Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance plc

Interim report and condensed financial statements

For the six months ended 30 September 2024

Contents

Company information

Directors

N Land
A Montague
I Pearson
C Weston
A De Brunner
N Robson

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Company secretary and registered office

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Interim management report

This interim management report comprises a business and financial overview of Thames Water Utilities Finance plc ("the Company") for the six month period ended 30 September 2024 and constitutes unaudited key financial data and a narrative review of performance over this period. This report is required under the disclosure requirements of the Disclosure Guidance and Transparency Rules and has been prepared solely to provide additional information to the Company's shareholders to assess the performance and future outlook of the Company. It should not be relied upon by any other party or for any other purpose.

These interim condensed financial statements of the Company have been prepared on the basis of the policies set out in the March 2024 Annual Report in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual report and financial statements for the year ended 31 March 2024 which were prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The auditors' report on those financial statements was unqualified and included reference to the matter of material uncertainty related to going concern by way of emphasis. It did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts), or section 498(3) (failure to obtain necessary information and explanations).

Business review

The Company was established to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL").

TWUL, alongside the Company, represent the "TWUL Group". TWUL is the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year. The TWUL Group's principal operating activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through TWUL in accordance with its Instrument of Appointment.

The major transactions of the Company constitute the raising of debt finance and subsequent lending to TWUL. Proceeds from external debt issued by the Company, including the impact of associated derivatives, are passed onto TWUL through intercompany loans with a margin charged. However, a small minority of external transactions are not perfectly matched with intercompany transactions and on a small minority of intercompany transactions no margin is charged (refer to Note 7 Intercompany loans receivable for more information).

The Company remains part of a group of three companies ("the Securitisation Group") that are party to financing arrangements constituting a Whole Business Securitisation ("WBS"). The Securitisation Group comprises the Company and two other companies as follows:

- TWUL, the Company's immediate parent; and
- Thames Water Utilities Holdings Limited ("TWUHL"), TWUL's immediate parent.

The payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by the other companies in the Securitisation Group. In addition, the Company guarantees the external debt issued by TWUL. The guaranteed gross debt on a post swap basis for companies in the Securitisation Group as at 30 September 2024 was £18,068.3 million (31 March 2024: £17,302.8 million).

Interim management report (continued)

Business review (continued)

Over the last six months, TWUL has continued to invest heavily in its network, and moved forward in its turnaround to support the delivery of its PR24 plan, and made solid progress towards improving financial resilience.

On 25 October 2024, the TWUL Group announced a proposed transaction to extend the liquidity runway. This includes up to £3.0 billion of new money in addition to access to cash reserves and debt extensions. With the support of TWUL's creditors, this will allow TWUL to progress its equity raise process and a holistic recapitalisation transaction. It will also allow TWUL to continue its activities during the Final Determination process, including a CMA appeal if necessary, and deliver its ambitious PR24 plan for the benefit of TWUL's customers and the environment.

This Liquidity Extension Transaction and related Security Trustee Intercreditor Deed (STID) Proposals will extend the TWUL Group's liquidity to October 2025, with the ability to extend further to May 2026 if the TWUL Board appeals the final determination to the Competition and Markets Authority.

Since this announcement, TWUL has continued to work closely with its creditors, confirming on 13 November 2024 that more than 75% of Class A creditors had signed up to the Transaction Support Agreement. On 18 November 2024, the TWUL Group also announced the approval of its Security Transaction Intercreditor Deed ("STID") proposal, to address near-term liquidity requirements. The next key milestone for the TWUL Group's Liquidity Extension Transaction is the Convening Hearing of TWUL's restructuring plan proposal on 17 December 2024. In tandem, TWUL launched its equity process in October 2024 after an extensive pre-marketing process.

TWUL will continue to issue updates on both our creditor and equity engagement processes as appropriate. The next critical step in enabling TWUL's ambitious PR24 business plan is improving operational performance and increasing financial resilience and securing a deliverable, investible and financeable PR24 final determination from Ofwat on 19 December 2024.

As at 30 September 2024, the Company has access to a total of £1,721.4 million (31 March 2024: £1,796.4 million) Revolving Credit Facilities (RCF) including £1,425.7 million (31 March 2024: £1,425.7 million) Class A and £295.7 million (31 March 2024: £370.7 million) Class B. As at 30 September 2024, £120.0 million (31 March 2024: £365.7 million) Class A was undrawn and £295.7 million (31 March 2024: £nil) Class B was undrawn.

The Company also has £550.2 million (31 March 2024: £550.2 million) of undrawn liquidity facilities which can only be drawn in limited circumstances.

During the six months ended 30 September 2024, the Company drew down £365.8 million of debt (30 September 2023: £370.7 million) under its revolving credit facilities, and repaid £491.6 million debt (principal and accretion) (30 September 2023: £671.6 million) including £490.7 million relating to revolving credit facilities (30 September 2023: £370.7 million) and £0.9 million relating to bonds (30 September 2023: £300.9 million).

Credit rating

Long term rating	Corporate Family	Class A	Class B
Moody's	Caa1 (negative outlook)	Caa1 (negative outlook)	C (negative outlook)
S&P	-	CC (negative outlook)	C (negative outlook)

Ratings as at date of publication

In April 2024, Moody's downgraded the Corporate Family Rating to Baa3, the Class A debt rating to Baa2 and the Class B debt rating to Ba3 (all with negative outlook), and S&P downgraded the Class A debt rating to BBB- and the Class B debt rating to BB (both with negative outlook). As a result of these rating 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. In July 2024, S&P put the Group's ratings on CreditWatch negative following publication of our 2023/24 annual results. Later in the month, Moody's downgraded the Corporate Family Rating to Ba2, the Class A debt rating to Ba1 and the Class B debt rating to B3 (all with negative outlook), and S&P downgraded the Class A debt rating to BB and the Class B debt rating to B (both with negative outlook).

Interim management report (continued)

Credit rating (continued)

As a result of these downgrades, TWUL is no longer in compliance with the requirements of its Instrument of Appointment to maintain, at all times, two investment grade Ratings from two different Credit Rating Agencies. In response, Ofwat accepted undertakings put forward by Thames Water, which required TWUL to appoint both an independent Monitor, L.E.K., to report on the Company's progress delivering its transformation plan and completing an equity raise, as well as two new non-executive director board appointments, Aidan de Brunner and Neil Robson, to assist in an equity process and recapitalisation transaction. These commitments will remain in place until the TWUL Group regains two investment grade credit ratings.

In September 2024, Moody's downgraded TWUL's corporate family rating from Ba2 (negative outlook) to Caa1 (negative outlook), in response to the TWUL's liquidity and process update, and S&P lowered its ratings on TWUF's class A debt to CCC+ (negative outlook) from BB previously and class B debt to CCC- (negative outlook) from B previously. In October 2024, S&P downgraded their Class A rating to CC with negative outlook and their Class B rating to C with negative outlook. The TWUL 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 long-term investment grade credit ratings of Baa1/ BBB+.

Financial results

The Directors have determined that the result before tax, total assets and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company.

For the six month period ended 30 September 2024, the Company made a loss before tax of £1,840.4 million (30 September 2023: profit before tax of £166.1 million), primarily due to £1,912.0 million expected credit losses on intercompany loans receivable (30 September 2023: £nil), partially offset by the margin earned on intercompany loans receivable from TWUL. Impairment losses on intercompany loans receivable have been recognised in the Income Statement as an exceptional item, as these impairments are material and not as a result of the ordinary course of business.

Total assets of the Company at 30 September 2024 were £13,413.0 million (31 March 2024: £15,401.1 million), the movement was mainly driven by impairment losses on intercompany loans receivable. Net liabilities of the Company at 30 September 2024 were £1,626.8 million (Net assets 31 March 2024: £216.6 million) reflecting the six month loss on ordinary activities after taxation, primarily due to expected credit losses on intercompany loans receivable which has been recognised in the Income Statement as an exceptional item.

The Company's performance is in line with expectations, other than the expected credit losses on intercompany loans receivable.

The Company uses derivatives to manage inflation risk and foreign currency risk and these are held at fair value through profit or loss. The fair value of the derivatives is dependent upon expected future inflation rates, interest rates and spot foreign currency rates. This can result in large movements in the income statement within net gains on financial instruments relating to changes in the fair values of the derivatives. The external borrowings and intercompany loans with TWUL are held at amortised cost.

The Company does not recharge the year-on-year movement in derivative fair values to TWUL as the derivatives are in relation to debt obligations which the Company expects to hold to maturity. The cash flows of the derivatives are recharged to TWUL via the matching terms of intercompany loans from the Company to TWUL, with the exception of restructured swaps, where the relevant intercompany loans have matured or the terms are yet to be amended, and any swaps which are not linked to the Company's external debt.

Interim management report (continued)

Going concern

The Directors consider it appropriate to prepare the financial statements on a going concern basis as they have a reasonable expectation that the Company will continue to have adequate resources for a period of 12 months from the date of approval of the financial statements. In their assessment, the Directors have identified a material uncertainty related to events that are outside the control of the Board and may cast significant doubt on the Company's ability to continue as a going concern. In assessing the appropriateness of the going concern basis, the Directors have considered various factors that are described in further detail on pages 14 to 24.

Given the dependency on TWUL, the Directors have considered the going concern assessment made by TWUL Group as well as actions taken post the balance sheet date of 30 September 2024. The TWUL Group assessment concluded that the TWUL Directors believe that it is reasonable to assume that actions can be taken such that TWUL and the TWUL Group have adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge their obligations as they fall due. However, there exists a material uncertainty which may cast significant doubt on the TWUL Group and TWUL's ability to continue as a going concern in relation to the preparation of the financial statements given TWUL and the TWUL Group do not have sufficient committed liquidity to meet their liabilities as they fall due for a period of at least 12 months from the approval of the financial statements. This material uncertainty also applies to the Company.

Further details of the TWUL Group assessment and the post balance sheet events are contained in the TWUL Group interim report for 2024/25, copies of which may be obtained from the Company Secretary's Office at the address included in Note 13.

Accordingly, the Directors have concluded it is reasonable to assume that actions can be taken by TWUL such that the Company 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, given the material uncertainty in relation to the TWUL Group and TWUL's going concern basis and the Company's reliance on the credit worthiness of TWUL, the Directors have concluded that there exists a material uncertainty in relation to the going concern basis adopted in the preparation of the Company's financial statements.

Directors

The Directors of the Company who were in office during the six month period ended 30 September 2024 and up to the date of signing these condensed interim financial statements were:

N Land (appointed 22 May 2024)
A Montague (appointed 22 May 2024)
I Pearson (appointed 22 May 2024)
C Weston (appointed 22 May 2024)
A De Brunner (appointed 14 November 2024)
N Robson (appointed 14 November 2024)
D Gregg (resigned 10 July 2024)
I Dearnley (resigned 10 July 2024)
J Read (resigned 10 July 2024)

During the period under review, none of the Directors had significant contracts with the Company or any other body corporate within the TWUL Group other than their contracts of service with TWUL (12 months ended 31 March 2024: none).

Dividends

The Company did not pay any dividends in the six month period ended 30 September 2024 (30 September 2023: £nil). The Directors do not recommend the payment of a dividend (30 September 2023: £nil).

Interim management report (continued)

Principal risks and uncertainties

The Company is the financing subsidiary of TWUL and part of the Securitisation Group. The net proceeds of financing transactions and obligations entered into by the Company are lent to TWUL, the regulated operating company, by way of intercompany loans. Consequently, to service these external debt obligations, there is a reliance on TWUL's ability to settle its intercompany obligations and the Company's creditworthiness is closely linked with that of TWUL.

Uncertainty concerning the outcome of TWUL's PR24 price review and current levels of the TWUL Group's liquidity has resulted in credit rating downgrades and forecast trigger events. The success and timing of securing the capital TWUL needs to finance its ambitious business plan, turnaround performance and increase financial resilience depends on securing a PR24 price determination that is both financeable and investable. This is a matter we will continue to engage on with our regulators, and the Government.

Ofwat published its Draft Determinations on 11 July 2024. In August 2024, TWUL submitted its draft determination response to Ofwat for AMP8 and this is now subject to their consideration. In December 2024, TWUL will receive the final determination which will confirm its funding allowances for AMP8. There is no assurance as to what funding will be allowed, although Ofwat is required to exercise and perform its duties in the manner which it considers is best calculated to ensure Thames Water is able to finance the proper carrying out of its functions.

TWUL continues to be exposed to inflationary pressures in FY25, which could impact its cost base and with bill increased expected in the future could increase the risk to cash collection rates. Rapid population growth and changing weather patterns also continue to put pressure on TWUL's ageing infrastructure.

In addition, the Company's operations expose it to a variety of capital and financial risks. Treasury operations are managed centrally, by a specialist team, operating with delegated authority of, and under policies approved by, TWUL and the Board of the Company. The operation of the treasury function is governed by specific policies and procedures that set out guidelines for the management of liquidity, credit and market risks associated with financing activities.
The key elements of the treasury policies and procedures are incorporated in the TWUL Group's Annual Report. Copies of the TWUL Group's Annual Report may be obtained from the Company Secretary's Office at the address included in note 13.

Future outlook

It is expected that the Company will continue with its current business model for the foreseeable future, with the proceeds from the Company's debt raising activities (including impact of associated derivatives) being lent to TWUL with a margin charged in addition to the underlying external costs. This is dependent upon TWUL's ability to secure additional debt and equity funding as TWUL continues with its Restructuring Plan. This will enable TWUL to settle its intercompany obligations, as they fall due, to fund the servicing and repayment of external debt obligations, more details of which are explained in the going concern section on pages 14 to 24.

This Interim management report was approved by the Board of Directors on 10 December 2024 and signed on its behalf by:

C Weston
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of Directors' responsibilities in respect of the Interim report and condensed financial statements for the six months to 30 September 2024

The Directors confirm that the interim results for the six months to 30 September 2024 have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 10 December 2024 and signed on its behalf by:

C Weston
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water Utilities Finance plc
Report on the condensed interim financial statements

Our conclusion

We have reviewed Thames Water Utilities Finance plc's condensed interim financial statements (the "interim financial statements") in the Interim report and condensed financial statements of Thames Water Utilities Finance plc for the 6 month period ended 30 September 2024 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed statement of financial position as at 30 September 2024;
- the Condensed income statement for the period then ended;
- the Condensed statement of cash flows for the period then ended;
- the Condensed statement of changes in equity for the period then ended;
- the accounting policies; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim report and condensed financial statements of Thames Water Utilities Finance plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim report and condensed financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Material uncertainty related to going concern

In forming our conclusion on the interim financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Accounting policies of the interim financial statements concerning the Company's ability to continue as a going concern. We note that the Company is wholly reliant on the ability of its immediate parent, Thames Water Utilities Limited ('TWUL'), to settle its intercompany obligations, as they fall due, and to fund the servicing and repayment of external debt obligations. Additionally, TWUL, and the Company, have guaranteed the obligations of each other. The TWUL Group identified a material uncertainty in relation to the going concern basis of preparation adopted in the TWUL interim financial statements for the period ended 30 September 2024.

These conditions, along with the other matters explained in the Accounting Policies to the interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately applied the going concern basis of accounting in the preparation of the interim financial statements.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim report and condensed financial statements, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim report and condensed financial statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim report and condensed financial statements, including the interim financial statements, 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.

Our responsibility is to express a conclusion on the interim financial statements in the Interim report and condensed financial statements based on our review. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
10 December 2024

Condensed income statement

For the six month period ended

		30 September 2024			30 September 2023		
		Underlying	**Exceptional items**	**Total**	Underlying	Exceptional items	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Administrative expenses		**-**	**-**	**-**	(0.1)	-	(0.1)
Operating loss		**-**	**-**	**-**	(0.1)	-	(0.1)
Finance income	2	**347.3**	**-**	**347.3**	353.4	-	353.4
Finance expense	3	**(321.8)**	**-**	**(321.8)**	(316.7)	-	(316.7)
Net gains on financial instruments	4	**46.1**	**-**	**46.1**	129.5	-	129.5
Impairment losses on intercompany loans receivable	5	-	**(1,912.0)**	**(1,912.0)**	-	-	-
Profit/(loss) on ordinary activities before taxation		**71.6**	**(1,912.0)**	**(1,840.4)**	166.1	-	166.1
Tax charge on profit/(loss)	6	**(3.0)**	**-**	**(3.0)**	(23.8)	-	(23.8)
Profit/(loss) on ordinary activities after taxation		**68.6**	**(1,912.0)**	**(1,843.4)**	142.3	-	142.3

All amounts relate to continuing operations.

There is no other comprehensive income for the six month period.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Exceptional items have been split out from our underlying figures to support users of the financial statements in understanding the underlying performance of the business and separate this from those items which are material and not as a result of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Condensed statement of financial position
As at

	Note	**30 September 2024 £m**	Restated[1] 31 March 2024 £m
Non-current assets:			
Intercompany loans receivable	7	11,840.6	12,732.5
Derivative financial assets	10	39.7	61.5
Deferred tax asset		13.9	12.8
Prepayments and other assets		0.3	1.1
		11,894.5	12,807.9
Current assets:			
Cash and cash equivalents		1.4	1.6
Intercompany loans receivable	7	1,421.6	2,495.0
Derivative financial assets	10	-	3.8
Prepayments and other assets		2.4	2.0
Amounts owed by group undertakings	8	93.1	90.8
		1,518.5	2,593.2
Current liabilities:			
Borrowings	9	(1,037.4)	(847.1)
Derivative financial liabilities	10	(146.8)	(140.9)
Amounts payable in respect of group relief	10	(7.1)	(2.9)
Other financial liabilities	10	(3.3)	(3.1)
		(1,194.6)	(994.0)
Net current assets		323.9	1,599.2
Non-current liabilities:			
Borrowings	9	(13,659.3)	(14,006.8)
Derivative financial liabilities	10	(185.2)	(182.2)
Other financial liabilities	10	(0.7)	(1.5)
		(13,845.2)	(14,190.5)
Net (liabilities)/assets		(1,626.8)	216.6
Equity:			
Called up share capital	12	0.1	0.1
Other reserves	12	207.7	207.7
(Accumulated losses)/retained earnings		(1,834.6)	8.8
Total (deficit)/equity		(1,626.8)	216.6

[1] The prior year current / non-current classification of borrowings has been restated due to the impact of the amendments to IAS 1 'Presentation of Financial Statements' as discussed on pages 29 to 30.

The condensed interim financial statements were approved by the Board of Directors on 10 December 2024 and signed on its behalf by:

C Weston
Director

Registered number: 02403744 (England & Wales)

Condensed statement of changes in equity

For the six month period ended

	Called up share capital £m	Other reserves £m	(Accumulated losses)/retained earnings £m	Total (deficit)/ equity £m
1 April 2023	**0.1**	**207.7**	**(71.9)**	**135.9**
Profit on ordinary activities after taxation	-	-	142.3	142.3
30 September 2023	**0.1**	**207.7**	**70.4**	**278.2**
Loss on ordinary activities after taxation	-	-	(61.6)	(61.6)
31 March 2024	**0.1**	**207.7**	**8.8**	**216.6**
Loss on ordinary activities after taxation	-	-	(1,843.4)	(1,843.4)
30 September 2024	**0.1**	**207.7**	**(1,834.6)**	**(1,626.8)**

Condensed statement of cash flows

For the six month period ended

	30 September 2024 £m	30 September 2023 £m
Cash flows from operating activities		
(Loss)/profit on ordinary activities after taxation	**(1,843.4)**	142.3
Less finance income	**(347.3)**	(353.4)
Add finance expense	**321.8**	316.7
Less net gains on financial instruments	**(46.1)**	(129.5)
Add impairment losses on intercompany loans receivable	**1,912.0**	-
Tax charge on profit/(loss)	**3.0**	23.8
Operating loss	**-**	(0.1)
Movement in amounts owed by group undertakings	**(2.3)**	(4.7)
Movement in other financial liabilities	**-**	0.1
Net cash outflow from operating activities	**(2.3)**	(4.7)
Cash flows from investing activities		
Interest received	**251.3**	187.9
Loans to group companies	**(365.8)**	(370.7)
Loans repaid by group companies	**491.6**	706.3
Fees received	**6.1**	3.7
Net cash inflow from investing activities	**383.2**	527.2
Cash flows from financing activities		
Proceeds from new loans[1]	**365.8**	370.7
Repayment of borrowings[2]	**(491.6)**	(671.6)
Payment for derivative settlement[3]	**-**	(34.7)
Interest paid	**(248.9)**	(183.2)
Fees paid	**(6.4)**	(3.5)
Net cash outflow from financing activities	**(381.1)**	(522.3)
Net movement in cash and cash equivalents	**(0.2)**	0.2
Cash and cash equivalents at beginning of the period	**1.6**	1.2
Cash and cash equivalents at end of the period	**1.4**	1.4

[1] Proceeds from new loans of £365.8 million in the six months ended 30 September 2024 relate to a drawdown from the Class A revolving credit facility. In the comparative period ended 30 September 2023, proceeds from new loans of £370.7 million related to drawdowns from Class B revolving credit facilities. Rollovers of drawdowns under revolving credit facilities will not appear as new cash flows in the cash flow statement.

[2] Repayment of borrowings of £491.6 million (30 September 2023: £671.6 million) includes £370.7 million of repayments relating to Class B revolving credit facilities (30 September 2023: £370.7 million), a £120.0 million repayment relating to a Class A revolving credit facility (2023: £nil), and £0.9 million bond repayments (30 September 2023: £300.9 million).

[3] For the six month period ended 30 September 2023, payment for derivative settlement includes £34.7 million relating to accretion paydown on index-linked swaps. There was no payment for derivative settlement in the current period ended 30 September 2024.

Accounting policies

General information

Thames Water Utilities Finance plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom. The Company is limited by shares issued to shareholders. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

The Company was established to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"). TWUL alongside the Company represent the "TWUL Group". TWUL is the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year.

Statement of compliance

These condensed interim financial statements of the Company have been prepared on the basis of the policies set out in the March 2024 Annual Report in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and in compliance with the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

The condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2024 which were prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.

The auditors' report on those financial statements was unqualified and included reference to the matter of material uncertainty related to going concern by way of emphasis. It did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts), or section 498(3) (failure to obtain necessary information and explanations).

Basis of preparation

The condensed interim financial statements for the six months ended 30 September 2024, set out on pages 10 to 44, 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, and in compliance with the DTR.

Certain cash flows related to the Company are transacted by fellow group companies on behalf of the Company. The directors have assessed that the Company is the principal in these transactions and the role of other group companies is for administrative purposes only. As such the Company presents all cash flows related to the Company in these financial statements in line with IAS 7.

Going concern

Company

The Directors consider it appropriate to prepare the financial 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 financial statements. In their assessment, the Directors have identified a material uncertainty related to events that are outside the control of the Board that may cast significant doubt on the Company's ability to continue as a going concern. In assessing the appropriateness of the going concern basis, the Directors have reviewed the factors set out below.

The Directors have considered the nature of the business and do not expect this to significantly change over the next 12 month period, with the proceeds of any debt raising by the Company (including impact of associated derivatives) being lent to TWUL with a margin charged.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Company (continued)

In confirming the basis of preparation, the Directors have considered the Company's relationship with TWUL as its immediate parent company, its dominant debtor on the Company's Statement of financial position and its fellow obligor under the WBS. In particular:

- The Company is wholly reliant on TWUL's ability to settle its intercompany obligations, as they fall due, to fund the servicing and repayment of external debt obligations;

- The Company, TWUHL and TWUL are Obligors under the WBS, entered in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed ("STID"). Pursuant to this arrangement, TWUHL guaranteed the obligations of each other Obligor under the finance agreement. Additionally, TWUL, and the Company, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. If TWUL were to default on its external borrowings, the Company is expected to be unable to fulfil any call under its guarantee of TWUL's debt provided under the WBS, as the Company would be unlikely to be able to obtain funds to do so; and

- The factors disclosed for the going concern assessment for the TWUL Group, considered by the TWUL Board, which are relevant to TWUL alone but would also impact the Company. These included the process and timing for confirming a final determination from the PR24 process, securing future debt and equity funding, and the continuing ability to comply with the regulatory licence.

For completeness, the going concern assessment for TWUL Group is presented below on pages 16 to 24. Further details of this assessment and other information are contained within the TWUL Group interim report for 2024/25, copies of which may be obtained from the Company Secretary's Office at the address included in Note 13.

In assessing whether the Company has adequate resources, for a period of at least 12 months from the date of approval of the financial 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, while TWUL continues to seek to secure new debt and equity funding, 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 financial statements, to continue operations and discharge its obligations as they fall due. However, it is noted for the TWUL Group that there exists a material uncertainty in relation to the going concern basis adopted in the preparation of the financial statements given the ability of the TWUL Group and TWUL to extend the liquidity runway is not wholly within their control and is dependent on the implementation of a Liquidity Extension Transaction.

The implementation of the Liquidity Extension Transaction, and the subsequent securing of additional funding via a creditor led solution and / or equity, is dependent upon a number of matters which, individually and collectively, are outside of TWUL's control; these are due to commence shortly after the approval of the interim financial statements. The convening hearing date for the Restructuring Plan is scheduled for 17 December 2024 and, without a Restructuring Plan approved by the court (expected to be effective at 31 January 2025), the liquidity runway ends during March 2025. The Liquidity Extension Transaction is intended to allow the TWUL Group to progress its current equity raise process and support a holistic recapitalisation transaction.

Consequently, given the Company's clear dependency on the support of TWUL, the Directors have concluded that the material uncertainty disclosed for TWUL Group and TWUL is also applicable to the going concern assessment for the Company. As a result, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

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

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Note that available cash referred to in the below “Summary of TWUL Group going concern assessment” means the cash and cash equivalents which are in bank accounts, money market funds or short-term investments under the control of the TWUL Group.

Summary of TWUL Group going concern assessment

When considering whether the TWUL Group and TWUL is a going concern, the TWUL Directors have had regard to IAS 1 para 25 which states that an entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.

The TWUL Directors believe that it is reasonable to assume that actions can be taken such that the TWUL Group and TWUL have 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 exists a material uncertainty which may cast significant doubt on TWUL and the TWUL Group’s ability to continue as a going concern in relation to the preparation of the financial statements given the TWUL Group and TWUL do not have sufficient committed liquidity to meet their liabilities as they fall due for a period of at least 12 months from the approval of financial statements.

The ability of the TWUL Group and TWUL to extend the liquidity runway is not wholly within their control and is dependent on the implementation of a Liquidity Extension Transaction. The implementation of the Liquidity Extension Transaction, and the subsequent securing of additional funding via a creditor led solution and / or equity, is dependent upon a number of matters which, individually and collectively, are outside of TWUL’s control; these are due to commence shortly after the approval of the interim financial statements. The convening hearing date for the Restructuring Plan is scheduled for 17 December 2024 and, without a Restructuring Plan approved by the court (expected to be effective at 31 January 2025), the liquidity runway ends during March 2025.

The TWUL Group has launched a consent process for a transaction support agreement ("TSA") in connection with a Liquidity Extension Transaction and related Security Trust and Intercreditor Deed (“STID”) Proposals which are intended to provide liquidity to October 2025 and, if the TWUL Board considers TWUL’s PR24 final determination is neither financeable nor investible and TWUL appeals to the CMA, to May 2026. Currently creditors certifying that they represent more than 75% of the Class A Debt have entered into the TSA. The STID Proposals have passed and reserved debt service reserve and operation & maintenance reserve cash was released in November 2024. The Liquidity Extension Transaction is intended to be implemented through a Restructuring Plan that has not yet been approved by the court and for which the convening hearing is scheduled for 17 December 2024 and the sanction hearing is scheduled for 20 January 2025 (with an expected effective date of 31 January 2025, if the Restructuring Plan is approved, subject to any appeal process). The TWUL Group and TWUL have sufficient cash to meet their liabilities as they fall due until prior to the end of March 2025 and any delays to the implementation of the Liquidity Extension Transaction could result in that cash being exhausted before the Liquidity Extension Transaction is implemented. The Liquidity Extension Transaction is intended to allow the TWUL Group to progress its current equity raise process and support a holistic recapitalisation transaction and will allow TWUL to complete the Final Determination process, including a CMA appeal if necessary. The TWUL Group has announced its intention to continue to engage with investors and creditors to facilitate a holistic recapitalisation solution.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

Context

TWUL's business plan for the 2025-30 price control period ("PR24") proposes investing significantly more than in the current regulatory period to improve asset resilience, to deliver environmental improvements and to improve performance for customers and the communities served. This relies on securing additional debt and equity funding.

The decision by the shareholders of Kemble Water Holdings Limited (the ultimate parent of TWUL) not to commit new equity in March 2024 reflecting uncertainty concerning the outcome of the PR24 price review has resulted in several adverse events including various credit rating downgrades causing a cash lockup under TWUL's licence and non-compliance with licence conditions due to not maintaining an investment grade credit rating. This cash lockup restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat. TWUL and the TWUL Group also entered a Trigger Event regime upon delivery of the March 2024 compliance certificate to the Security Trustee in July 2024 in respect of financial covenants. However, TWUL continues to engage with regulators, and the Government, to agree a determination that will deliver improvements for customers and the environment and give investors the opportunity to earn a fair return on their investment.

The success and timing of securing the capital needed to finance TWUL's ambitious business plan, turnaround performance and to increase financial resilience depends on securing a PR24 price determination that is both financeable and investible. These factors are explained further below:

A. PR24 Business Plan

Following TWUL's submission of its PR24 business plan for the 2025-30 regulatory period ("AMP8") to Ofwat in October 2023 (updated in April 2024), the regulator published its Draft Determination ("DD") on 11 July 2024. The DD contains a draft of TWUL's allowed revenues and performance targets for AMP8.

In August 2024, TWUL submitted its PR24 draft determination response, which 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. There is no assurance of the level of customer funding that will be determined by Ofwat to support this level of proposed investment. However, under Section 2 of the 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".

The PR24 Final Determination is expected to be published on 19 December 2024. If the TWUL Board considers TWUL's 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 of the final determination 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 re-determination 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 TWUL, 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.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

B. Equity Funding

In July 2023, the TWUL Group announced that its ultimate shareholders (the “Kemble Shareholders”) had agreed to provide a further £750 million in 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 of its PR24 plan in October 2023, TWUL had 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 TWUL Group and Kemble Shareholders announced that, based on the feedback provided by Ofwat to TWUL at that time, the regulatory arrangements that would be expected to apply to TWUL 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. TWUL aims to secure a PR24 regulatory determination that is affordable for customers, deliverable and financeable for the TWUL Group, as well as investible for equity investors.

Following completion of an extensive premarketing phase, the TWUL Group launched the first round of its equity raise process in October 2024. Any equity raise process is not expected to conclude until after the Final Determination (or CMA Appeal if the TWUL Board elects to do so). In the absence of a CMA Appeal, the initial £1.5 billion of super senior funding would provide liquidity to October 2025. It is expected that a recapitalisation of the business by means of a debt restructuring and / or equity injection would be required by then to maintain sufficient liquidity during the assessment period.

In April 2024, events of default occurred under the financing arrangements for Kemble Water Finance Limited, an indirect holding company of the TWUL Group, 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 TWUL Group 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 TWUL Group is not an obligor under such financings and the defaults of the Kemble Debtors do not give their creditors recourse to the Whole Business Securitisation (“WBS”) group (being TWUHL, TWUL and TWUF). 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 TWUL Group through the existing corporate structure. Equity funding could be made directly into WBS group if it was in the best interests of stakeholders.

The TWUL 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. In the event that equity funding was not to be forthcoming, the TWUL Board would consider all options available at that time. The TWUL Board is also aware that certain of its creditors are considering the development of a creditor-led recapitalisation transaction should equity funding not be forthcoming, or not be forthcoming on acceptable terms.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

C. Liquidity Extension Transaction

On 25 October 2024 the TWUL Group launched a consent process for a TSA in connection with a Liquidity Extension Transaction and related STID Proposals.

If the Liquidity Extension Transaction is approved by creditors, TWUL would secure up to £3 billion of super senior funding, comprising: (i) an initial tranche of £1.5 billion, which is fully backstopped by certain creditors pursuant to a backstop agreement (with other Class A and Class B Debt providers being offered the ability to participate in the super senior funding pro-rata to their debt holdings through voting on the Restructuring Plan in accordance with its terms); and (ii) capacity for a further £1.5 billion across two tranches of £750 million, if TWUL makes an appeal to the CMA following receipt of the Final Determination. The new funding would be released to TWUL on a monthly, or on an interim basis, as required, subject to continued satisfaction of conditions at that time, including that TWUL has progressed towards a more holistic recapitalisation transaction with the agreement of a sufficient proportion of its creditors during next year.

In addition, the maturities of all Class A Debt and Class B Debt (including amortisation payments) would be extended by two years, with interest payments on all Class A Debt and Class B Debt and payments under Hedging Agreements continuing to be made. There would also be modifications to TWUL's covenant regime to provide a stable platform for two years to facilitate a subsequent recapitalisation transaction. Secured creditors would also benefit from an enhanced information and governance package.

TWUL expects that the Liquidity Extension Transaction will be implemented through an English law restructuring plan under Part 26A of the Companies Act 2006 (the "Restructuring Plan") to be proposed by TWUL's parent, Thames Water Utilities Holdings Limited ("TWUHL"). On 22 November 2024, TWUHL issued a Practice Statement Letter as part of the Restructuring Plan. The current expected timetable for the implementation of the Restructuring Plan involves a Convening Hearing on 17 December 2024, Creditor Meetings in the week commencing 13 January 2025 and a Sanction Hearing on 20 January 2025, with the Restructuring Plan intended to be effective by 31 January 2025 if it is approved by the court (subject to any appeal process).

A TSA (which includes undertakings from relevant creditors to support and facilitate the Liquidity Extension Transaction) has been signed by, among others, the TWUL Group. Currently creditors certifying that they represent in excess of 75% of the Class A Debt have entered into the TSA.

On 25 October 2024 TWUL also launched STID Proposals and a consent solicitation under its financing arrangements to (among other things) allow implementation of the Liquidity Extension Transaction including the launch of the Restructuring Plan and other related consents and waivers, permit use of cash in the debt service and operational & maintenance reserve accounts and compensation account for liquidity enhancement .

The STID Proposals passed on 18 November 2024 and TWUL is permitted to transfer the relevant cash from its reserve and compensation accounts into its operating account for liquidity enhancement.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

Impact on the TWUL Group and TWUL

The TWUL Directors for the purpose of preparing the TWUL Group's financial statements have assessed the financial condition of TWUL and whether it will continue in existence for 12 months from the date of approval of the financial statements (the 'going concern assessment period'). In their assessment, the TWUL Directors have identified the following matters which give rise to a material uncertainty that are outside the control of the TWUL Board and which may cast significant doubt on TWUL and the TWUL Group's ability to continue as a going concern (which are therefore relevant factors for TWUL and the TWUL Group):

- TWUL and the TWUL Group do not have sufficient committed liquidity to meet their liabilities as they fall due for a period of 12 months from the date of approval of the financial statements for the half-year ended 30 September 2024.

- Achieving the necessary liquidity is dependent on events not wholly within the control of TWUL and the TWUL Group.

- The TWUL Group has launched a consent process for a TSA in connection with a Liquidity Extension Transaction and related STID Proposals which are intended to provide liquidity to October 2025 and, if TWUL appeals to the CMA, to May 2026. Currently creditors certifying that they represent more than 75% of the Class A Debt have entered into the TSA. TWUL continues to engage with all creditor groups as part of efforts to deliver the Restructuring Plan.

- The STID Proposals have passed and reserved cash in the debt service and operation & maintenance reserve accounts and compensation account was permitted to be released in November 2024

- The Liquidity Extension Transaction is intended to be implemented through a Restructuring Plan which requires approval of the court and for which the convening hearing is scheduled for 17 December 2024 and sanction hearing is scheduled for 20 January 2025 (with an expected effective date of 31 January 2025, if the Restructuring Plan is approved (subject to any appeal process)).

- The TWUL Group and TWUL have sufficient cash to meet their liabilities as they fall due until prior to the end of March 2025 and any delays to the implementation of the Liquidity Extension Transaction could result in that cash being exhausted before the Liquidity Extension Transaction is implemented.

- As part of TWUL's response to the PR24 Draft Determination submitted to Ofwat in August 2024, TWUL is seeking to raise at least £3.3 billion of equity. It is expected that any equity raise process, if successful, would only be capable of concluding following the PR24 Final Determination which is expected to be published on 19 December 2024. Ofwat has modified water companies' licences to allow Ofwat to delay the PR24 Final Determination until January 2025, although current indications are that the PR24 Final Determination will not be delayed. Furthermore, given TWUL has the right to request that Ofwat refers its determination to the CMA and that timing of the appeal process is uncertain, there can be no assurance that equity funding could be completed within the going concern assessment period. Additionally, there is no certainty that the CMA would make a re-determination that is more investible or financeable than Ofwat's PR24 Final Determination which would facilitate the raising of equity.

- Completion of the Liquidity Extension Transaction will improve TWUL's liquidity runway to enable it to continue with the planned investment and maintenance of its infrastructure in order to continue to meet customers' needs, and its environmental responsibilities. It will allow the TWUL Group to progress its equity raise process and a holistic recapitalisation transaction and will allow it to complete the Final Determination process, including a CMA appeal if necessary.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

In assessing the appropriateness of the going concern status, the TWUL Directors have used a base case scenario that assumes a successful implementation of the Liquidity Extension Transaction (including modifications to the financial covenants such that TWUL would not be required to comply with its existing financial covenants during the two year period following the Liquidity Extension Transaction). In forming their conclusions, the TWUL Directors have considered the matters set out in the Context section above, together with the following factors:

1. Credit ratings

In July 2024, Moody's downgraded TWUL's CFR from Baa3 (negative outlook) to Ba2 (negative outlook). S&P put all ratings on credit watch negative and then lowered the ratings on TWUF's Class A debt to BB (negative outlook) from BBB- (negative outlook) and class B debt to B (negative outlook) from BB (negative outlook). Following the July 2024 credit rating downgrades, on 23 August 2024, Ofwat accepted TWUL's undertakings in lieu of any enforcement action for failing to maintain at least two investment grade credit ratings in accordance with TWUL's licence condition. These undertakings will be in place until TWUL is able to recover its investment grade ratings and TWUL does not consider that an event of default has occurred under the terms of the TWUL Group's financing arrangements, although certain of its creditors have reserved their rights in this regard but have taken no further action. Ofwat also retains the ability to intervene if they consider that the steps being taken by TWUL are no longer sufficient to achieve the objectives of the undertakings and/or if they consider that TWUL is not complying with the undertakings. Management believe it is reasonable to assume their ability to meet the accepted undertakings as agreed in the enforcement order. However, there continues to be a risk that events occur which result in these conditions not being met and subsequently may result in further regulatory action being taken which may result in Ofwat concluding a breach of TWUL's Instrument of Appointment and possibly a consequent event of default under the terms of the TWUL Group's financing arrangements.

On 25 September 2024, Moody's downgraded TWUL's CFR from Ba2 (negative outlook) to Caa1 (negative outlook), following TWUL's announcement that its available cash and cash equivalents would expire at the end of December 2024 under specific conditions. Similarly, S&P lowered its ratings on TWUF's Class A debt to 'CCC+' (negative outlook) from 'BB' (negative outlook) and Class B debt to CCC- (negative outlook) from 'B' (negative outlook).

On 28 October 2024, S&P lowered its ratings on TWUF's Class A debt to 'CC' (negative outlook) from 'CCC+' (negative outlook) and Class B debt to 'C' (negative outlook) from 'CCC-' (negative outlook) following the announcement of the Liquidity Extension Transaction.

2. Liquidity runway

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

As at 30 September 2024, TWUL had £1.12 billion of cash and cash equivalents (including reserved cash). The TWUL Group also has access to £2.45 billion of Class A and Class B committed Revolving Credit Facilities ("RCF's") of which £0.42 billion were undrawn at 30 September 2024. The undrawn facilities mainly consist of revolving credit facilities, and it is intended that these would be cancelled as part of the Liquidity Extension Transaction and whilst the TSA is in place the TWUL Group has agreed not to draw these without the consent of the relevant lenders ahead of the implementation of the Liquidity Extension Transaction. The TWUL Group has £2.03 billion of Class A RCF drawdowns which were rolled in November and December 2024. Further RCF rolls are due across the going concern assessment period, where management has a reasonable expectation at the current time that they will be rolled and where modifications would be made to the Class A RCFs to provide for automatic rollovers for two years following the Liquidity Extension Transaction.

The TWUL Group additionally has access to £0.55 billion of undrawn liquidity facilities. The £0.55 billion of undrawn liquidity facilities can only be used in limited circumstances and are available should TWUL enter a Standstill Period (as defined below). It is intended that these would be cancelled as part of the Liquidity Extension Transaction and whilst the TSA is in place the TWUL Group has agreed not to draw these without the consent of the relevant lenders ahead of the implementation of the Liquidity Extension Transaction.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

2. Liquidity runway (continued)

It is projected that under the base case the available liquidity will fund forecast operating cashflows, capital expenditures and service debt until October 2025, allowing an equity process to be completed prior to this date. This assessment is based on the updated business plan submitted to Ofwat in August 2024 and assumes that the Liquidity Extension Transaction is implemented in full (with £1.5 billion of new funding and approximately £0.6 billion of principal deferrals in that period) and that the TWUL Group can draw on the new super senior funding and utilise all cash resources (including previously reserved cash) over this period. In a scenario assuming revenues indicated by Ofwat's July 2024 draft determination, TWUL's liquidity runway would in such a case be expected to be extended to September 2025 instead. It is expected that a recapitalisation of the business by means of a debt restructuring and / or equity injection would be required by then to maintain sufficient liquidity during the assessment period.

If TWUL makes an appeal to the CMA, it may also have the ability to extend its liquidity to May 2026 (through a permission to raise £1.5 billion additional new funding and an additional approximately £2.4 billion of principal deferrals in that period and based on the business plan submitted to Ofwat in August 2024). In a downside case, assuming revenues indicated by Ofwat's July 2024 draft determination, TWUL's liquidity runway would in such a case be expected to be extended to March 2026.

Presently the TWUL Group and TWUL have sufficient cash to meet their liabilities as they fall due until prior to the end of March 2025 and any delays to the implementation of the Liquidity Extension Transaction could result in that cash being exhausted before the Liquidity Extension Transaction is implemented.

The TWUL Group has announced its intention to continue to engage with investors and creditors to facilitate a holistic recapitalisation solution.

3. Covenant compliance

Under the terms of the WBS, the TWUL Group is required to maintain compliance with financial covenants 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 TWUL Group to attract equity funding.

The TWUL Group was compliant with financial covenants in the 2023/24 financial year. The compliance certificate submitted to the Security Trustee in July 2024, had projections showing non-compliance of certain forecast gearing and interest cover ratios with Trigger Event thresholds for the 2024/25 and 2025/26 financial years. Gearing ratios as at 30 September 2024 and current projections of financial covenants, at the time of preparation assume a recapitalisation of the business in 2025/26, and continue to show similar results of non-compliance. As such, the TWUL Group continues to operate with the restrictions arising from being in Trigger as per the WBS. This includes a cash lockup preventing distributions and a prohibition from incurring additional debt unless consent is given by the Secured Creditors, other than utilisations or amendments and extensions of existing committed facilities. A remedial plan has been submitted to the Security Trustee and further information has also been provided to 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, adverse weather as well as the crystallisation of fines proposed by Ofwat in relation to regulatory investigations into wastewater operations and the October 2023 dividend payment. To mitigate the impact on operational cashflows, active working capital management, and the release of contingencies embedded within the Business Plan have also been considered.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

3. Covenant compliance (continued)

Under a severe but plausible downside scenario, a Trigger event would continue and an Event of Default is forecasted for 2024/25 and 2025/26 due to non-compliance of interest cover ratios with the required threshold. However, the interest cover ratio is not scheduled to be tested until after the expected implementation date of the Liquidity Extension Transaction and modifications to the financial covenants are proposed in the Liquidity Extension Transaction. TWUL would expect to remain in Trigger for the next two years, although TWUL would not be required to comply with its existing financial covenants during that period once the Restructuring Plan becomes effective. TWUL instead will be required to comply with a minimum liquidity covenant, which is forecast to be complied with in the base case and in a scenario involving a CMA referral.

In the event of an event of default, the TWUL Group and therefore TWUL would enter into an automatic 18-month standstill period (a "Standstill Period") during which Secured Creditors are prohibited from taking enforcement action or accelerating any of the TWUL Group'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 TWUL's operations including the cessation of capital expenditure other than for essential maintenance. These liquidity facilities will be cancelled in the event that the Restructuring Plan is approved and whilst the TSA is in place the TWUL Group has agreed not to draw these without the consent of the relevant lenders ahead of the implementation of the Liquidity Extension Transaction.

4. Regulatory licence compliance

There are scenarios where a revised business plan would need to be prepared to take account of available funding during the going concern assessment 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. Depending 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 TWUL Group 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.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Conclusions

In assessing whether TWUL and the TWUL Group have adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge their obligations as they fall due, the TWUL Directors have taken into consideration all of the factors set out above.

Accordingly, the TWUL Directors believe that it is reasonable to assume that actions can be taken such that TWUL and the TWUL Group have adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge their obligations as they fall due.

However, there exists a material uncertainty which may cast significant doubt on the TWUL Group and TWUL's ability to continue as a going concern in relation to the preparation of the financial statements given TWUL and the TWUL Group do not have sufficient committed liquidity to meet their liabilities as they fall due for a period of at least 12 months from the approval of the financial statements.

The ability of the TWUL Group and TWUL to extend the liquidity runway is not wholly within their control and is dependent on the implementation of a Liquidity Extension Transaction. The implementation of the Liquidity Extension Transaction, and the subsequent securing of additional funding via a creditor led solution and / or equity, is dependent upon a number of matters which, individually and collectively, are outside of TWUL's control; these are due to commence shortly after the approval of the interim financial statements. The convening hearing date for the Restructuring Plan is scheduled for 17 December 2024 and, without a Restructuring Plan approved by the court (expected to be effective at 31 January 2025), the liquidity runway ends during March 2025. The Liquidity Extension Transaction is intended to allow the TWUL Group to progress its current equity raise process and support a holistic recapitalisation transaction.

The financial statements do not include the adjustments that would result if the TWUL Group and TWUL were unable to continue as a going concern.

Accounting policies (continued)

IBOR reform

The UK Financial Conduct Authority ("FCA") had concluded that the underlying market that the London Inter-Bank Offered Rate ("LIBOR") was derived from was no longer used in any significant volume and so the rates submitted by banks to sustain the LIBOR rate were often based (at least in part) on expert judgement rather than actual transactions. As a result, after the end of 2021, GBP LIBOR is no longer supported as a benchmark and GBP LIBOR has transitioned ("IBOR reform") to the new Sterling benchmark the Sterling Overnight Index Average ("SONIA").

The Company established a project to oversee the GBP LIBOR transition plan. This transition project included changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The transition has largely been completed, although some intercompany transactions have not yet transitioned, this is expected to be completed by 30 September 2025.

Refer to the IBOR reform section included in Note 10 Financial instruments on page 40 for details of all of the financial instruments that the Company holds at 30 September 2024 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

New standards and amendments

Amendments to IAS 1 Presentation of Financial Statements

The Company has applied the following amendments:

- Classification of liabilities as Current or Non-current and Non-current liabilities with covenants – Amendments to IAS 1

As a result of the adoption of the amendments to IAS 1, the Company has changed its accounting policy for the classification of borrowings.

"Borrowings are classified as current liabilities unless at the end of the reporting period, the Company has a right to defer settlement of the liability for at least 12 months after the reporting period".

This new policy has resulted in prior year restatements, impacting the following disclosures:

- Condensed statement of financial position on page 11
- Note 9 Borrowings on page 36

Refer to pages 29 to 30 for further information on the restatements and management's accounting judgement relating to current / non-current classification of borrowings.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty for the six months ended 30 September 2024 are contained the sections below:

<u>Derivative financial assets and liabilities</u>

Accounting estimate – valuation of derivatives:

The Company holds derivative financial instruments that fall into the following categories:
• index-linked swaps; and
• cross currency swaps.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed
Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Company's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The fair value of derivative financial instruments, including cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties using observable market data and where necessary, management estimation. In cases where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level 2.

IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps using observable inputs as well as management estimation. As at 30 September 2024, an additional 150 basis points differential has been applied to the difference between the two ITRX indices used in determining the super seniority adjustment as a management estimate of the overall difference in spread for super senior versus senior instruments. This seeks to address the inherent uncertainty in valuation methodology, given a lack of a more appropriate data point in determining the spread for the Company's super senior instruments. As at 31 March 2024 the differential was calculated by reference to corporate bonds with a two notch investment grade credit rating differential, which was appropriate at the time, given that the Group's debt was rated Baa1 (Moody's) and BBB (S&P), i.e. investment grade and so a high correlation would be expected. The change in methodology and use of significant unobservable inputs, means these index-linked swaps are classified as level 3 whereas at 31 March 2024 they were level 2. Cross currency swaps continue to be classified as level 2 as they rank equally to Class A debt, where observable spreads are available. The net total of derivative financial assets and liabilities as at 30 September 2024 was a liability of £292.3 million (31 March 2024: a liability of £257.8 million). Refer to note 10 on page 37 for more information. The valuations if no credit and any other adjustment is applied is £425.0 million net liability (31 March 2024: £372.6 million net liability). The credit and any other adjustment is £132.7 million (31 March 2024: £114.8 million).

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty (continued)

Derivative financial assets and liabilities (continued)

Accounting estimate – valuation of derivatives (continued):

If the 150 basis point additional adjustment to the credit spread had not been applied in valuing the super senior derivatives, this would have reduced the net liability by £17 million, and the overall net liability would have been £275.3 million. The size of this adjustment in the value is correlated with the unadjusted market value of super senior instruments which will move with interest rate curves and expected inflation assumptions. This demonstrates the sensitivity of the valuations to the selection of credit curve. This uncertainty on the methodology of valuation of super senior derivatives may persist into the next financial year, depending on the success and timing of the Group's plans for raising new equity and stabilising its financial position.

Level 2 instruments	**2024 £m**
Opening balance	(257.8)
Transfers from Level 2 to Level 3[1]	295.6
Gains and losses recognised through profit or loss	(48.1)
Closing balance	**(10.3)**

In its valuation of its Level 3 derivatives, the Company uses observable market data as a starting point. The primary source of data is the trading spread of its Class A debt instruments. A spread curve is generated using the cubic-spline methodology. This is then adjusted using observable market data which can be used to estimate the adjustment in the Class A credit curve appropriate for super senior instruments. If the observable market data is not considered to correlate sufficiently with the Company's own instruments, then management judgement is then applied to adjust the derived curve to be an estimate which management judges to be reasonable. At the next reporting date these data points and judgements will be reviewed and updated to maintain a reasonable approach and a decision will be made as to whether the transactions should be classified differently from Level 3.

Level 3 instruments	**2024 £m**
Opening balance	-
Transfers from Level 2 to Level 3[1]	(295.6)
Gains and losses recognised through profit or loss	13.6
Closing balance	**(282.0)**

[1] The accounting policy is to transfer any fair value between fair value hierarchies (Level 1 – 3) at the end of the reporting period.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty (continued)

<u>Intercompany loans receivable</u>

Accounting judgement and estimation – provision of expected credit losses

Management makes an estimate of the recoverable value of the TWUL loan receivables in line with the provisions of IFRS 9. When assessing these receivables for expected credit losses, management considers factors driving recoverability, including borrower's ability to pay, age profile of the receivables, net debt of the borrowing entity, seniority of debt and historical experience, among other factors. Key inputs into management's expected credit losses model include consideration of possible equity injections receivable, outturn of the Final Determination, risk of a Special Administrative Regime and the returns which equity providers may require in order to invest.

In accordance with the specific requirements of IFRS 9, the expected credit loss on the TWUL loan receivables is determined by estimating the expected recoverability of these assets based on different scenarios considered by management, informed by available data and information where possible. A range of scenarios resulting in the outcomes of the Final Determination, Restructuring Plan and an event where TWUL enters a Special Administrative Regime ("SAR") have been used in the assessment, and estimates are made of the ability for TWUL to receive equity investment and the returns which equity providers may require in order to invest. Management have exercised judgement over the probability weightings of the scenarios based on management's view about the likelihood of each scenario arising and considering the outcomes discussed in the going concern section.

These scenarios have been weighted, with a restructuring plan approved and equity being received into TWUL from a holding company being the most likely scenario. Within this scenario it is considered more likely than not that a restructuring involving a reduction in the principal payable on TWUL Group's external debt will be required. All other scenarios also assume there will be a reduction in the principal payable, either if equity is received directly into TWUL or TWUL enters SAR, which is the least probably outcome.

Expected credit losses on receivables, which are detailed in note 5, total £1,967.0 million as at the six month period ended 30 September 2024 (30 September 2023: £nil). Refer to further detail of the impact on the intercompany loan receivable in note 9.

We have performed a sensitivity analysis and determined there is a plausible scenario where a credit loss of £6.4 billion on the TWUL loan receivables could occur and likewise full recovery of the TWUL loan receivables could occur with no credit losses recognised. These have been modelled and considered in the assessment.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty (continued)

Borrowings

Accounting judgement – current / non-current classification of borrowings

In January 2020, the International Accounting Standards Board (IASB) issued amendments to IAS 1 Classification of Liabilities as Current or Non-current (the 2020 Amendments). In October 2022, the IASB issued further amendments to IAS 1 Non-current liabilities with Covenants (the 2022 Amendments). These amendments have been applied retrospectively at the date of transition (1 April 2024) and therefore the Company' "as previously stated" results have been restated.

The IAS 1 amendments changed the criteria for current liabilities from the position that the right to defer settlement for 12 months be unconditional to be, under the changed standard, that the right has to have substance and must exist at the reporting date. Furthermore, the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early. As a result of these amendments, we have reassessed our classification of borrowings, and reclassified certain borrowings from current to non-current due to the final maturity date of the revolving credit facility being over 12 months from the reporting date.

In addition, the 2022 amendments also clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date. We note that these amendments have not impacted the current or prior period.

Management have exercised judgement over the current / non-current classification of borrowings, specifically relating to drawdowns from its revolving credit facilities following the amendments to IAS 1.

In the 31 March 2024 financial statements, drawdowns from revolving credit facilities are classified as current as the repayment is due within 12 months and there was an expectation to repay the drawdowns within 12 months.

Amended IAS 1 now clarifies that the classification of liabilities is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, the expectation to settle the drawdowns within 12 months (that was factored into the classification assessment at 31 March) can no longer be considered when classifying these liabilities. Hence, as at 31 March 2024, the assessment of the classification of these liabilities has changed based on the clarifications included in amended IAS 1.

In determining the impact from the IAS 1 amendment on assessing the current/non-current classification of drawdowns from the revolving credit facilities at the 31 March 2024 and 30 September 2024 period ends, we have considered the necessary factors which would allow the rollover of a drawdown from a revolving credit facility for at least 12 months. These factors include at the period end:

- there not being an event of default or potential event of default[1], or an event of default or potential event of default would result from the proposed rollover;
- there not being a standstill period; and
- the period to the final maturity date at the end of the reporting period being at least 12 months.

[1] A potential event of default is an event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an event of default. Therefore, a potential event of default is where the covenant cannot be met, but the grace period has not expired.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty (continued)

Borrowings (continued)

Accounting judgement – current / non-current classification of borrowings (continued)

As at 30 September 2024, none of these conditions have been met, and therefore the drawdowns from the revolving credit facilities have been classified as non-current.

This is also true for 31 March 2024, except for the final maturity date being less than 12 months for certain revolving credit facility drawdowns, this is explained further below.

For the period ended 30 September 2024, the Company had drawn £1,305.7 million of revolving credit facilities, which will be classified as non-current as the period to the final maturity date is at least 12 months from the reporting date. There is no impact from the IAS 1 Amendment on presentation for the period ended 30 September 2024, as the drawn £1,305.7 million of revolving credit facilities would also have been classified as non-current under legacy IAS 1 due to there being an expectation (and discretion) to roll over the facilities.

As at 31 March 2024, the Company had drawn £1,430.7 million of revolving credit facilities, all of which were classified as current. As a result of the IAS 1 Amendment, £1,280.7 million will be reclassified as non-current, and the remaining £150.0 million will remain within current in the comparative figures. £150.0 million remains within current due to there being less than 12 months remaining before the final maturity date of the two £75.0 million facilities.

Reconciliation of condensed statement of financial position as at 31 March 2024

	Note	As previously stated £m	IAS 1 Amendments £m	Restated £m
Current liabilities:				
Borrowings	9	(2,127.8)	1,280.7	(847.1)
Net current assets		318.5	1,280.7	1,599.2
Non-current liabilities:				
Borrowings	9	(12,726.1)	(1,280.7)	(14,006.8)
Net assets		216.6	-	216.6

Seasonality of operations

Management have assessed the impact of any seasonality on the operations of the business and concluded that there is no impact.

Notes to the condensed interim financial statements

1. Segmental analysis

The Company's income and results arise solely in the United Kingdom and are attributable to one principal activity of the Company, being the raising of finance and subsequent lending of debt to TWUL. Consequently, the Directors review the financial information of the Company as a whole and therefore have not included segmental analysis within these condensed financial statements.

2. Finance income

For the six month period ended	**30 September 2024 £m**	30 September 2023 £m
Interest receivable on intercompany loans receivable	**341.2**	355.1
Net interest income/(expense) on swaps	**5.7**	(2.0)
Other finance fees recharged to TWUL	**0.4**	0.3
Total	**347.3**	353.4

3. Finance expense

For the six month period ended	**30 September 2024 £m**	30 September 2023 £m
Interest expense on borrowings	**(321.4)**	(316.5)
Other finance fees	**(0.4)**	(0.2)
Total	**(321.8)**	(316.7)

4. Net gains on financial instruments

For the six month period ended	**30 September 2024 £m**	30 September 2023 £m
Net exchange gains on foreign currency borrowings and intercompany loans receivables	**98.1**	30.9
Net (losses)/gains arising on swaps where hedge accounting is not applied[1]	**(52.0)**	98.6
	46.1	129.5

[1] Net losses arising on swaps where hedge accounting is not applied primarily reflects appreciation of GBP against USD, EUR and CAD, partially offset by higher own credit spread, lower inflation rate expectations and lower interest rate expectations.

Notes to the condensed interim financial statements (continued)

5. Impairment losses on intercompany loans receivable

For the six month period ended	30 September 2024 £m	30 September 2023 £m
Impairment losses on intercompany loans receivable from Thames Water Utilities Limited	**1,912.0**	-
Total	**1,912.0**	-

The Company has intercompany loans receivable due from TWUL, totalling £14,902.6 million (31 March 2024: £14,981.0 million) in book value, together with accrued interest of £326.6 million (31 March 2024: £301.5 million). As a result of the IFRS9 assessment on the intercompany loans performed in the period, an expected credit loss of £1,912.0 million (year ended 31 March 2024: £55.0 million, six month period ended 30 September 2023: £nil) has been recognised in the Income Statement. This is shown as an exceptional item, as these losses are not as a result of the ordinary course of business. The expected credit loss has been recognised following an analysis of the loans receivable recovery in line with IFRS 9. Refer to note 7 for further details of the expected credit loss on the intercompany loans and interest receivable.

Notes to the condensed interim financial statements (continued)

6. Taxation

For the six month period ended	**30 September 2024 £m**	30 September 2023 £m
Current tax:		
Amounts payable in respect of group relief	**4.1**	3.3
Deferred tax:		
Origination and reversal of timing differences	**(1.1)**	20.5
Tax charge on loss/profit on ordinary activities	**3.0**	23.8

The tax charge for the six month period ended 30 September 2024 is higher than the 25% standard rate of corporation tax in the UK primarily due to the movement in the fair value of derivatives that is subject to the initial recognition exemption.

Notes to the condensed interim financial statements (continued)

7. Intercompany loans receivable

As at	**30 September 2024 £m**	31 March 2024 £m
Amounts owed by Group undertakings:		
Thames Water Utilities Limited	**14,902.6**	14,981.0
Interest receivable on amounts owed by Group undertakings:		
Thames Water Utilities Limited	**326.6**	301.5
Impairment on amounts owed by Group undertakings:		
Loss allowance	**(1,967.0)**	(55.0)
Total	**13,262.2**	15,227.5
Disclosed within non-current assets	**11,840.6**	12,732.5
Disclosed within current assets	**1,421.6**	2,495.0

There are no amounts past their due by dates.

On 31 August 2018, intercompany loans receivable previously held by Thames Water Utilities Cayman Finance Limited ("TWUCF") were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the intercompany loans receivable transferred was £8,064.1 million, representing a fair value uplift of £1,653.9 million on the original book value held by TWUCF. During the period ended 30 September 2024, the fair value uplift amortisation of intercompany loans receivable was £25.2 million (30 September 2023: £25.9 million) and the unamortised fair value of the intercompany loans receivable as at 30 September 2024 was £6,570.0 million (31 March 2024: £6,572.6 million).

Intercompany loans receivable are held at amortised cost. Terms of the intercompany loans receivable reflect the terms of the relevant external borrowing and any relevant swaps, although a small minority of external transactions are not perfectly matched with intercompany transactions. These external transactions include two index-linked swaps with £100.0 million notional each, that were restructured in November 2019, where the relevant intercompany loans have matured or are not perfectly matched with external swaps. Furthermore, there are two additional index-linked swaps (with £200.0 million notional and £100.0 million notional) where the relevant intercompany loans are not perfectly matched with the external swaps. The mismatches result in the interest and accretion recharged to TWUL through intercompany transactions not being fully aligned with the interest and accretion charged on the external debt and swaps. However, there is no material credit impact for TWUF as a result of the mismatches.

The Company is part of the Securitisation Group (refer to "Business review" section on page 2), the payment of all amounts owing in respect of the external debt issued by TWUL or the Company is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The companies within the TWUL Group, i.e. the Company and TWUL, do not guarantee TWUHL obligations as part of this arrangement.

Under IFRS 9, the maximum period over which expected credit losses should be measured is the longest contractual period where an entity is exposed to credit risk. To the extent that loans are repayable on demand, the expected credit losses are based on the assumption that repayment of the loans is demanded in full at the reporting date. Following credit rating downgrades by Moody's and S&P in April 2024, TWUL is now subject to a 'cash lock-up' under its licence, which limits certain payments including dividends to associated companies without prior approval of Ofwat, and following the Trigger Events in July 2024, in lock-up under the Whole Business Securitisation financing. As a result of the significant increase in credit risk during the prior year, and the credit risk further increasing in the current period, the loans are considered to be in 'stage 2' of the IFRS 9 impairment assessment and a lifetime expected credit loss is recognised.

Notes to the condensed interim financial statements (continued)

7. Intercompany loans receivable (continued)

As required by IFRS 9, the Company determined the expected credit loss of the receivable loan by estimating the expected recoverability based on different scenarios under which the Company expect repayment will or could be made. A range of scenarios resulting in the outcomes of the Final Determination, Restructuring Plan and an event where TWUL enters a Special Administrative Regime ("SAR") have been used in the assessment. Estimates are made of the ability for TWUL to receive equity investment and the returns which equity providers may require in order to invest. Management have exercised judgement over the probability weightings of the scenarios based on management's view about the likelihood of each scenario arising and considering the outcomes discussed in the going concern section.

As a result of this assessment the Company has recognised a £1,967.0 million (31 March 2024: £55.0 million) expected credit loss on the intercompany loan receivable which is recognised in the Statement of Financial Position, with a corresponding movement in the expected credit losses of £1,912.0 million recognised in the Income Statement as an exceptional item, as these losses are material and not as a result of the ordinary course of business. The multi factor analysis required by IFRS 9 has resulted in an expected credit loss, and there is an unlikely scenario where TWUL enters a Special Administration Regime where the loss is estimated at £6.4 billion, which is the scenario with the highest loss. It is expected that over the long term TWUL's ability to refinance its debt would be restored whereby future Final Determinations are assumed to be deliverable, financeable and investible.

8. Amounts owed by Group undertakings

As at	30 September 2024 £m	31 March 2024 £m
Amounts owed by Group undertakings		
Thames Water Utilities Limited	**93.1**	90.8
	93.1	90.8

Amounts owed by group undertakings include amounts owed by immediate parent company TWUL. As at 30 September 2024, £93.1 million (31 March 2024: £90.8 million) was recognised within amounts owed by group undertakings relating to amounts owed by TWUL, of which £92.3 million (31 March 2024: £90.1 million) reflects interest received by TWUL on behalf of the Company in relation to restructured swaps.

Notes to the condensed interim financial statements (continued)

9. Borrowings

As at	**30 September 2024 £m**	Restated[1] 31 March 2024 £m
Secured bank loans and private placements	**1,908.0**	2,055.2
Bonds	**12,208.8**	12,249.1
Amounts owed to Group undertakings	**291.2**	286.4
	14,408.0	14,590.7
Interest payable on borrowings	**288.7**	263.2
Total	**14,696.7**	14,853.9
Disclosed within non-current liabilities[2]	**13,659.3**	14,006.8
Disclosed within current liabilities	**1,037.4**	847.1

[1] The prior year current / non-current classification of borrowings has been restated due to the impact of the amendments to IAS 1 'Presentation of Financial Statements' as discussed on pages 29 to 30.

[2] Included within non-current liabilities are £1,305.7 million of Class A revolving credit facilities (31 March 2024: £1,060.0 million) and £nil Class B revolving credit facilities (31 March 2024: £220.7 million) that have a right of roll over of the obligations for at least 12 months. The right to roll over these facilities is subject to there not being an event of default, a standstill period and the availability period remaining of at least 12 months, which is the case at the reporting dates. Refer to pages 29 to 30 for management's judgement relating to the current / non-current classification of borrowings, specifically relating to revolving credit facilities.

During the six months ended 30 September 2024, the Company drew down £365.8 million debt under its revolving credit facilities, and repaid £491.6 million debt including £490.7 million relating to revolving credit facilities and £0.9 million relating to bonds.

Debt issued by the Company matures between 2024 and 2062. The Company uses derivatives to swap some fixed rate debt to index-linked debt, which is lent on to TWUL, a regulated utility company and the immediate parent company with index-linked revenues. Additional disclosures on the derivatives have been provided in note 10.

TWUL and Thames Water Utilities Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds, secured loans and private placements issued by the Company.

Amounts owed to Group undertakings are loans from TWUL and interest is charged at a floating rate in both the current and preceding financial period.

Notes to the condensed interim financial statements (continued)

10. Financial instruments

Fair value measurements

The Company holds derivative financial instruments that fall into the following categories:
• index-linked swaps; and
• cross currency swaps.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed
Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Company's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The fair value of derivative financial instruments, including cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties using observable market data and where necessary, management estimation. In cases where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level 2.

IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps using observable inputs as well as management estimation. As at 30 September 2024, an additional 150 basis points differential has been applied to the difference between the two ITRX indices used in determining the super seniority adjustment as a management estimate of the overall difference in spread for super senior versus senior instruments. This seeks to address the inherent uncertainty in valuation methodology, given a lack of a more appropriate data point in determining the spread for the Company's super senior instruments. As at 31 March 2024 the differential was calculated by reference to corporate bonds with a two notch investment grade credit rating differential, which was appropriate at the time, given that the Group's debt was rated Baa1 (Moody's) and BBB (S&P), i.e. investment grade and so a high correlation would be expected. The change in methodology and use of significant unobservable inputs, means these index-linked swaps are classified as level 3 whereas at 31 March 2024 they were level 2. Cross currency swaps continue to be classified as level 2 as they rank equally to Class A debt, where observable spreads are available. The net total of derivative financial assets and liabilities as at 30 September 2024 was a liability of £292.3 million (31 March 2024: a liability of £257.8 million). Refer to the accounting policies on pages 26 to 27 for more information on the key assumptions.

Notes to the condensed interim financial statements (continued)

10. Financial instruments (continued)

Fair value measurements (continued)

The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2024 and 31 March 2024:

Financial assets	Level 2[1]	
As at	**30 September 2024 £m**	31 March 2024 £m
Fair value through profit or loss:		
Cross currency swaps	**39.7**	65.3
Cash and cash equivalents – money market funds	**1.3**	1.4
	41.0	66.7
Amortised cost		
Cash and cash equivalents – cash at bank and in hand	**0.1**	0.2
Amounts owed by group undertakings	**93.1**	90.8
Intercompany loans receivable	**13,262.2**	15,227.5
	13,355.4	15,318.5
Total	**13,396.4**	15,385.2

Financial liabilities	Level 2/3[1, 2]	
As at	**30 September 2024 £m**	31 March 2024 £m
Fair value through profit or loss:		
Index-linked swaps	**(282.0)**	(295.6)
Cross currency swaps	**(50.0)**	(27.5)
	(332.0)	(323.1)
Amortised cost		
Borrowings[2]	**(14,696.7)**	(14,853.9)
Amounts payable in respect of group relief	**(7.1)**	(2.9)
Other financial liabilities	**(4.0)**	(4.6)
	(14,707.8)	(14,861.4)
Total	**(15,039.8)**	(15,184.5)

[1] The fair value of derivative financial instruments is measured using discounted cash flows of all the transactions within each netting set. The future cash flows are estimated based on observable forward interest and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects credit risk of the Company and the counterparties.
[2] Level 2 with the exception of publicly traded underlying liquid bonds which are Level 1 (31 March 2024: Level 1), and index-linked swaps which are Level 3 (31 March 2024: Level 2).

Notes to the condensed interim financial statements (continued)

10. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The table below sets out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities.

As at	**30 September 2024**		31 March 2024	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Intercompany loans receivable	**13,262.2**	**9,793.0**	15,227.5	11,967.0
Cash and cash equivalents	**1.4**	**1.4**	1.6	1.6
Derivative financial instruments	**39.7**	**39.7**	65.3	65.3
Amounts owed by group undertakings	**93.1**	**93.1**	90.8	90.8
	13,396.4	**9,927.2**	15,385.2	12,124.7
Financial liabilities:				
Borrowings	**(14,696.7)**	**(9,664.6)**	(14,853.9)	(11,673.8)
Derivative financial instruments	**(332.0)**	**(332.0)**	(323.1)	(323.1)
Amounts payable in respect of group relief	**(7.1)**	**(7.1)**	(2.9)	(2.9)
Other financial liabilities	**(4.0)**	**(4.0)**	(4.6)	(4.6)
	(15,039.8)	**(10,007.7)**	(15,184.5)	(12,004.4)

Intercompany loans receivable

The fair value of intercompany loan receivable represents the fair value of the underlying debt and associated derivative, adjusted for accrued interest receivable.

Borrowings

The fair value of borrowings represents the market value, and for the publicly traded liquid bonds the price is observable (level 1 inputs to valuation technique). For all other debt instruments the fair value is based on the outstanding nominal value (including accrued accretion for index-linked debt instruments) to which the weighted average price of publicly traded liquid bonds of the same ranking (Class A or Class B) is applied. Foreign currency values are translated at the spot rate. Accrued interest is then added.

Notes to the condensed interim financial statements (continued)

10. Financial instruments (continued)

IBOR reform

The following table contains details of all of the financial instruments that the Company holds at 30 September 2024 and 31 March 2024 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 30 September 2024		**Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2024**	
	Assets £m	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings[1]	**-**	**(291.2)**	**-**	**(291.2)**
Total assets and liabilities exposed to GBP LIBOR	**-**	**(291.2)**	**-**	**(291.2)**

	Carrying Value at 31 March 2024		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2024	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings[1]	-	(286.4)	-	(286.4)
Total assets and liabilities exposed to GBP LIBOR	-	(286.4)	-	(286.4)

[1] Included in the £291.2 million (31 March 2024: £286.4 million) of borrowings in the table above are two intercompany loans with TWUL that are directly linked to LIBOR. The transition of these loans from LIBOR to SONIA is expected to be completed by 30 September 2025.

Notes to the condensed interim financial statements (continued)

11. Related parties

The principal activity of the Company is to make certain financing arrangements on behalf of TWUL and as such the major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL.

Intercompany loans receivable

The proceeds from external debt issued by the Company including any impact of associated derivatives are passed onto TWUL through intercompany loans mostly with a margin of 0.1% charged, although a small minority of external transactions are not perfectly matched with intercompany transactions or no margin on the intercompany loan is charged.

Amounts owed by Group undertakings represent cumulative financing proceeds that have been loaned to TWUL. Details of intercompany loans receivable can be found in note 7. There are no amounts past their due dates (31 March 2024: £nil).

Under IFRS 9, the maximum period over which expected credit losses should be measured is the longest contractual period where an entity is exposed to credit risk. To the extent that loans are repayable on demand, the expected credit losses are based on the assumption that repayment of the loans is demanded in full at the reporting date. Following credit rating downgrades by Moody's and S&P in April 2024, TWUL is now subject to a 'cash lock-up' under its licence, which limits certain payments including dividends to associated companies without prior approval of Ofwat, and following the Trigger Events in July 2024, in lock-up under the Whole Business Securitisation financing. As a result of the significant increase in credit risk during the prior year, and the credit risk further increasing in the current period, the loans are considered to be in 'stage 2' of the IFRS 9 impairment assessment and a lifetime expected credit loss is recognised.

In accordance with the specific requirements of IFRS 9, the expected credit loss on the TWUL loan receivables is determined by estimating the expected recoverability of these assets based on different scenarios considered by management, informed by available data and information where possible. A range of scenarios resulting in the outcomes of the Final Determination, Restructuring Plan and an event where TWUL enters a Special Administrative Regime ("SAR") have been used in the assessment, and estimates are made of the ability for TWUL to receive equity investment and the returns which equity providers may require in order to invest. Management have exercised judgement over the probability weightings of the scenarios based on management's view about the likelihood of each scenario arising and considering the outcomes discussed in the going concern section.

As a result of this assessment the Company has recognised a £1,967.0 million (31 March 2024: £55.0 million) expected credit loss on the intercompany loan receivable which is recognised in the Statement of Financial Position, with a corresponding movement in the expected credit losses of £1,912.0 million recognised in the Income Statement as an exceptional item, as these losses are material and not as a result of the ordinary course of business. The multi factor analysis required by IFRS 9 has resulted in an expected credit loss, and there is an unlikely scenario where TWUL enters a Special Administration Regime where the loss is estimated at £6.4 billion, which is the scenario with the highest loss. It is expected that over the long term TWUL's ability to refinance its debt would be restored whereby future Final Determinations are assumed to be deliverable, financeable and investible.

Total interest earned from TWUL in respect of the six month period ended 30 September 2024 was £341.2 million (30 September 2023: £355.1 million).

Other finance fees recharged to TWUL in respect of the six month period ended 30 September 2024 was £0.4 million (30 September 2023: £0.3 million).

Notes to the condensed interim financial statements (continued)

11. Related parties (continued)

Amounts owed by group undertakings

Amounts owed by group undertakings include amounts owed by immediate parent company TWUL. As at 31 March 2024, £93.1 million (31 March 2024: £90.8 million) was recognised within amounts owed by group undertakings relating to amounts owed by TWUL, of which £92.3 million (31 March 2024: £90.1 million) reflects interest received by TWUL on behalf of the Company in relation to restructured swaps.

Borrowings

Amounts owed to Group undertakings represent floating rate loans payable to TWUL. Details of the borrowing can be found in note 9. There are no amounts past their due dates (31 March 2024: £nil).

Interest on the loans from TWUL is charged at a floating rate (LIBOR plus a margin) in both the current and preceding financial period but in line with the GBP LIBOR transition plan, the accruals have been made using SONIA plus a margin (refer to IBOR reform section on page 40 for more information). Total interest earned by TWUL in respect of the six month period ended 30 September 2024 was £11.1 million (30 September 2023: £3.3 million).

Other financial liabilities

Other financial liabilities include amounts owed to immediate parent company TWUL. As at 30 September 2024, £2.9 million (31 March 2024: £3.5 million) was recognised within other financial liabilities relating to amounts owed to TWUL.

Transactions with key management personnel

During the period, none of the Directors had significant contracts with the Company or any other body corporate within the TWUL Group other than their contracts of service with TWUL (31 March 2024: none).

Notes to the condensed interim financial statements (continued)

12. Called up share capital and other reserves

Called up share capital

As at	**30 September 2024 £**	31 March 2024 £
Allotted, called-up and fully paid		
50,001 ordinary shares of £1 each	**50,001**	50,001
Total	**50,001**	50,001

The Company's ordinary shares carry no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. On 31 July 2018, 1 ordinary share was issued to TWUL, the immediate parent company, at a premium of £207.7 million. Subsequent to the new share issue, the Company completed a capital reduction by way of transferring the whole of the balance on share premium to other reserves.

Other reserves

As at	**30 September 2024 £m**	31 March 2024 £m
Other reserves	**207.7**	207.7
Total	**207.7**	207.7

13. Immediate and ultimate parent and controlling party

The immediate parent company of Thames Water Utilities Finance plc is Thames Water Utilities Limited, a company incorporated in the United Kingdom, which owns 100% of the issued share capital of the Company and is the smallest group to consolidate these financial statements.

The Directors consider the ultimate parent company and controlling party to be Kemble Water Holdings Limited, a company incorporated in the United Kingdom, and the largest group to consolidate these financial statements. The address of the registered office of both Thames Water Utilities Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the financial statements for both entities may be obtained from The Company Secretary's Office at this address.

Notes to the condensed interim financial statements (continued)

14. Post balance sheet events

In October 2024:

- a total of £410.0 million Class A Revolving Credit Facilities due in October 2024 were rolled over to November 2024. The Company originally loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin. As a result of the drawdowns being rolled over, the intercompany loans were also due in October 2024;
- S&P downgraded the Class A rating to CC with negative outlook and the Class B rating to C with negative outlook; and
- on 25 October 2024, TWUL announced a proposed transaction to extend the Group's liquidity runway. This includes up to £3bn of new money in addition to access to cash reserves and debt extensions. With the support of our creditors, this will allow us to progress our equity raise process and a holistic recapitalisation transaction. It will also allow us to complete the Final Determination process, including a CMA appeal if necessary, and deliver our ambitious PR24 plan for the benefit of our customers and the environment. TWUL announced that the proposed transaction to extend its liquidity runway of up to £3bn that will take it through to May 2026.

In November 2024:

- a total of £775.8 million Class A Revolving Credit Facilities due in November 2024 were rolled over and are now due in May 2025. The Company originally loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin. As a result of the drawdowns being rolled over, the intercompany loans are also due in May 2025.

In December 2024:

- a total of £530.0 million Class A Revolving Credit Facilities due in December 2024 were instructed to be rolled over and so once rolled, will be due in June 2025. The Company originally loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin. As a result of the drawdowns being rolled over, the intercompany loans will also be due in June 2025.