ongoing basis.

Therefore, the Directors have resolved that, in their opinion, and subject to the material uncertainties, issues and circumstances disclosed in the list of factors above, the Appointee will have available to it, for the next 12 months, sufficient resources to enable it to carry out and meet its regulatory obligations, as set out in the Company's Instrument of Appointment. The Directors will continue to formally monitor the factors quarterly during the coming 12 months.

Board approval

This certificate was approved unanimously at the Board meeting on 5 July 2024.

Signed by the Board of Thames Water Utilities Limited:


Sir Adrian Montague
Chairman


Chris Weston
Chief Executive Officer


Alastair Cochran
Chief Financial Officer


Nick Land
Deputy Chairman and Senior Independent Non-Executive Director


Hannah Nixon
Independent Non-Executive Director


Catherine Lynn
Independent Non-Executive Director


Ian Pearson
Independent Non-Executive Director


Jill Shedden
Independent Non-Executive Director


John Holland-Kaye
Non-Executive Director