



# Delivering life's essential service

Thames Water  
Annual Report and  
Sustainability Report 2020/21



## Our Purpose

# Welcome to our Annual Report and Sustainability Report

We're here to provide clean, fresh drinking water to millions of customers every day, and recycle their waste without them having to worry.

Doing things in the right way is just as important as what we do. That's why our Purpose is to deliver life's essential service, so our customers, communities and the environment can thrive.





## Our reports this year

We're taking steps to simplify things and tell our story in a more straightforward way, so you, our stakeholders and customers, really know what our priorities are, and what we're doing to build a better Thames Water.

We know we have a long way to go and we'll do our best to keep you updated on the things that matter most to you. This report is a snapshot of where we are and what our future plans are. We'd love to hear what you think about this report, either when we speak to you next or by dropping us a line at [ourfinances@thameswater.co.uk](mailto:ourfinances@thameswater.co.uk).

We know it's so important that every decision we make serves the needs of today's customers, in a way that will also look after the customers and environment of the future. That's why becoming more sustainable is a critical part of our plans. Because of that, we've kept our Annual Report and Sustainability Report together.

We also produce an Annual Performance Report, which is published on the same day. It's a regulatory report giving more detailed information about our performance against each of our 52 performance commitments and we've decided to produce it as a separate report this year. We hope that by doing that, we're making it easier for you to find the information you need.



**Read our Annual Performance Report**

The Strategic Report was approved by the Board of Directors on 5 July and signed on its behalf by

**Sarah Bentley**  
Chief Executive Officer

## Contents

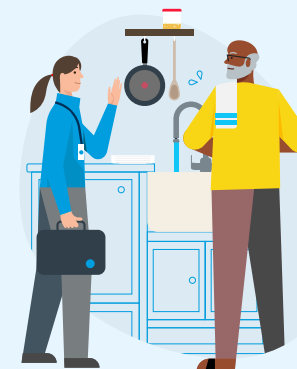
### Our CEO's review



### Our key performance indicators

### Our financial statements

### Our Sustainability Report



#### Strategic report

Our Purpose	01	Audit, Risk and Reporting Committee Report	81
Our reports this year	02	Regulatory Strategy Committee Report	84
Our Chairman's statement	03	Customer Service Committee Report	85
Our CEO's review	04	Health, Safety and Environment Committee Report	86
Our key performance indicators	06	Directors' Remuneration Report	87
Performance overview	07	Remuneration at a glance	88
Our business model	11	Annual Report of Remuneration	90
People	14	Implementation of our Remuneration policy in 2021/22	94
Workforce engagement	19	Directors' report	104
Our strategic ambitions – customer	20		
Our strategic ambitions – assets	23		
Our Sustainability Report	26		
UN Sustainable Development Goals	27		
Our strategic ambitions – public value	28		
Climate change and Task Force on Climate-Related financial disclosures	32		
Our roadmap to net zero	34		
Stakeholder engagement	36		
Section 172 statement	38		
Managing risk	41		
Our principal risks and uncertainties	43		
Long-term Viability Statement	49		
Our CFO's statement	51		
Non-financial Information Statement	58		

#### Governance report

Chairman's introduction	62		
Compliance with Governance Code	63		
Meet our Board	65		
Our Executive team	70		
Roles and responsibilities	73		
Stakeholder engagement	77		
Board activities to drive our strategy	79		
Nomination Committee Report	80		
		Financial statements	
		Independent auditors' report	110
		Consolidated income statement	118
		Consolidated statement of other comprehensive income	118
		Consolidated statement of financial position	119
		Consolidated statement of changes in equity	120
		Consolidated statement of cash flows	120
		Accounting policies	121
		Notes to the consolidated statements	135
		Company income statement	166
		Company statement of other comprehensive income	166
		Company statement of financial position	167
		Company statement of changes in equity	168
		Company statement of cash flows	168
		Notes to the company statements	169

The external documents and websites we refer to in some parts of this report are for extra information only – they don't form part of our Annual Report and Sustainability Report.

## Our Chairman's statement

"My key objective for the year was to bring the right person on board to turn around Thames Water's performance and to make sure we really are delivering our Purpose."



**Ian Marchant**  
Chairman

**It has been a challenging time for our customers, colleagues and for our operations, with the ongoing impact of the Covid-19 pandemic. I wanted to start with a thank you, on behalf of the Board, to all our key workers who have stepped up to keep our services running through such a difficult year – we know it's not been easy.**

### **Our new Chief Executive Officer**

My key objective for the year was to bring the right person on board to turn around Thames Water's performance and to make sure we really are delivering our Purpose. After a rigorous recruitment process, I was delighted to appoint Sarah Bentley as our new Chief Executive Officer. Sarah joined us from Severn Trent, where she was responsible for customer service, network operations, digital and transformation.

When Sarah joined in September, I returned to my role of Chairman, ending my temporary post as Interim Executive Chairman and restoring the separation between executive and non-executive leadership on the Board. In November, I was reappointed as Chairman for another three years by both the Thames Water and Kemble Boards.

You can find a snapshot of Sarah's induction, probably the most in-depth induction ever done by a new CEO at Thames Water, on page 75. Since then, she's worked with the Executive team to define a robust turnaround plan, which starts with creating stronger leadership and changing the way we do things to increase accountability and ownership. As a Board we have been overseeing the development of the plan, which was agreed in March 2021.

### **Other changes to the Board and Executive team**

We saw another change to the Board in July 2020 as Alistair Buchanan stepped down as an Independent Non-Executive Director and was replaced by Hannah Nixon, who joined us in January 2021. Hannah is also Chair of the Regulatory Strategy Committee. Independent Non-Executives continue to be the largest single group on the Board, as required under the Ofwat Board principles. Excluding the Chair, they make up at least half the membership of the Board, in line with the UK Corporate Governance Code. Later this year, Brandon Rennet is due to step down as Chief Financial Officer, and will be replaced in that role and on the Board and the Executive team by Alastair Cochran.

There have also been some changes to the Executive team in recent months with seven new appointments as the team drives forward Thames Water's turnaround plan (see our CEO's review). We have also announced further changes, which will take effect in the coming months and are explained on page 70.

As a Board, we're supporting the Executive team to really connect the business with our Purpose. Sarah is committed to driving open, honest and humble engagement, which is already very evident.

Through our workforce engagement programme, led by Ian Pearson, we've been listening to colleagues on the front line and throughout the business. It's helped us to understand what decisions we need to make, and support, at Board level to make sure everyone across Thames Water feels a sense of our Purpose and is driven by our values and behaviours. We continue to be updated on employee survey results, so we can use the feedback to complement the findings from our workforce engagement programme. Since the onset of the pandemic, we've also had regular updates about our response to Covid-19 and the welfare of our people as they continued to provide life's essential service.

On the customer side, several Board members attended a session with customer representatives to discuss leakage issues in July 2020. You can find more about our engagement with employees on page 19 and different stakeholders on pages 77.

The pandemic has had a big impact on our customers, our people and our operations, and we have been working with the Executive team to provide leadership in supporting all three.

As a Board, we have good relationships with our external shareholders, with four shareholder representatives on the Thames Water Utilities Limited Board. Our external shareholders haven't received a dividend in four years as part of their commitment to investing in the business.

### **The right plan**

The Board will continue to provide strategic leadership, support and advice to Sarah and the Executive team as they work with colleagues to turn around Thames Water. It's going to be a long journey, spanning the next eight to ten years, however I, and the Board, have strong confidence in the plan.

**Ian Marchant**  
Chairman

## Our CEO's review

“We're absolutely determined to learn from our mistakes and improve, and we've now entered a new phase as we start to build and deliver plans to turn around Thames Water.”



**Sarah Bentley**  
Chief Executive Officer

**I'm passionate about the water industry, with the important role we play in everyday life and the opportunity we have to improve the environment and give back to communities, so I was thrilled to join Thames Water as CEO in September. That said, I knew it had a lot of challenges and I came to it with my eyes wide open.**

**It's widely recognised that Thames Water has been underperforming for customers and the environment for a long time. There have been efforts to make improvements in recent years and, in some areas, we have started to see a difference. However, we are only at the beginning of a long journey to turn around our performance.**

### Listening

The first, and most important, thing on my 'to do' list when I joined was to spend lots of time listening to our customers, colleagues and stakeholders. Thames Water has had a reputation for being a bit arrogant, but it's so important we listen with humility if we're really going to understand the problems we face. Then we are able to see the opportunities we have to work together and build back stronger.

What's coming through very loud and clear is that people are frustrated and disappointed that we're not performing better. They also desperately want us to succeed and want to help us on our journey to achieve better things.

I spent most of my first few months at Thames Water getting out and about meeting my colleagues on the front line, and it's something I will keep doing as much as I can. I absolutely love every minute of it, spending time with the teams who test our water, clear blockages, run our sites and talk to our customers. They look after our customers every single day of the year, so understanding their challenges and how we can support them is incredibly important. Happy, engaged and supported colleagues will do their best to look after our customers, communities and the environment. And that's why we're all here. There's also nothing more important than their health, safety and wellbeing, and that will always be our top priority.

### Poor performance

We always knew 2020/21, the first year of this five regulatory period, would be really difficult, with very stretching targets in our key performance commitments. However, our performance last year in some of our key metrics was unacceptable (see page 6), and we're behind where we expected we would be. That said, we've made a bit of progress during the year in some metrics, as we start laying the right foundations to build a brighter future.

We've been spending a lot of time understanding why we are underperforming and we'll continue to do that. We're absolutely determined to learn from our mistakes and improve, and we've now entered a new phase as we start to build and deliver plans to turn around Thames Water. It's going to be a massive undertaking. To do this properly

and in the right way for our customers, colleagues, communities and the environment, there are no quick fixes, and our plans stretch over eight years. No sticking plasters this time and we want to make sure the improvements are sustained. We're in this for the long term and progress might feel frustratingly slow. But the three parts of our plan – to fix the basics, raise the bar and shape the future – all start now.

### Fixing the basics

We need to focus on fixing the basics before we can do anything else and, rest assured, it's our most immediate priority. That means getting performance back on track, making sure we have strong leadership, being really transparent with colleagues, customers and stakeholders and understanding our assets better. It's not just about big and shiny new infrastructure. We need to make sure all our existing assets are working as they should be.

I'm a firm believer in the servant leadership model. Each and every one of our people plays a critical role, so we are flipping the focus of our structure to make sure everything we all do – including the Executive team and Leadership Community – serves our frontline teams, so they can do their very best for our customers. Our values and the way we behave need to be front and centre, and we need to reignite a real connection between management and our frontline teams and assets.

It's really important we build the right team for the turnaround journey and we've recently announced some new appointments. Cathryn Ross, former Group Director of Regulatory Affairs at BT, Warren Buckley, former HSBC Global Contact Centre Lead and Francis Paonessa, who was previously Managing Director of Infrastructure projects at Network Rail, have all joined the Executive team in the last few months and they're absolutely ready for the challenge ahead. We'll also be welcoming Alastair Cochran as our new Chief Financial Officer, in a planned handover from Brandon Rennet who, after four years, has decided to pursue new career opportunities. In addition, Caroline Sheridan will join us as our new Engineering and Asset Director, Tony Vasishta will head up our Ventures division and Nevil Muncaster will become our new Strategic Resources Director later in the year.



## Our CEO's review continued

### Raising the bar

Fixing the basics will get us back on track, but raising the bar will take us to the next level. It's about transforming critical areas of the business and we're investing in customer service, operations, people, assets and strategic planning so we can make real progress. There is a huge amount to do, so ruthless prioritisation and ensuring we deliver is critical.

Innovation is essential to improve the way we serve our customers and renew our ageing infrastructure. We need to keep striving to be better – we will look for opportunities to accelerate our progress and become more efficient. We can't invest in everything we want to, and we need to balance our ambition with affordability, so we will work through how to make the best choices for our customers and the environment.

### Shaping the future

Despite our current challenges, what's extremely exciting is the opportunity we have to shape the future and leave a positive legacy. Obviously the most important thing right now is to fix the basics and then raise the bar, but we need to start laying the foundations for the future and we'll be working with you – our customers and our stakeholders – to create a brilliant vision for 2050. We're focusing on some very important themes, from clean rivers and sustainable water supply to energy transition and community impact and we'll keep working with you to evolve our plans.

Quite rightly, there has been a lot of focus on sewage and rivers during the last year. We know we absolutely need to focus on making a difference to our rivers and we're challenging the status quo. It's completely unacceptable that we still need to discharge sewage into waterways after heavy rain. However, it's something that will take time and money to get right. We are committed to working together to improve the rivers in our region. As an example, we're

working collaboratively with the Windrush Against Sewage Pollution group to clean up the River Windrush.

After a hugely difficult year for our world, we have the opportunity to rebuild it in a green and sustainable way, and this year COP26 gives the world the chance to set the right ambitions for our planet. Our renewable energy generation is often seen as a nice to have, but working together with the Government, our stakeholders, regulators, and supply chain, we can be an important part of energy transition in the UK. I don't think of sewage as 'waste', so I see us not just as a water and wastewater services company, but as a water and renewable energy company. We can make the most of this incredible renewable and sustainable resource and there are so many amazing opportunities for us to support the bigger picture and help others work towards their own carbon reduction targets too.

### Together we're stronger

Thames Water has been underperforming for many years, so you're probably thinking you've heard promises to fix things in the past. We know that we have to earn your trust and the proof will be in the delivery. We are changing the way we engage with you, so you can help shape our plans, and we'll keep listening to you and showing you our progress so you know where we are on our journey. We'll need your help too. We can't do anything without collaboration and we are happy to be working with many of you already.

We're lucky to have such supportive external shareholders too. Many of them invest on behalf of key workers and they're in it with us for the long term as we focus on making a difference. They've not taken a dividend now for four years, which shows real commitment to our customers.

We have a lot of hard work ahead of us – none of it will be easy, and there will be many bumps in the road, but the journey to turn around Thames Water is an important one for our customers, our colleagues, the communities we serve and the environment. We're starting to see the signs of a new future and a sense of real togetherness. I can't wait to work with more of you as we make a real difference for the future of our region.

### Celebrating key workers

I want to finish by saying another huge thank you to our brilliant key workers, and those across the rest of the UK, who have kept the country running during a year like no other in living memory.

As the pandemic hit our region, we knew just how important it was for our service to keep running as smoothly as possible. People needed us to make sure they had water for the really important things in life, with good hygiene being everyone's number one priority. And overnight water demand changed dramatically. We had to adapt quickly as people started living every part of their life at home, leading to a huge drop in the demand for water in the capital and an increase in the Thames Valley (see page 24).

The priorities for us became really clear – to focus on keeping water flowing, to support our customers as much as we could and to keep our people safe and well through this very difficult time. We expanded our support for customers finding themselves in increasingly difficult circumstances due to the impact of Covid-19, and we changed the way we carried out operational work to factor in new social distancing and self-isolation guidelines.

I'm so incredibly proud of how our key workers stepped up to keep our services running, working in our communities at all times of day and night, when most of us had to, and wanted to, stay at home. A massive thank you to our full team and their families for their commitment and dedication during this incredibly challenging time.

**Sarah Bentley**  
Chief Executive Officer



"I'm so incredibly proud of how our key workers stepped up to keep our services running, working in our communities at all times of day and night, when most of us had to, and wanted to, stay at home."



"We need to focus on fixing the basics as a foundation for everything and, rest assured, it's our most immediate priority."

### The three stages of our turnaround plan



Fix the basics



Raise the bar



Shape the future

## Our key performance indicators

### Key performance indicators

As we start this new regulatory period with a new CEO, we've updated our key performance indicators to support the delivery of our turnaround plan. These are the measures we're prioritising as we focus on fixing the basics, the first part of our plan.

Here's a look at how we're performing against our KPIs, with an indication of whether it's an improvement or not on last year.

On the next few pages we've included more information about our performance for each of the KPIs under customer and resilient assets, which are two of our three strategic ambitions. More information about our people KPIs and financial performance can be found later in the report.

### Understanding our dividends

Thames Water is part of a group of companies that is owned ultimately by shareholders which are primarily pension funds, such as OMERS and USS. These shareholders invest in Thames Water with a view to achieving a reasonable return in the form of dividends over the long term, allowing them to support the people who rely on them, such as pensioners.

When we pay a dividend, it's used for two main purposes: firstly to enable other companies in our group to pay interest on loans and other debt, and secondly to allow a dividend to be paid by the group to our ultimate shareholders.

For the last four years, the dividends paid by us have been limited to amounts required to meet these interest requirements, along with some minor working capital needs at the group level, with no dividends being paid to the ultimate shareholders. This has supported higher levels of investment than would otherwise have been the case.

Looking ahead, it is important that we are able to restore dividends to these ultimate shareholders and our plan is to do this on a basis that is supported by the broader performance of the business. No dividend is paid without the Board assessing the proposed payment against our dividend policy, which requires the Board to take into account our financial position, our operational performance, the potential impact on our stakeholders including customers, and Ofwat guidance.

### People

#### Employee engagement

75%

Direction of trend: (2019/20: 64%)

#### Lost time injuries frequency rate (number per 100,000 hours worked)

0.08

Direction of trend: 45% reduction YTD



### Customer

#### C-MeX

17th of 17

Direction of trend: = (2019/20: 17th)

#### Written complaints

39,530

Direction of trend: (2019/20: 33,728)

#### Per capita consumption (litres per person per day)

148

Direction of trend: (2019/20: 145.8)



### Operations

#### Water quality compliance risk index

2.42

Direction of trend: (2019/20: 0.66)

#### Acceptability of water to consumers (number of contacts per 1,000 people)

0.54

Direction of trend: (2019/20: 0.62)

#### Water supply interruptions (hours, minutes and seconds)

13m39s

Direction of trend: (2019/20: 17m 59s)

#### Leakage (three-year rolling average in mega litres per day)

635.6 MI/d

Direction of trend: (2019/20: 671.8 MI/d three-year rolling average)\*

#### Clearance of blockages (number of blockages)

76,223

Direction of trend: (2019/20: 77,220)

#### Internal sewer flooding (number per 10,000 sewer connections)

2.31

Direction of trend: (Target: 1.68)

#### Pollution incidents (cat 1-3) (number per 10,000km of sewers)

26.67

Direction of trend: (2019: 29.68)

#### Treatment works compliance

99.74%

Direction of trend: = (Target: 100%)



### Financial

#### Total revenue

£2.1 billion

(2019/20: £2.2 billion)

#### Investment in assets

£1.1 billion

(2019/20: £1.2 billion)

#### Total (loss)/profit after tax

£(198.5) million

(2019/20: Profit £244.6 million)

#### Underlying (loss)/profit after tax

£(258.1) million

(2019/20: £186.6 million)

#### Credit ratings: Moody's Corporate family rating

Baa2 Stable

(2019/20: Baa2 Stable)

#### Credit ratings: S&P Class A

BBB+/neg

(2019/20: BBB+ Negative)

#### Dividends to service debt obligations

£32.9 million

(2019/20: £56.5 million)

#### Dividends to external shareholders

£0

(2019/20: £0)



### Direction of trend

Improvement on previous year

= No change on previous year

Decrease on previous year

\* restated – see pages 24-25 of our Annual Performance Report for more information

## Performance overview – some of our key performance indicators continued

### Performance commitments

Working together with you – our customers, stakeholders and regulators – we identified what matters most and put together 52 performance commitments for 2020 to 2025.

Through the business planning process, we were set very challenging targets for some of our performance commitments and we put plans together to make headway towards our goals. However, we're behind where we planned to be at the end of year one and we know that's unacceptable.

We've met 26 of the 49 performance commitments that are assessed this year. However, we're not on target for 23 of them, which means we've had a net penalty of around £50 million for 2020/21. It's made up of penalties and rewards and a full list can be found in our Annual Performance Report. These financial rewards or penalties from the performance commitments will be applied in later years to adjust customer revenue collection for water, waste and retail services.

We know there's a really long way to go to get to where we want to be, but we've started our journey to turn around the business with a three part plan – to fix the basics, raise the bar and shape the future.

We're confident our turnaround plan will deliver our Purpose and we're ready for the challenge.



### What's a regulatory period?

The water industry works in five-year regulatory periods, otherwise known as Asset Management Plan (AMP) periods. Every five years we set our business plan with Ofwat, our economic regulator. As part of that process we set the performance commitments for the next five years as well as the prices we can charge our customers. We all know that we won't stop needing water after each five-year period, and we're working hard to look outside the five-year cycle to make sure we're planning for way into the future.

### C-MeX

## 17th of 17

Direction of trend: =

#### Where we are

The customer measure of experience (C-MeX) is the primary metric through which the service that the water companies provide their customers is rewarded or penalised. At the end of the 2020/21 reporting year, we finished 17th within the industry with an overall score of 72.91 out of 100.

C-MeX consists of two equally weighted customer surveys which are undertaken each month. For the customer experience survey, which measures the overall level of satisfaction that our customers have with our services, we scored 80.18 and placed 16th. This was offset by our performance against the customer survey, which gauges satisfaction with how we handled a customer's complaint. For this survey, we scored 65.65 and finished 17th within the industry. Our C-MeX performance means that we have a penalty of £16.8 million for this measure this year.

We want to improve our service and our reputation with our customers. We have created detailed plans across the whole of our business to transform customer experience. This is based on detailed insights and analysis into what matters most to our customers and the communities we serve.

We recognise that every interaction matters and are focused on creating positive connections with our customers to show that we genuinely care. We are empowering our teams to succeed and consistently deliver frictionless and low effort experiences for our customers. This means meeting the promises that we make, resolving issues quickly and pro-actively managing customer expectations.

### Complaints

## 39,530

Direction of trend: ↗

#### Where we are

Reducing complaints isn't a standalone performance commitment, however it is one of our KPIs and contributes to our C-MeX score.

Household written complaints remain high with 39,530 received this year. This is higher than 2019/20 (33,728). We recognise that we need to get better at dealing with customers' concerns the first time they contact us.

Most of our non-operational complaints have been related to our bills. While some of these are related to the bedding in of our new billing system, we accept that in many cases our service has just not been up to our customers' expectations. We've taken feedback seriously and, as a result, we rolled out our new look bill to our metered customers in February 2021. To further address billing queries and complaints, we have also introduced a proactive care team to call customers who have had repeat contact with us or who have given us a low telephony CSAT score. We have also created a billing escalations team, so frontline call agents have the opportunity to transfer customers with complex queries to skilled and experienced colleagues. We've also enhanced our online webchat capability, so customers who need to complain can do it directly from our 'how to complain' page on our website.

On the operational side, 65% of our wastewater complaints relate to blockage clearance services or dealing with sewer flooding, while for water services, 45% of the complaints relate to either dealing with leaks from our pipework or customers who have lost their water supply. We've introduced a new improved, incident management approach to ensure we support our customers better when problems occur, for example

by providing temporary solutions such as tankers or bottled water. We're also improving our customer communication about incidents, including enhancing the quality and speed of our website updates.

We're working to improve all our processes across people, systems and technology. Our new Retail Director, Warren Buckley, is driving our strategy to reduce the need for customers to contact us and, when they do, to make the experience as convenient and positive as possible. Our plans include better complaint escalation processes, across all channels, and rolling out better knowledge management tools to support our frontline teams to give better information and better service to customers. We recognise there is much more to do and it's one of our biggest focus areas as part of our plan to turn around our performance.

Our customers expect to have a great service from us every time and we need to be so much better.



## Performance overview – some of our key performance indicators continued

### Leakage

635.6 mega litres per day  
(MI/d) (MI/s)

Direction of trend: 

#### Where we are

We met our target for leakage reduction for the second year in a row in 2020/21. Leakage reduction is one of our key performance indicators and, since missing our target for three years in 2016/17, 2017/18 and 2018/19, it has been one of our biggest focuses. Our aim is to reduce our reported leakage by 20% between 2020 and 2025 and in the last year we've reduced it by 5.4%.

The methodology for calculating our leakage performance has changed for this regulatory period, with our performance now being reported as a three-year rolling average, compared to an annual average.

Our leakage reduction plan focuses on a mix of innovation, increased productivity and data-driven decision making. We faced a number of challenges during 2020/21 in particular due to the impact of Covid-19 on our ability to fix leaks at customer properties, and the colder than average weather in early 2021 causing a spike in leaks. We worked hard to address the additional challenges, including increasing gang numbers to fix leaks. Repairs to visible leaks were around 50% above expected levels between January and March 2021.

We received a reward of £2.67 million for this performance commitment.

### Per capita consumption

148 litres per person per day

Direction of trend: 

#### Where we are

This performance commitment measures the average reduction in the water usage of household customers.

We've not met the target for this for a combination of reasons, mainly due to:

- People being asked to stay at home due to Covid-19. We saw an increase in demand for water, particularly in the Thames Valley, with people using more water at home during the day than they would historically
- An increase in water use due to the warm, dry weather during the spring and summer

This meant per capita consumption was up during the year. Furthermore, as most people were also staying at home for their holidays, there was an increase in water use in gardens.

We incurred a penalty of £2.65 million for the year. However, due to the changes in water usage as a result of Covid-19, the assessment of this performance commitment, from a financial perspective (reward or penalty), has moved to the end of the five-year regulatory period.

### Water quality compliance risk index

2.42

Direction of trend: 

#### Where we are

Our water quality performance commitment for this regulatory period focuses on our compliance risk index. It's designed to show the water quality risk arising from compliance failures, rather than our compliance with water quality tests, which was our performance commitment for 2015 to 2020.

Whilst we saw significant improvement to our CRI performance in the second half of the year, we did not achieve our target. This was due to the impact of single coliform detections at Ashford and Kempton Water Treatment Works. Due to the very large volume of water supplied from these sites (which in turn influences the CRI score applied), the impact of these two failures on our overall performance was very significant.

Our CRI performance continues to be monitored at a senior level within the business, with action plans under development to drive continuous improvement in this area. Our final performance for this measure will be published in the DWI Chief Inspector's Report in July.

We have a penalty of £0.90 million.

### Acceptability of water to consumers

0.54 contacts per  
1,000 people

Direction of trend: 

#### Where we are

We beat our target for this measure, which assesses the number of times we're contacted by customers about their water. It's based on the number of contacts per 1,000 people.

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

This is a challenging commitment to achieve, and most contacts from both London and the Thames Valley are about the appearance of water. Fewer contacts related to illness.

## Performance overview – some of our key performance indicators continued

### Water supply interruptions

00:13:39 mins per property

Direction of trend: ↘

#### Where we are

The purpose of this performance commitment is to minimise the number and duration of supply interruptions. This measures the average number of minutes our customers don't have water, for interruptions lasting three hours or more. We were performing well against this measure during the early part of the year, but four major incidents led to us missing our target.

**Hackney Marshes in October 2020** – a burst on one of our largest water mains, a trunk main, led to around 100,000 customers being without water or having low pressure. The repair to the pipe was complicated and the burst affected one of the largest water supply areas in our region.

**Fobney Water Treatment Works in Reading in October 2020** – raw water quality deteriorated during Storm Alex, which reduced the output at Fobney Water Treatment Works, leading to customers not having water or suffering low pressure.

**Hagbourne Hill in Wantage in June 2020** – there was a burst under the A34 dual carriageway, which made it more difficult to locate and repair the pipe.

**Netley Mill Water Treatment Works in Guildford in April 2020** – there were complications during planned maintenance work which resulted in reduced production, leading to supply interruptions and low pressure in a number of areas.

We did, however, secure a 24% year-on-year reduction – from 17:59 minutes last year to 13:39 minutes this year. We are continuing to make changes to improve the way we learn from incidents and our approach to running our operations.

Without the impact of these four incidents, which led to 20,000 combined hours of customers not having water, we would have met our target. However we know we need to be better at protecting our customers from the risks of weather and ageing pipes.

We received an ODI penalty of £10.1 million for our performance against this measure, this year.

### Clearance of blockages

76,223 blockages

Direction of trend: ↘

#### Where we are

This is the number of blockages we've cleared from the network. The fewer blockages there are, the fewer issues we have with the operation of our sewer network, so the aim is for this number to be lower than our target each year.

We have not met this year's target of 72,500. We cleared 76,223 blockages in 2020/21, which was broadly similar to the 77,220 we cleared the year before. We received a penalty of £5.22 million.

More blockages needed to be cleared during the second half of the year compared to the first. This was partly due to the impact of people spending more time at home, and more 'unflushables' being put down the drains causing blockages over time. The large amount of rainfall in October, and the persistent rain in January and February, led to more problems as a result of blockages. In addition, our performance against this measure was affected by an increase in the volume of customer calls, by between 10% and 20%, compared to the previous three-year average, which increased the number of investigations we carried out.

However, we have cleaned a record length of sewers and installed sewer depth monitors which should improve our performance in 2021/22.

### Internal sewer flooding

2.31

Direction of trend: ↗

#### Where we are

This measures the number of incidents of internal sewer flooding per 10,000 sewer connections.

This year, we experienced higher than average spikes in rainfall and flash floods. This led to high levels of sewer flooding where our sewers were unable to cope with the sudden surge in water, particularly when there were blockages.

Storm Francis in August led to more incidents than we've had in the same month for the last ten years other than 2016/17, which was another wet year. The rain in August led to 60% of all sewer flooding incidents for the year, with Storm Alex in October causing 15% of the total for the year. These storms also caused 30% of all flooding in customer properties.

We have seen an increase in demand on the local networks with more people staying at/working from home during Covid-19. This has led to an increase in the number of floods caused by blockages. Despite the disruption linked to Covid-19 and weather impacts, record proactive sewer cleaning of 1,500km of our network was achieved as well as installing over 3,700 sewer depth monitors (SDMs) to extend the areas of the network that are proactively monitored. We are increasing this to 2,300km of cleaning and 5,000 SDM installations in 2021/22.

We received a penalty of £10.56 million.

## Performance overview – some of our key performance indicators continued

### Pollution incidents

26.67 per 10,000km  
of sewer

Direction of trend: ↘

#### Where we are

This is a calendar-year performance commitment that measures the number of pollution incidents caused by a leak or spill of a contaminant from a site or our network which poses a danger to the environment.

We reduced our overall number of pollution incidents by 10% from 2019 to 2020, and reduced our number of serious pollutions from 15 to 13. The main reductions were from our pipes and sewage pumping stations. Despite our improved performance, we were unable to achieve our stretching performance commitment, meaning we incurred a penalty of £2.74 million for the year.

While we have made improvements during the year, we know our performance is not acceptable and we are committed to continuing to reduce pollutions. It will take time to get to where we, and our customers, expect us to be, however we've started the journey.

To focus our efforts on pollution reductions we launched our pollution incident reduction plan last year.

To reduce pollutions, we're focused on three things

1. Prevention – we use targeted initiatives to reduce the number of incidents, including more planned sewer cleaning, upgrading our infrastructure, and using new technology like sewer level monitors.
2. Mitigation – we're improving our response when pollutions happen to reduce their impact, by expanding and upskilling our response teams and investing in specialist response equipment.
3. Training and behaviour – we're promoting a culture of openness and embedding our company behaviours. We're also training and motivating all our employees to identify environmental risks and act urgently.

You can find more information in our pollution incident reduction plan, which is available in full on our website.





## Our business model

As the biggest water company in the UK, we look after over 15 million customers in the South East of England.

### Who we are

We're known as a water and wastewater services company. However, we're moving towards becoming a water and renewable energy company, processing waste into energy to support energy transition in the UK. Waste can be put to good use to create value for our customers, communities and the environment. And that's what we're doing.

### Where we operate

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



- We provide water and wastewater services in this area
- We provide wastewater but not water services in this area

## What affects us

We're driven by factors that affect our customers, our people and our natural environment:

**Climate change and protecting the environment** – We all need to do our part to combat climate change, which is why we're working to get to net zero carbon emissions by 2030, and beyond by 2040. It's also our responsibility to protect the precious ecosystems that call our region their home – 3 million species live in the Thames Valley area, including 670,000 protected and notable species. You can read more about how we're addressing our environmental risks on page 44.

**Covid-19** – The pandemic has shifted how we live and work, which has changed traditional water demand patterns and peak use times. It's changed the way we operate, requiring home-working and social distancing on sites. It's also affected some of our customers' ability to pay their bills. You can read about how we've been supporting our colleagues on page 15 and helping our customers on page 20.

**Population** – London's high population density puts extra pressure on our pipes and treatment works. It also means more customers are affected when things go wrong and it's harder to make repairs in busier areas.

**Securing skills for the future** – There's a shortage of job candidates with technical (STEM) and industry-specific skills, particularly among women and those from diverse backgrounds. So, we're developing skills programmes to grow talent within our communities – see information about our skills strategy on page 15.

**Political, regulatory and legislative changes** – These continue to direct how we do business, and how we should contribute to wider society in the long term. We also need to adapt to changing regulations, especially those brought about by Brexit. You can find information on how we engage with our regulators to monitor and respond to these changes on page 37 and how we manage the risks of these developments in our risks section starting on page 41.



## Inputs



We have over  
**7,100**  
employees, and work with many others through our supply chain



We supply  
**2.6 billion litres**  
of water every day



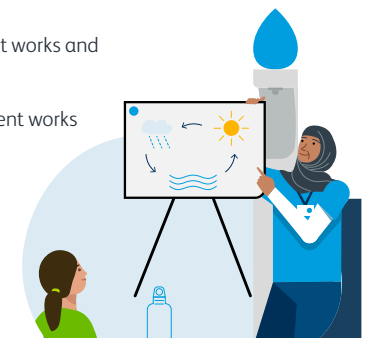
We process  
**4.7 billion litres**  
of wastewater every day



We have  
**97**  
water treatment works and  
**354**  
sewage treatment works

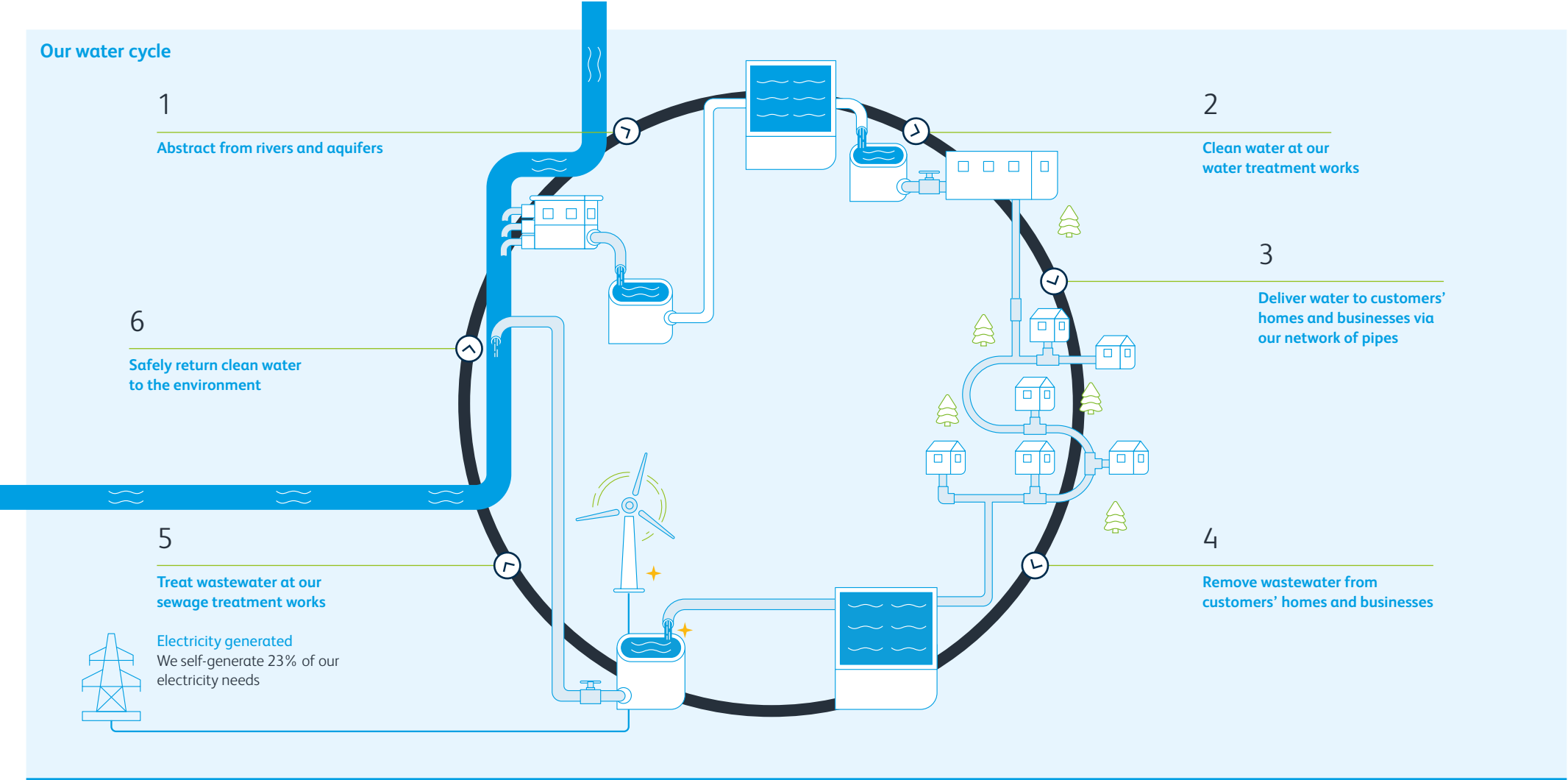


We create  
**311 gigawatt hours**  
of electricity per year to power our operations (2020/21 performance)



See how we create value throughout the water cycle

Our business model continued



Our business model continued

How we generate revenue

Ofwat is our economic regulator and aims to ensure that the sector delivers efficiently and effectively for current and future customers. Every five years we go through a price review process which determines our business plan for the next regulatory period and sets our revenue and bills for the five-year period. Our average combined bill for 2021/22 is £418.



The value we create for our stakeholders  
This is how we spend every £1 we receive in revenue<sup>1</sup>

7p

Government

We paid over £195.9 million in business rates, PAYE and National Insurance contributions in 2020/21. We're not currently paying Corporation Tax, mainly due to tax deductions for interest payments on our debt and because we're investing heavily in our infrastructure. We receive tax relief under the Government's "capital allowances" regime.

16p

People

To pay our people, so we're able to deliver essential services to our customers and protect the environment.

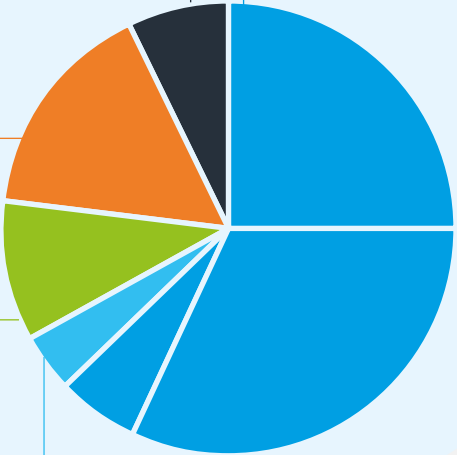
10p

Lenders

By borrowing money at efficient rates, we're able to continue investing heavily in our infrastructure while keeping customer bills as low as we can.

4p

Net profit, which is reinvested in the business.<sup>1</sup>



63p

Customers (and suppliers)

Every day, we serve 15 million customers across London and the Thames Valley.

This 63p is made up of the following amounts:

25p

Operational expenditure

To provide our day-to-day services and improve our customer service.

32p

Investment in our infrastructure

To increase the long-term resilience of our services. This includes 3p for the Thames Tideway Tunnel, which will divert millions of tonnes of sewage from the River Thames when it goes into operation.

6p

Energy to power operations

To keep this cost down, we're increasing the amount of electricity we self-generate.



<sup>1</sup> Profit on each £1 we receive is made up of our loss before tax (£241.5 million) excluding:

- Net losses on financial instruments (£522.2 million)
- BTL revenue (£73.8 million)
- Other operating income related to all activities apart from power income (£110.9 million). Note: power income of £10.9 million is shown net against our energy to power operations cost.



People  
Making Thames Water a great place to work

As we turn around our business performance and deliver for our customers, it is critical we create an environment where our colleagues are engaged and can thrive. We need to continually challenge and invest, so our people feel connected, listened to, and supported. There’s a long way to go, but we’ve taken some important steps in the last year as we focus not just on what we do, but the way we do it.



82%  
of employees are proud  
to work for Thames Water

**Living our values and behaviours**  
In Spring 2020 we relaunched our longstanding values and developed new behaviours to bring our values to life. Together these values and behaviours help us deliver our Purpose – to deliver life’s essential service, so our customers, communities and the environment can thrive. As part of our plan to ‘raise the bar’, we’re focused on making sure we all demonstrate these behaviours in all we do. They give us the right focus, from senior management to the frontline, as we work together to do our best for our customers, stakeholders and communities. Our values and behaviours unify us as one Team Thames.

We have many brilliant people who, day in and day out, embody our values and bring them to life. In February 2021, we celebrated our first ever virtual employee recognition awards, based on our values and behaviours. Over 800 individuals and teams were nominated by their fellow colleagues and these were whittled down to 28 worthy finalists, with 11 awards.

**Safety at work and in the community**  
There’s simply nothing more important than the health, safety and wellbeing of our employees and customers and we’re determined to lead our industry and strive to demonstrate best practice. We have a long-standing commitment to achieve “zero incidents, zero harm, zero compromise” every day we are at work. We also work with our supply chain partners to ensure they share our “zero compromise” approach and together we produce the Essential Standards. These outline how we work safely in the key activities that we all jointly undertake.

During the year, we significantly reduced the number of lost-time injuries, where an employee needs to take time off work, to 12, from 25 the year before. We also saw 46% fewer days lost for work-related illness, dropping to 230 (2019/20: 432), and a 30% reduction in near miss incidents. There were 12 serious incidents reported under the Reporting of Injuries, Diseases and

**Our values and behaviours**  
**Passionate about everything we do**  
We genuinely listen to others, to show that we care.

**Take care**  
We look after ourselves, our customers and our environment.

**Take ownership**  
We own problems until resolved.

**Reach higher, be better**  
We’re always learning, always improving.

**Be respectful and value everyone**  
We embrace differences and work as a team.

**Be proud, be blue**  
We celebrate and promote the great things we do.

Dangerous Occurrences Regulations (RIDDOR) compared to 20 the year before and there were 185 Perfect Days (the number of days between May 2020 and March 2021 without a physical or mental health work-related incident, whether or not it resulted in lost-time absence) (2019/20: 17). There were 5.91 days per FTE of absenteeism due to sickness during 2020/21. As part of the annual engagement survey, 81% agree that health and safety is never compromised and 88% agree that health and safety is taken seriously.

We measure both leading and lagging indicators, with lagging indicators being incidents that have occurred and leading indicators being actions taken to prevent incidents. Here’s our performance against them both during the year:

	2020/21 Actual
<b>Lagging indicators</b>	
<b>RIDDOR incidents</b>	12
<b>Lost time injury (Non-notifiable)</b>	12
<b>Non-lost time injury</b>	139
<b>Near miss incidents</b>	487
<b>Leading indicators</b>	
<b>Health and safety observations</b>	98,690
<b>Senior management site visits</b>	1,169
<b>Health &amp; Safety inspections</b>	35,233
<b>Health &amp; wellbeing surveillance</b>	4,471
<b>Corrective actions closed</b>	103,855
<b>Health and safety days training</b>	7,892

## People continued

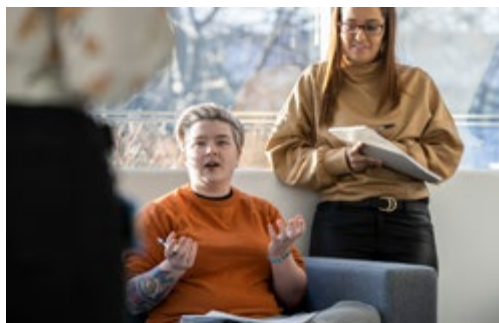
### Becoming frontline-first and developing stronger leadership

Over the last year, we've started to shift the focus of the company to put our frontline first. That means everything we do, wherever we work across Thames Water, needs to serve frontline operations and teams as it is our frontline colleagues who connect us with our customers. Focusing on how we can simplify their working life, provide the most appropriate resources and relieve bureaucracy are all ways in which we can help our frontline employees focus on providing the very best customer service.

As part of that we're also strengthening our leadership to make sure we have the right skills and experience to support and lead our teams. We are investing in leadership development and are committed to providing every manager with coaching skills to enable individuals and teams to problem solve, take accountability and develop competence and confidence.

### A real living wage employer

In June 2021 we announced that we are committed to paying the real living wage and have been accredited by the Living Wage Foundation that sets fair minimum hourly rates above the National Minimum Wage.



### An improvement in our engagement score

We were delighted that our engagement index improved from 64% in 2020 to 75% in Spring 2021, during what has been a very challenging year for so many of our people.

After last year's annual survey results, we ran focus groups to get underneath the survey results in order to develop new ways of working in response to what people were telling us. For example, we have simplified the way we manage performance, so there's more focus on holding regular, quality conversations between individuals and their managers throughout the year. This will continue to be a real focus this year, as we 'fix the basics' and become a more performance-driven company.

We've been changing the way we communicate with our colleagues during the last year. We set up a programme of engagement to keep in touch with all our people, whether they were in the office or out in communities, with regular pulse surveys so they could tell us how they were feeling and what they needed from us. Throughout the year, we've continued to engage virtually via Microsoft Teams and through on-line live events. However, we know we have more to do to improve our engagement with our frontline teams in particular.

We've also continued to engage with our people virtually as part of our Board engagement programme led by Ian Pearson, our Workforce Engagement Lead Non-Executive Director.

### Creating great careers

We've continued to recruit during the pandemic, with over 1,200 new starters during 2020/21. That brought our headcount to over 7,100 at the end of March 2021. We've also had a reduced employee turnover of 7%, down from 15% the previous year. And we'll keep recruiting, so we can improve our services to our customers and support employment as the UK rebuilds after the pandemic. We're creating 1,000 jobs across London, Reading and Swindon in lots of different disciplines, from engineering to customer service and digital. We've been making improvements to the way we support new starters too, with a new 'on boarding system' where they can find all the information they need. If they have a question, they can ask our brand new 'chat bot' anytime of day or night.

As well as attracting new talent to join our team, we're investing in our current employees to support them better and increase their skills. We want to create great careers, not just jobs, and build a culture of lifelong learning. We've increased training opportunities and we're offering more courses in English and Maths to tackle barriers to entry and promotion. We've also extended our apprenticeship programme internally so our people – at any age and any level – can get involved.

In 2020/21 we welcomed 32 apprentices (2020: 28) and 24 new graduates (2020: 25) to Team Thames. We've also joined the 5% club, which means 5% of our workforce will be apprentices or graduates in the next five years – that's a 3.52% increase on today.



### Supporting our people during Covid-19

After the first lockdown was announced, our first task was to enable over 3,000 employees to work from home, where it was possible. To make this easier, we offered employees equipment such as additional screens and ergonomic chairs. We also risk assessed all our sites and introduced Covid-19 protocols – including social distancing measures, enhanced cleaning, installing screens and hand sanitiser as well as distributing updated, Covid-19 specific PPE. For our frontline teams, we postponed or cancelled appointments to enter customers' homes – unless it was an emergency.

As an essential service, none of our employees were furloughed or made redundant due to the pandemic. We were also able to offer paid dependants' leave to colleagues unable to work due to caring responsibilities, while schools were closed. We extended full sick pay to all those with a positive Covid-19 diagnosis, and we've continued to provide full pay during isolation periods. We also offered up to four weeks' support for food costs, from December 2020 to January 2021, for any employee who needed it.

We set up a dedicated Covid-19 information page on our intranet providing up-to-date and comprehensive information to all employees about the latest regulations, government advice and our protocols in response. It also provided information about mental health, wellbeing and resilience.

## People continued

### Our gender pay and ethnicity pay gaps

We're pleased to have secured another reduction in our gender pay gap, and we're reporting our ethnicity pay gap for the first time.

The gender pay gap is the difference in the average earnings between men and women, regardless of the work they do. Gender pay differs from equal pay, which looks at pay differences between men and women carrying out the same or comparable work. On 5 April 2021, which is the date we capture the data each year, our results were:

<b>Mean gender pay gap</b>	<b>Mean ethnicity pay gap</b>
<b>9.5%</b>	<b>9.9%</b>
(2019/20: 10.1%)	

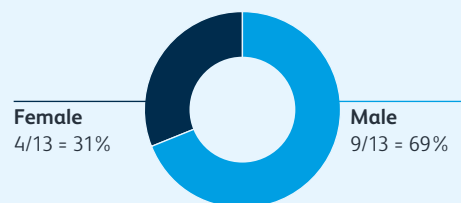
<b>Median gender pay gap</b>	<b>Median ethnicity pay gap</b>
<b>15.1%</b>	<b>9.4%</b>
(2019/20: 15.2%)	

<b>Mean gender bonus gap</b>	<b>Median gender bonus gap</b>
<b>38.3%</b>	<b>16.1%</b>
(2019/20: 38.8%)	

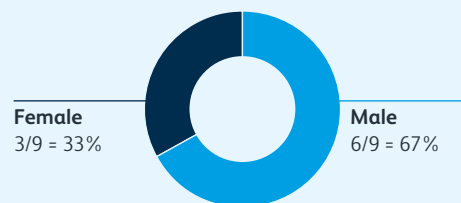
We've updated our methodology for our gender pay gap to reflect latest advice and we are no longer treating Network Service Technician (NST) allowances as pre-paid overtime. Instead, our April 2021 figures are updated to include it. Therefore, the comparator figures we have used are based on what the percentages would have been last year using this updated methodology.

The percentage of females (relevant employees) who received a bonus or incentive payment increased from 44.6% to 85.6% compared with 87.9% for men (2020: 38.2%). The large increase in 2021 was because many of our employees received a pay-out from our employee share incentive scheme 'Share in your success'.

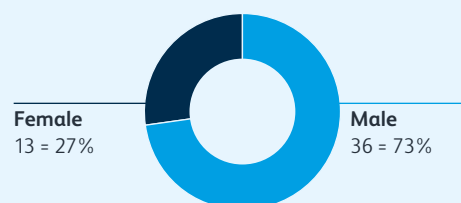
### Gender diversity across Thames Water as at 5 April 2021 Board



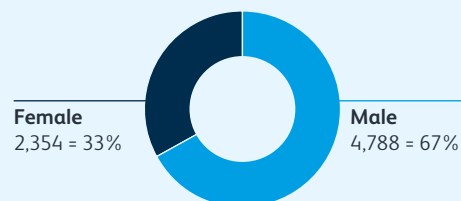
### Executive team



### Leadership Community (direct reports of Executive team)



### Whole business (salaried employees)



### Making Thames Water a diverse and inclusive employer

It's so important that our workforce reflects the social, economic and geographical diversity of our patch. There's still a long way to go, however we're making progress. 83% of our employees said we are an inclusive, equal opportunity employer. It's so important that every one of our people feels they truly belong at Thames Water and are able to perform their best for our customers, communities and the environment.

We've been working hard to increase our recruitment from under-represented groups. 38% of our new recruits during 2020/21 were under 30 and 15% identified as BAME. We've also signed up to the 10,000 Black Interns programme and will be offering 10 internships every year to support employment prospects for young black people in our area.

14 'Kickstarters' joined us in April 2021, as part of the Government's Kickstart scheme, as we aim to create 75 placements for young people on Universal Credit, who are at risk of long-term unemployment. That includes a reskill programme for domestic electricians to train as electrical engineers.

During the year, we also made some other changes to be more inclusive including changing our recruitment process to encourage more applications from women and BAME candidates, becoming a Carer Confident active employer and signing up to the Care Leavers Covenant. We also ranked 11th in the WISE (Women in Science and Engineering) ten steps campaign and achieved a silver Armed Forces Covenant accreditation, due to our focus on recruiting ex-service people who have skills very relevant to the water industry such as engineering, leadership, logistics and incident management.

To make sure the challenges faced by different groups are really understood by our leadership, our Executive team has been taking part in our reverse mentoring scheme with champions from our employee diversity and inclusion networks (BAME, DisAbility, LGBT+ and Allies, Multi Faith, Parents and Carers and Women's).

In April, we were named by Business in the Community as a top 50 employer for women. As part of Thames Water's commitment to being a responsible company and putting diversity front and centre, Sarah Bentley has also become Chair of the Business in the Community Gender Equality Leadership Team.

We were the first water company to achieve Disability Confident Leader status in July 2019. As well as providing an interview for people with disabilities who meet the essential criteria, we tailor our recruitment process to the needs of each candidate, from offering alternative formats to providing British Sign Language interpreters.

Reasonable adjustments are put in place to enable employees with disabilities and long term health conditions to thrive. Our DisAbility Confident Champions network continues to support us providing feedback and helping to ensure accessibility and inclusivity through policies, processes and practices. As we explore future ways of working after the pandemic our colleagues with disabilities and long-term health conditions are helping us to shape how we can further improve to ensure accessibility, inclusivity and equality.

At Thames Water, employees consider themselves to be differently abled as opposed to disabled hence the capitalised 'a' in the name of our DisAbility employee network.

Our annual survey asks people whether or not they feel that Thames Water cares about their personal belonging. In our most recent (2021) annual engagement survey, 74% of people with a disability or long-term health condition agreed, compared with 73% overall.



## Case study:

### Skills strategy

**In January 2021, we launched our new skills strategy, so we can make sure we recruit the right people and develop the right skills so we can keep delivering our essential service.**

We've driven skills initiatives before, but we're now joining up our approach. Our goal is to be a force for good, and we see developing our people – both current and future Thames Water employees – as an important part of that. It's also really important that our business reflects the diversity of the local communities we serve.

We're taking a much longer-term view than we have before, so we can inspire and attract the next generation of employees, while they're still at school. We've increased our work with schools and communities to link the curriculum with careers and increase the career advice and work experience opportunities available in the classroom. We're working to remove barriers to employment and create employability training courses to upskill and build a route into employment.

This year we adapted to Covid-19 restrictions by running sessions online, such as offering virtual mock job interviews and hosting virtual workshops. This approach will allow us to build a pipeline of STEM and digital skills, which are, and will be, so critical to our service.

Going forward, we're going to work to create strategic partnerships to develop local skills in our region and collaborate with our supply chain to offer shared apprenticeships and work opportunities. We'll invest in our people to create careers, not just jobs, and foster a culture of lifelong learning within Team Thames

**"We want to contribute to the creation of a fair society and tackle real challenges, such as digital skill shortages and in-work poverty, and ensure our people receive the right investment in skills development to have successful and sustainable careers."**

**Lynne Graham**  
Thames Water's People Director



## Case study:

### Time to Talk

**At Thames Water, looking after mental health is as important as physical health. Mental health illness accounts for approximately 23% of all sickness absence, and Covid-19 has made things particularly challenging during the last year. So, it's been more important than ever that we have 'Time to Talk' – our dedicated mental health and wellbeing programme that we launched in 2017.**

Our goals are to remove the stigma around mental health, bring it to everyone's attention and encourage employees to speak up when they need help. It also provides a framework of support services to help improve mental health and wellbeing. By intervening early, we can make workplace adjustments to support our people during difficult times. It's led to over 60% of all referrals to occupational health being from those who are still at work.

Our occupational health team includes nurses qualified in mental health and we have over 450 trained mental health first aiders at Thames Water. We're aiming to achieve a 1:10 ratio across the business next year – in line with Mental Health First Aid England recommendations. We've recently relaunched our mental health first aid training, specifically to attract more frontline workers. We also offer support through our Employee Assistance Programme, which provides confidential advice and counselling.

Going into the pandemic, we were able to build on our existing culture of openness and awareness around mental health. Our employees already had a strong, familiar mental health support network that they were used to accessing. We were able to reach out to vulnerable employees at the start of the first lockdown, to support those who were high risk or anxious about Covid-19. Our mental health first aiders were able to offer remote help. Despite restrictions, they still recorded over 20 contacts per month from home- and site-based employees, and over 67% of these were afterwards able to contact specialist support.

We also launched 'Wellness Wednesdays' – our weekly employee communications email that includes information and advice about health and wellbeing, as well as links and signposts to support services.





## Workforce Engagement

“Despite the impact of Covid-19 on our ability to meet face-to-face, we’ve continued to listen to employees virtually and we’ve had extremely productive sessions.”



**Ian Pearson**  
Our Workforce Engagement Lead Director

Despite the impact of Covid-19 on our ability to meet face-to-face, we’ve continued to listen to employees virtually and we’ve had extremely productive sessions. Engaging with employees in this way is so valuable as we understand the challenges faced by the business and the decisions we need to make to support the turnaround plan.

Since July 2020, I’ve held 11 sessions with teams across the region, including with our latest cohort of graduates and apprentices. I was really pleased to hear they found the interview and induction process fantastic, despite it all being done virtually. However, they also told us that we need to invest in consistent training and incentives for apprenticeships.

We also brought together representatives from across the business for our bi-annual engagement forums in June and November, and we heard really useful feedback at all the sessions. We’ve made some important progress, and we’re hearing that our employees find these sessions really valuable too, however there’s a lot for us to do to make sure our people are fully engaged.

Some of the key findings were:

- We need to improve our support and communication to our frontline – there needs to be more focus on looking after frontline mental health and we need to be better at tailoring our communications for that group too, so they feel valued and supported. There’s a feeling there’s been too much information and they’ve not been given enough time to join our live events to get the information they need from our leaders
- We need to make sure equipment is fit for purpose – our teams need the right equipment and resources to be able to get things right first time for our customers
- We’ve made some improvements to increase motivation – our people feel more motivated and are proud of how Thames Water has responded to Covid-19, however we need to make sure we recognise that the frontline is still out and about and not working from home. The differing challenges of employees across the business need to be considered when it comes to communication and recommendations about future working arrangements after Covid-19
- We need to be more transparent about pay and progression – there is also more work to do so we don’t lose key talent and to ensure we recognise and reward our people
- We need to focus on skills – we have more work to upskill our people and develop them in their careers

We’ve been using this feedback to start to make changes, such as tailoring our communication for key workers on the frontline and launching a new skills strategy. There’s still a lot for us to do, but we’ve seen some positive outcomes from our approach to workforce engagement.

One example followed our session at Little Marlow, when it was clear there was a bit of divide between two teams. We spent time understanding the issues and made sure everyone was given access to the mess room, which made the teams feel included and welcome on site. It was a great example of ‘you said, we did’, and I was delighted to see other examples following Board engagement sessions.

The full results of the employee survey was presented to the Board in June, and it was really pleasing to see the improvement in the engagement score and the sense of pride of people feel about working for Thames Water.

I’m looking forward to the next 12 months and meeting more of our brilliant people, hopefully face-to-face in the not-too-distant future, including frontline teams at Kidlington, Coppermills and Fobney.



## Our strategic ambitions

### We aim to deliver brilliant customer engagement



#### Where we are

The reason we're here is to provide life's essential service to our customers, and they need to feel they're getting an effortless service at good value for money.

Although we've been making changes, including moving all our customers to a brand-new billing platform, we're just not making the difference we need to. We've been consistently at the bottom of the customer service league tables for too many years, which is why we're overhauling our approach to customer service as part of our plan to 'raise the bar'. Our customers rightly expect much more from us.

While we're not performing well in our customer service metrics (see page 7), we have been making some improvements during the year. Here's an update on some of the things we achieved during 2020/21.

#### Our Customer Challenge Group

One of the ways we make sure our customers' views are factored into our plans is through engagement with our independent Customer Challenge Group (CCG).

Members of our Executive team and subject matter experts from across Thames Water report on progress against our performance commitments and explain what we're doing to improve where our performance is not on track.

This year, due to Covid-19 restrictions, most of the quarterly meetings have been attended by our acting CCG chair and one other CCG member, rather than the full group. But we've continued to meet regularly to ensure that we get their feedback on issues such as environmental updates, our website redesign and our metering programme.

#### We face big challenges, however we've been improving engagement in some areas

- We've launched a new workforce management system, which helps our teams fully understand a customer's query and provide a better service first time
- We've launched a new Contact Centre Platform to bring together our different contact centres, including billing and IT. This new platform gives us better functionality, including improved analytics, so we can improve our interactions with customers
- We've introduced a new webchat channel, with over 160,000 contacts during the first year
- We achieved our highest ever brand perception score at -14NPS, which rates how our customers feel about us. We know this is way below where it should be, but we've improved our performance year on year (2019/20: -18NPS)
- We're overhauling our bill to make it simpler and help reduce queries and complaints, with positive feedback from customers. We launched the new look bill to unmetered customers in February 2021
- We've been investing in our online platforms to improve a customer's experience when they're using our website and we've introduced more digital options to pay bills
- We ran a social media and radio campaign during the summer months of 2020 to encourage our customers to save water to protect our water supply. We reached almost 2 million customers and saw up to 6.7% decrease in water use
- We delivered 7,905 new, virtual smarter home visits during 2020/21

#### We're supporting more customers in vulnerable circumstances

- We've increased the number of customers on our priority services register from 1.5% to 3.5% of homes
- We're helping over 210,000 customers through our social tariffs (2019/20: 150,000) and we're aiming for 300,000 by 2025
- We launched a new flexible payment scheme to support customers affected by Covid-19. The scheme allows customers to take a three-month payment break
- We received a BSI certification for inclusive service provision, with increased training for our frontline employees helping us achieve it
- We've supported 3,767 customers through our customer assistance fund. We've changed our customer assistance fund to reflect industry best-practice and match payments. If a customer commits to future payments, we'll pay their debts, which makes it a fairer initiative and we can support more customers. We can also help customers in longer-term financially vulnerable situations with our social tariffs.

#### Targets for 2021/22

These include our integrated business plan targets for 2021/22. More information about what these performance commitments mean can be found in our Annual Performance Report

- We aim to be making improvements during the year, however there's currently a big gap between where we are and 16th place on C-MeX, the customer experience score. We expect to be 17 out of 17 companies for 2021/22
- D-MeX – 11 out of 17 companies
- Work with customers to reduce consumption per person to less than 148 litres per day (on a three-year rolling average basis)
- Reduce complaints by 25%
- Increase the percentage of customers on our priority services register who are satisfied with the service to more than 91%

#### Key risks

Risk numbers – 9 and 10

#### Link to remuneration 2020/21

Annual Management Bonus – reduce complaints by 10% and drive channel shift by 20%



See how we're delivering on our Purpose

## Case study:

### We're responding to customer feedback with a new look bill

Engaging with our customers is crucial to improving our performance, and we're trying to listen more carefully to what they tell us they need from us. As well as engaging with our customers in person and through channels such as the phone, by email and social media, we also engage with our customers as part of focus groups.

This year, a key outcome of this feedback was a complete redesign of our bill. Our customers told us that they needed bills that were easier to understand – with simpler language and clearer explanations of how they were being charged. In 2019/20, 47% of all the calls to our account and billing teams related to not understanding our bill or ways to pay it.

So, we considered customer comments, data and insight from our call centre contacts, combined with industry best practice, and we introduced a brand new bill design. It focuses on providing straightforward calculations (including the reason for any increases), simpler payment information, and better sign posting to self-service options to pay. We rolled out the new bill design in February 2021 to 1.6 million unmetered customers.

We commissioned an external research agency to conduct in-depth interviews with a diverse set of customers to get their thoughts on the new design and the response was overwhelmingly positive. We also conducted a net promoter score (NPS) survey that showed a 13-point uplift, with 94% of customers saying they found the new bill easier to understand. There's been a 9% reduction in calls related to understanding the bill from customers who received the new bill design, and our frontline staff have reported that they feel better supported to help our customers understand our charges.

Our next step is to roll out the redesign on our metered bill, which we'll do in phases through 2021/22.

Key payment information given prominence

Self-service signposted at every opportunity

The bill is titled 'Your latest bill' and features the Thames Water logo. It includes a QR code (QR1) and a QR code (QR2) for account information. The bill is addressed to 'Mr A Other' at 'Address line 1', 'Address line 2', 'Address line 3', 'Address line 4', and 'Post code'.

**Key payment information given prominence:** The bill prominently displays 'What to pay £206.13' and 'When to pay by 1 April 2021'.

**Self-service signposted at every opportunity:** The bill includes a 'How to pay' section with a 'Break your bill into instalments with Direct Debit' option. It also provides a link to 'thameswater.co.uk/myaccount' for signing up through the online account.

**Clear calculation of charges, with payment dates and amounts listed:** The bill includes a 'Our calculation' section showing the rateable value (RV) of 215, the rate of £0.4367, and the charge of £93.90. It also shows the 'Fixed charge' of £17.58 and the 'Subtotal' of £111.48. The 'Total new charges for this period' is £206.13.

**Pre-empting customer queries and signposting ready answers:** The bill includes a 'What's in this bill' section with three sub-sections: 'Section 1: Your charges', 'Section 2: How to pay', and 'Section 3: More help'. It also includes a 'Your charges explained' section with a 'What's a fixed charge?' section.

**Bill date clearly stated:** The bill includes a 'Bill date' section stating '1 March 2021'.

**Our calculation:** Rateable value (RV) × our rate = your charge

1 April 2021 to 31 March 2022 (365 days)

Fresh water				Wastewater			
Water used	RV	rate	charge	Waste removed	RV	rate	charge
215	£0.4367		£93.90	215	£0.2983		£64.13
Fixed charge			£17.58	Fixed charge			£30.52
Subtotal			£111.48	Subtotal			£94.65
Total new charges for this period			£206.13				

**Summary**

What you owed for your bill dated 20 March 2020	£213.25
What you've paid	- £213.25
Total new charges from 1 April 2021 to 31 March 2022	+ £206.13
<b>What to pay</b>	<b>£206.13</b>

**What's a fixed charge?**  
Your fixed charge helps to cover some of our essential running costs, like maintaining pipes and handling enquiries.

**Could you save on your wastewater?**  
You could save £26.66 a year on your wastewater fixed charge

## Case study:

### We're creating new partnerships to help more customers



**We know many people in our region need us to provide extra support during emergencies, as well as during day-to-day conversations, and we have a priority services register so we can do just that. It might be that they need bottled water deliveries direct to their home during an emergency or extra help on the phone.**

At the end of 2020/21 we had over 197,000 customers signed up to the priority services register – equivalent to 3.4% of the homes in our region. However, we're aiming to have 410,000 signed up by 2025, and at the end of May we'd reached over 210,000.

It's not always easy to identify the customers who need this service, but we've made some important improvements in the last year. For example, we're now able to proactively contact customers over 80, who are more likely to need some extra help. We've also been training our operations teams to spot customers who might benefit from being on our priority services register and to help them sign up.

As well as working with organisations like Age UK, we've also just secured an industry first partnership with the London Fire Brigade, who can now use their Home Fire Safety Visits to help us understand who may be more vulnerable. We added 94 customers to our register through this partnership during the pilot in March 2021 and now we're aiming to add up to 1,500 customers every month. We hope to roll this out to other fire brigades too.

**"We are pleased to join up with Thames Water on this project, which will further increase the ways we support vulnerable people in our communities. Our crews often signpost residents they have visited to other services which they may benefit from and this is an extension of that to ensure they get the right support should they be left without water."**

**Sharon Biggs**  
The Brigade's Care, Health  
and Safeguarding Manager





## Our strategic ambitions

### We're investing in resilient assets and systems

#### Where we are

There's still so much to do to make our infrastructure fit for purpose for the 21st century, and we're continuing to invest heavily to make improvements – we've spent more than £1 billion again this year. Making sure we invest efficiently, use more innovative ways to make a difference and become better at using data are all part of our plans to fix the basics and raise the bar. Whilst our performance is not where it should be, we have made progress during the year as we set ourselves on the right path to make bigger improvements in the future. Here's a snapshot of some of the activity we've been doing this year to improve the resilience of our operations.



#### We're making improvements to our network

- We've fixed over 70,000 leaks in the last year despite restrictions during the Covid-19 pandemic to maintain the safety of our teams and customers
- We've made 269.6 repairs per 1,000km of our mains to fix our network
- We've replaced 10,919 lead pipes
- We've made sure a high percentage of our sewage pumping assets are available at any one time, regularly achieving over 99% during the year

#### We're keeping our sewers flowing to help reduce blockages and pollutions

- We cleaned a record 210.7km of sewers in March 2021, with a record 1500km cleaned during 2020/21 compared to 900km in 2019/20

#### We're installing more technology to improve our understanding of our network

- We've now installed 500,000 smart meters, after installing 90,000 in the last year, to reduce water consumption and help find leaks. We started our first roll out outside the capital in Haslemere
- We've saved over 68Ml/d of water through the use of our 27,000 acoustic loggers, adopting innovative technology to listen for leaks
- We've installed over 3,700 sewer depth monitors to create a smarter waste network, with 600 blockages detected, before our customers are impacted

#### We're trying new innovation

- We've created a 'Digital Twin', which uses artificial intelligence software to provide a virtual model of our network. It collects all our data into a single place and allows us to see what is happening on our water network in real time – detecting leaks, excessive demand, or unexpected changes in pressure. It also suggests improvements we can make to the network to address any issues. This 'digital water' approach means that we're alerted to issues before customers notice them, so we can plan more efficient responses and improve our service to customers overall.

#### Targets for 2021/22

These include our integrated business plan targets for 2021/22. More information about what these performance commitments mean can be found in our Annual Performance Report

- Achieve water quality compliance risk index score of less than 2.00
- Reduce the time customers are without water for over three hours to an average of 14 mins and 31 seconds a year
- Achieve 99.10% treatment works compliance
- Reduce leakage by 10.2% between 2019/20 and 2021/22 (on a three-year rolling average basis)
- Reduce pollution incidents by 10% between 2020 and 2021
- Reduce sewer flooding by over 25%
- Clear 70,000 blockages

#### Key risks

Risk numbers – 5, 6, 8, 12 and 13

#### Link to remuneration 2020/21

Annual Management Bonus – reduce blockages to 76,000 and reduce supply interruptions to less than 12 minutes



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### Case study:

## We kept water flowing through our customers' taps during the pandemic

**Overnight, the pandemic changed the way our customers used water. As people stopped working in offices, tourists stopped coming to the capital and people relocated to their homes 24/7, we saw huge drops in demand in London. On the flip side, demand in the Thames Valley and other areas reached record levels during the Summer months of 2020, as people followed Government advice to stay at home.**

We knew it was critical for our services to keep running smoothly, with good hygiene being more important than ever as people washed their hands more regularly to help fight Covid-19. Our people stepped up, to keep taps running and toilets flushing, and we quickly adapted to the rapidly changing environment.

Our demand tool, which had been based on 25 years of traditional demand fluctuations, needed to be updated quickly, to factor in the unprecedented effects of the pandemic, and we worked with the Met Office to reforecast demand. In the Thames Valley and Surrey we saw record spikes in usage when the sun was shining, as people were at home with limited access to anywhere other than their gardens.

We quickly identified our sites that were most able to cope with the increase in demand in more rural areas and we invested to build resilience and increase water treatment capacity. In some hotspot areas we also introduced a social media and radio campaign to remind customers to be as careful as they could with water during the particularly hot days, to help make sure there was always enough to go around for the most important things in life.



## Case study:

### We're innovating to look after water

**As our population grows and climate change affects the availability of water, we all need to look after this incredibly precious natural resource.**

Covid-19 hasn't stopped us working with our customers to save water to help make sure there's always enough to go around for the important things in life, and to help protect our precious waterways from unnecessary abstraction.

With average household water use going up during the pandemic, our water efficiency initiatives have been even more important as we aim to reduce the amount of water we all use, but we still have a long way to go.

Innovating is in our DNA and our smart meter programme is the biggest in the UK. In April 2021 we installed our 500,000th meter, as part of our roll-out across London and Haslemere.

Using state-of-the-art technology, smart meters give our customers more control over the amount of water they use, which means they can save money off their water and energy bills. And as well as saving money, using less water and energy is great for the environment. Data from smart meters also helps us identify leaks on our customers' pipes by detecting continual flow, irrespective of whether it's day or night.

We've also been delivering smarter home visits since 2015, where we visit customers in their homes to give them personalised advice on how to save water, and therefore money. We use these visits to install water saving devices and identify and resolve wastage, such as leaky loos or dripping taps, for free.

We haven't stopped the programme during the pandemic – instead we delivered 7,905 new, virtual smarter home visits during 2020/21 using telephone and video calls to customers. In home visits saved an average of 74.2 litres water per household per day during the year, and virtual smarter home visits an average of 34.6 litres of water per day.

We've also launched a new Water Efficiency Engagement App. Our advisors use it to give tailored water savings reports and help vulnerable customers to sign up to our Priority Services Register and the industry's first Greenredeem incentive scheme, which rewards customers for saving water.

These measures combined helped us to win the Water Efficiency Project of the Year at the 2021 Water Industry Awards.





## Our Sustainability Report

Being a force for good



Taking steps to be more sustainable isn't new to us. It's been an important part of the way we've run things for many years. However, we're increasing our focus to make sure it's really connected to everything we do.

The sentiment of our strategic ambition, to generate public value, is very closely linked to our approach to sustainability, as well as Environment, Sustainability and Governance (ESG). This part of our Annual Report, the Sustainability Report, covers all those themes.

We know we don't always get things right and there are longstanding issues we need to solve, such as pollutions and sewer discharges to rivers after heavy rain.

We will always need a healthy natural environment to provide our services and it's also facing increasing pressure from climate change. Looking after it is such an important part of our strategy and our plan to 'shape the future', the third part of our turnaround plan.

Our passion to become a force for good goes further than environmental protection. We know we can have a really positive impact on communities and society every single day, and that's a big part of our plans for the future too.

The importance of us being able to support communities became even clearer during the pandemic. Water is so crucial for good hygiene in the fight against Covid-19 and many of our customers found themselves in increasingly difficult situations as a result of the lockdowns.

We also produce an ESG Statement each year, which covers our performance against our ESG metrics over a five-year period. You can read more about our governance on page 61 of this report.



## United Nations Sustainable Development Goals



To tackle global challenges such as poverty, inequality, climate change, environmental degradation, prosperity, peace and justice, the UN set 17 sustainable development goals, with targets set for 2030. We support the aspiration of all 17 goals, and contribute to many of them, however we focus on the four goals where we think we can make a real contribution.



### SDG 6: Clean water and sanitation

#### Our ambitions

- To achieve less than 2.00 on our compliance risk index for water quality for 2021/22
- To achieve a security of supply index of 100
- To reduce pollution incidents by over 10% in 2021
- To reach 100% treatment works compliance
- To successfully deliver our Water Resources Management Plan and our Drainage and Wastewater Management Plan

#### How we're contributing

- We reduced our pollutions by 10% between 2019 and 2020
- We reached 100 for SOSI
- We achieved 99.74% treatment works compliance
- We're creating a Drainage and Wastewater Management Plan, which will be ready for consultation in 2022
- In March 2020, the Secretary of State for the Environment, Food and Rural Affairs approved our Water Resources Management Plan which covers the 80-year period from 2020 to 2100 and sets out how we plan to manage our water resources efficiently alongside developing new supplies of water



### SDG 7: Affordable and clean energy

#### Our ambitions

- To act as an important player in energy transition in the UK
- To self-generate 517 GWh of renewable energy by 2025 (equivalent to 115,000 homes)

#### How we're contributing

- We generated 311 GWh of electricity from on-site renewables
- We've generated 159 GWh of renewable heat, which comes from the sewer network
- We buy 100% renewable electricity, where we don't generate it ourselves



### SDG 12: Responsible consumption and production

#### Our ambitions

- To cease abstraction from chalk streams by 2050
- To reach a per capita consumption of less than 148 litres per day by 2021/22

#### How we're contributing

- We've launched catchment management plans for the River Evenlode, River Chess and River Crane as part of our smarter water catchments initiative
- We're running smarter home visits and smarter business visits to help customers save water. In-home visits saved an average of 74.2 litres water per household per day during 2020/21, and virtual smarter home visits an average of 34.6 litres of water per day



### SDG 13: Climate action

#### Our ambitions

- To reach net zero carbon operational carbon emissions by 2030, and to go beyond by 2040
- Securing 100% of our sites, new and old, through the Security and Emergency Measures Direction by 2025

#### How we're contributing

- We've published our roadmap to net zero carbon emissions by 2030
- We've reduced our net operational emissions by 22.2 ktCO<sub>2</sub>e to 268.3 ktCO<sub>2</sub>e during 2020/21
- We use 100% renewable electricity
- We self-generated 23% of our electricity needs during 2020/21



## Our strategic ambitions

### To generate public value



#### Where we are

We have the opportunity to create real benefit for our communities, and we know that by working together with stakeholders in our region we can make bigger and better improvements.

This strategic ambition fits with our plan to shape the future, as part of our plan to turn around Thames Water's performance. It will evolve as we continue to work with our stakeholders to define our Vision for 2050.

#### Looking after the environment

##### We're on a journey to clean up rivers

- We're piloting a new alert system to let customers know when we're having to discharge sewage into rivers near Oxford. We launched the new service on our website in June 2021 at [www.thameswater.co.uk/riverhealth](http://www.thameswater.co.uk/riverhealth)
- We've launched smarter water catchment management plans for the Evenlode, River Chess and River Crane, which outline how we're working together with our partners to improve river quality
- We've reduced our pollutions by 10% between 2019 and 2020
- We met our performance commitment target in 2020/21 to minimise abstraction

##### We're innovating to become an important player in energy transition

- We've launched our roadmap to net zero by 2030, and we'll go beyond by 2040
- We produced 301 GWh renewable electricity from sludge from 24 sewage works – enough to power the equivalent of more than 103,000 homes
- We generated 159 GWh of renewable heat, which comes from the sewer network. We're exploring innovative new ways of capturing the heat to power homes – you can find out more on page 35
- We've installed new energy efficient engines at our Maple Lodge site, enabling us to generate 6.8 GWh more renewable electricity and cut our use of fossil fuels by 6.9 GWh
- We've trialled various electric vehicles, and we'll start to roll these out in 2021/22

#### We're taking steps to protect and enhance biodiversity

- We've committed to improving the biodiversity at 253 of our sites by 5% by 2025. These sites are Sites of Biodiversity Interest and cover almost 4,000 hectares. We've made some improvements, but we're behind where we planned to be at the end of 2020/21. See our Annual Performance Report for more information
- We've assessed the natural capital stocks across 100% of our landholdings. Stocks are the elements of nature which provide a wide range of goods and services and have a value to society
- We planted over 20,000 trees during the year at sites including Farmoor reservoir in Oxfordshire, Longreach sewage treatment works in Kent and Hackpen Hill in Wiltshire

#### Making a positive impact in communities

##### We're supporting local communities

- We've invested £1 million in our independent trust fund in the 14 months to April 2021, with many donations from Thames Water employees. It helps customers with debt support and we're the largest charitable supporter of debt advice in our region. Our fund supports organisations such as the Citizens Advice Bureau
- We've given 22 community grants to a variety of organisations including nature reserves, community foundations and search and rescue
- We kept sites open to the public during the pandemic including Walthamstow Wetlands and Farmoor Reservoir, as well as nature reserves – Crossness, Beckton Creekside, Hogsmill and Kempton

#### Targets for 2021/22 and beyond

These include our integrated business plan targets for performance commitments for 2021/22. More information about what these performance commitments mean can be found in our Annual Performance Report.

#### Supporting customers and communities

- Increase number of households on our priority services register to 4% of the total households in our region

#### Tackling climate change

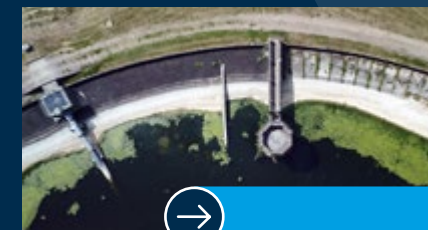
- Self-generate over 500 GWh of renewable energy to help power our operations
- Deliver Water Industry National Environment Programme requirements
- Assess and report 100% of Natural Capital stocks across all our landholdings

#### Improve rivers

- Cease abstraction from environmentally sensitive sites when water levels are low

#### Key risks

Risk numbers – 1, 5 and 6



See how we're delivering on our Purpose



## Case study:

### We're working with stakeholders to improve river quality



**We have the opportunity to make bigger and better improvements to our river catchments by working together with stakeholders in the region. That's exactly what we plan to do.**

In 2018, we launched our smarter water catchments initiatives to create more nature-based solutions to look after the water cycle. They're part of our plan to improve river quality and enhance our ecosystems. These projects will help us to use less energy in treating our water and create a more sustainable way of ensuring good quality drinking water.

As part of the project, we've just launched ten-year plans for three catchments in the River Chess, River Evenlode and River Crane. We have a long and challenging journey ahead of us; however, our work is already starting to make a difference. You can find our full plans on our website at [www.thameswater.co.uk/catchment](http://www.thameswater.co.uk/catchment).

#### Managing the River Chess

There are just 260 precious chalk streams in the world, and 224 of them are in England. Like other chalk streams, the River Chess in the Chilterns is under enormous pressure from over abstraction, agricultural activities, climate change and pollution. Working together with community groups, we've created an action plan, with year-on-year actions, to restore the Chess to its natural beauty. The plan looks at improving water quality, managing water flow and controlling invasive species. We'll work together with the Wilder Chess initiative, farmers and landowners to build sustainable wildlife corridors to allow wildlife to migrate.

"At a time when we all need to take bold and decisive action for chalk streams, we are very pleased to be a key partner in Thames Water's 'smarter water catchments' initiative. In piloting a more intensive approach to catchment management and ensuring the necessary resources are available to make a difference, the initiative will provide a valuable evidence base to help secure a brighter future for both the River Chess and other river catchments in the future."

**Dr Elaine King** Chief Executive Officer  
Chilterns Conservation Board





## Case study:

### We're improving our communication with communities



**Cleaning up our rivers is so important to us, our stakeholders and our customers, and we know it's time to really challenge the status quo. It's completely unacceptable that we discharge sewage into rivers after heavy rain. It's something we know we need to fix and we'll keep talking to our stakeholders about it as part of our work to create our vision for 2050. We know it's going to take time, investment and collaboration with our stakeholders to get to where we want to be. It's a massive challenge, however we've started the journey.**

We've been making steps to improve river quality through the construction of the Lee Tunnel, and the landmark Thames Tideway Tunnel, which will divert millions of tonnes of sewage from the River Thames when it goes into operation during the middle of this decade.

We know so many people spend lots of time on the river, whether it's swimming, paddle boarding or fishing, and the pandemic has meant even more customers are looking for recreation in their local environment. Talking to them so they can make the right decisions is so important. We're taking steps to make sure our customers and communities know when we're needing to release sewage.

We already have a manual alert system in place in some areas along the River Thames near our Mogden sewage treatment works and Hammersmith Pumping station. They allow us to let customers know when we're releasing sewage after heavy rain.

Now, working with Oxford City Council, Thames 21 and The Rivers Trust, we're trialling automatic release notifications to local community groups in Oxfordshire. Customers can sign up to receive alerts on our website at [www.thameswater.co.uk/riverhealth](http://www.thameswater.co.uk/riverhealth). We're using information from six monitors on our sewage network to send daily notifications, as close to 'real-time' as possible, when spills occur that could impact nearby bathing locations. The monitors are at Cassington, Oxford and Witney sewage treatment works, Botley Road and North Hinksey Lane Combined Sewer Overflows and Littlemore sewage pumping station.





## Case study:

### Making a positive community impact during the pandemic

**Listening to our stakeholders, we know just how devastating the pandemic has been to projects in communities and we really want to help. That's why we decided to invest over £400,000 in a new community relief fund, to support community partners through this period of such uncertainty.**

Funding was awarded to over 30 community partners who were most financially affected by the pandemic and had limited access to other sources of support. The groups, who are running projects aligned with our sustainability goals, include the Earth Trust, Thames 21, The Ahoy Centre, Ufton Court Education Trust and Ambition, Achieve, Aspire.

We also allocated almost £100,000 to the Rivers and Wetlands Community Days (RWCD), managed by the Wild Trout Trust, which provided small grants to six community foundation organisations to help encourage communities to get involved in restoring, improving and maintaining wetland environments.

One of the community groups we've been supporting during the year was Creekside Education Trust, which manages an education centre to support conservation of the Deptford Creek in London – a very rare historical and ecological site. We gave them £15,000 to help with staff salaries and building costs.

Another was the RSPB in Rye Meads, which is a 58-hectare nature reserve in Hertfordshire on our land next to Rye Meads sewage treatment works. The site is managed jointly by the RSPB and Herts and Middlesex Wildlife Trust and part of it is a legally protected site of specific scientific interest (SSSI). We gave them £12,750 to support the costs of the visitor centre and nature reserve for the rest of the year. This included PPE and safety equipment, cleaning, site maintenance, conservation management and repairs and a contribution towards salaries.

"I am so grateful for this financial support. I am sure you appreciate what it means to us to help us survive these unprecedented times. Knowing that a big company like Thames Water is supportive of small charities and our delivery really helps our morale. You will be pleased to know that we are also working hard to build our resilience for the future."

**Jill Goddard**  
Chair, Creekside Education Trust

"Your support will make such a difference to RSPB Rye Meads at a difficult time and will mean that we can keep working to maintain habitats and safely welcoming visitors to the reserve. Thank you so much."

**Liz Parry**  
Fundraising Manager, RSPB, Rye Meads





## Tackling climate change

### Climate change and the Task Force on Climate-Related Financial Disclosures



We all have a responsibility to take urgent action against climate change. It's the world's biggest environmental challenge and we need to work together to protect our planet and our water cycle.

As a water company, climate change is also one of the biggest risks to the delivery of our services. The last few years have seen many climate records being broken, from droughts to heatwaves, colder winters and floods. And as you can see from our results over the last few years, our infrastructure is not resilient enough to extreme weather.

That's why assessing and addressing climate-related risks is such an important part of how we operate and how we plan for the future. We're enhancing the way climate risk is linked to our strategy, and our response to climate change focuses on mitigation and adaptation.

#### Adaptation

We've been using climate scenario modelling for a number of years to understand the pressures that exist – like water resource availability, water demand and flooding potential – and to make sure we make the best strategic and investment decisions. We're continuing to improve how we do this to help our customers use water and sewers wisely and direct our capital investment to ensuring our infrastructure is resilient to extreme weather events. This year we formed a dedicated climate-change working group to develop our governance around climate-related risk. You can find more detail on our assessments and climate adaptation plans on our website.

#### Mitigation

We recognise the important role we can play in energy transition, helping us and others reach carbon reduction targets, through the generation of power from waste. We've just released our roadmap to net zero by 2030, which is on page 34. You can also find more detail about our climate-related targets and performance in our Annual Performance Report.

#### We align with the Task Force on Climate-Related Financial Disclosure recommendations

We already report a lot of information about climate change, including in this report, our water resources management plan and our Adaptation Reporting Power report, which will be published later this year. But this year we've gone even further, adopting the TCFD guidance in outlining our climate-related risks and opportunities and grouping information into the four key areas of governance, strategy, risk management and metrics and targets. Our full TCFD report will be available on our website shortly.

#### Governance

The Governance section of this report sets out the role of the Board, their experience relating to climate change, and management's role in assessing and managing risks, which also applies to climate-related risks.

#### Strategy

We're committed to doing things in the right way, and to go above and beyond our role as a regulated, essential services provider. To do that, we evaluate the risks and opportunities we face, and you can find more information throughout this report and on our website in the plans and reports mentioned below. They set out the expected impact of climate risk on our operations, strategy and financial planning, as well as the resilience of our strategy. In particular, our Water Resources Management Plan and Drainage and Wastewater Management Plan consider a range of climate scenarios based on UKCP09 and UKCP18 data sets.

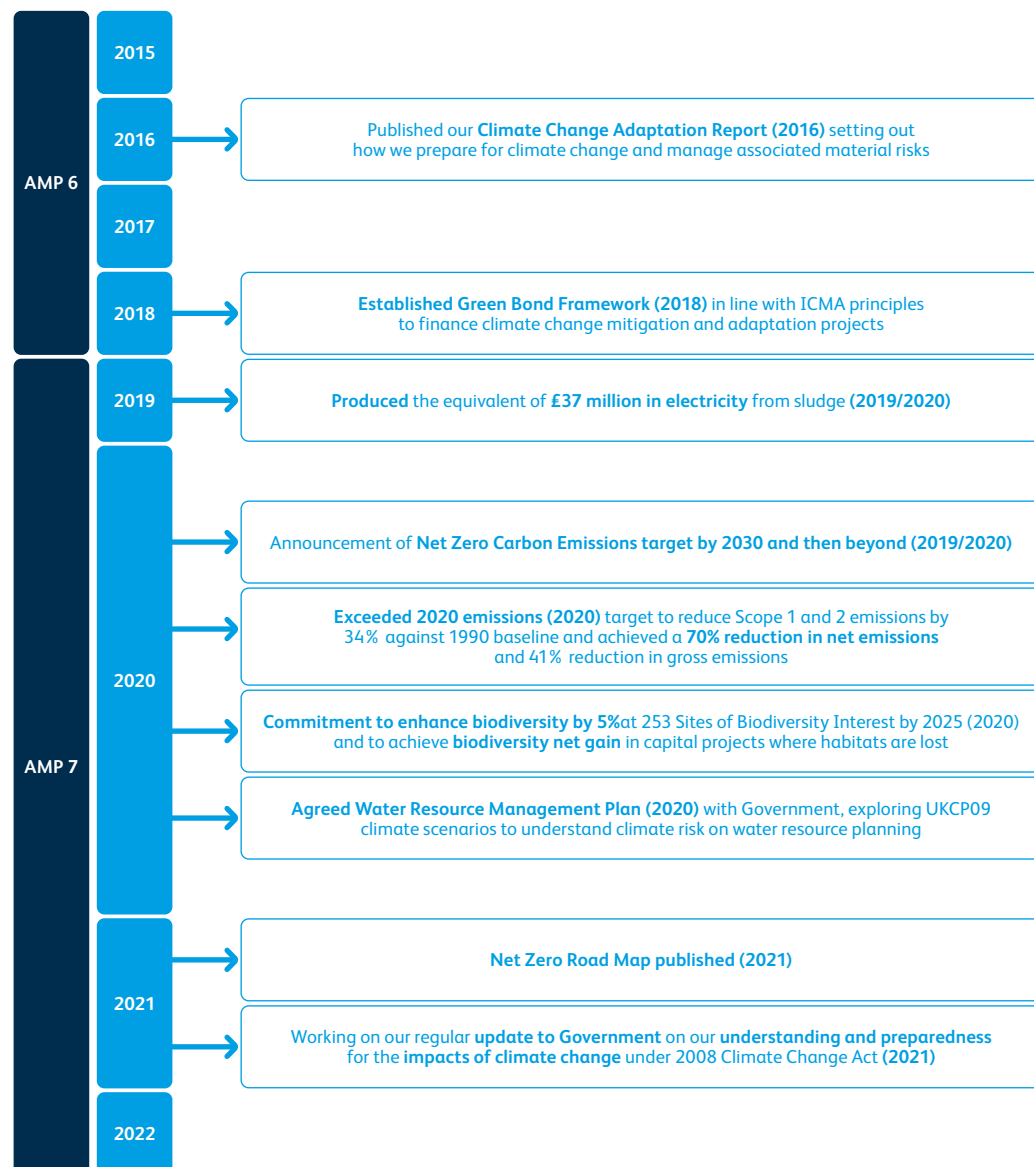


## Tackling climate change

### Reporting on climate change



#### Climate change reporting in recent years



#### Risk management

Climate risk is one of our Principal Risks, and it is embedded within our risk management approach.

You can find more information in:

- Our Managing Risk section on page 41 in this report
- Our Water Resources Management Plan
- Our Drainage and Wastewater Management Plan (which is due for consultation in 2022)
- Our Adaptive Reporting Power Report (to be published later this year)
- Drought Management Plan

#### Metrics and targets

Our well-established approach to climate change mitigation and adaptation means that we have incorporated climate-related metrics and targets into our Performance Commitments. Full details of our performance can be found in our Annual Performance Report. We've just launched our roadmap to net zero by 2030 (see page 34) and our Scope 1, 2 and 3 emissions are on page 107.

#### We're working hard to reduce our greenhouse gas emissions and improve our energy performance

At Crossness sewage treatment works, we've reconfigured the sludge treatment process to produce more of the steam we need from renewables. Steam is used to heat and help break down sludge, creating sewage gas during the digestion process, which is then used to produce heat and electricity. This has helped us reduce our fossil fuel use by 49% and save over 3.6 kTCO<sub>2</sub>e carbon emissions.

At Turnford Borehole, we've installed a new Variable Speed Drive electrical pump system, which allows us to cope more efficiently with dynamic demand. This has resulted in savings of 320 MWh per year – the equivalent annual electricity consumption of nearly 100 homes.

We've also achieved a 97% reduction in our emissions from using fossil fuels in our combined heat and power ("CHP") engines, saving 1.8 kTCO<sub>2</sub>e – the equivalent of 5,000 flights from London to New York. Where our CHP engines generated more renewable energy than we needed ourselves, we exported it, generating an additional 1.3 kTCO<sub>2</sub>e carbon offset.

By improving our processes and systems in this way, in 2021/21, across our sites, we reduced our:

- Net operational emissions by 22.3 kTCO<sub>2</sub>e to 268.2 kTCO<sub>2</sub>e, a fall of 8% from 2019/20
- Use of fossil fuels from 37.2 kTCO<sub>2</sub>e to 29.9 kTCO<sub>2</sub>e, 20% less than in 2019/20
- Total energy consumption by 61 GWh, from 1,679 GWh to 1,618 GWh
- Electricity consumption by 40 GWh from 1,305 GWh to 1,265 GWh

## Tackling climate change

Changing the way energy is created and used in the UK



We're taking pioneering steps to change the way energy is created and used in the UK, making us an important player in energy transition. By processing waste into power, the generation of this renewable electricity will help us, and others, achieve carbon reduction targets.

For the last 30 years, we've been on a journey to reduce our carbon emissions and we beat our first target by reducing our emissions by 578 ktCO<sub>2</sub>e between 1990 and 2020, while customer numbers increased by 4.3 million. This reduction roughly matches the amount of methane a quarter of a million cows produce each year!

Our commitment to net zero carbon emissions from our operations by 2030, 20 years ahead of the UK Government's target, is the next ambitious step on our journey, and we're pushing ourselves even further to become carbon net negative by 2040. However, it's not just about our own targets. We have a much bigger role to play in energy transition in the UK and it's a really exciting place to be.

We generated 301 GWh of renewable electricity from sewage last year – that's enough to power an area the size of Swindon for a day, and the equivalent saving of £35 million in grid electricity costs – and we've got big plans to turn even more of it into power. As well as creating more renewable electricity, so we can treat water in a more sustainable way, we're finding new ways to store and share more of this power. This will also help generate much needed, extra investment for our ageing infrastructure and to improve our service to our customers.

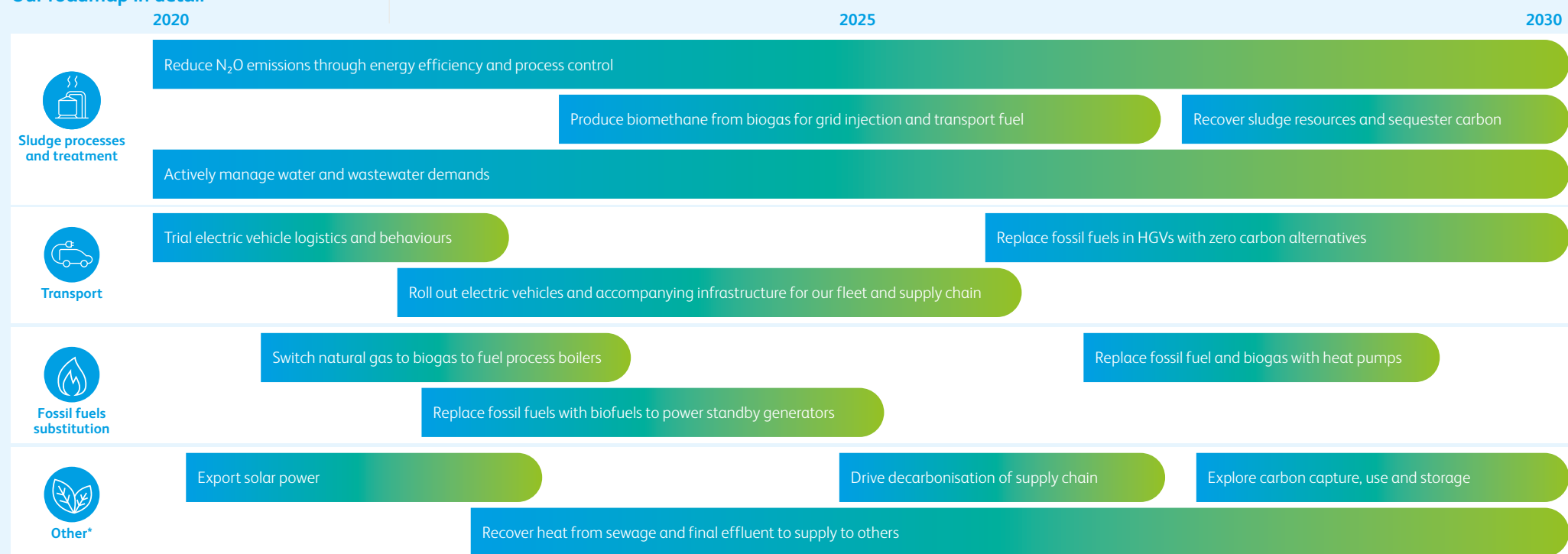
The opportunity to turn waste into power helps us provide our service in a more sustainable way, enabling our customers, communities, and the environment to thrive.

### Next stop, net zero

Here's our roadmap to net zero by 2030, which we launched in June 2021 and which can be found on our website. Our plan focuses on four themes:

- Reduce – design and operate our assets so they emit as few carbon emissions as possible
- Decarbonise – provide the same capabilities using lower carbon technologies
- Create a net negative future – grow our export of renewable energy products and procure renewable energy when we can't decarbonise our supplies
- Sequester and offset – consider carbon offsets, carbon capture and storage, and carbon sequestration opportunities

### Our roadmap in detail



\* Electricity transmission and distribution, outsourced partners, water processes and third-party opportunities



## Case study:

We're looking for innovative solutions to support energy transition in our region



**Being more innovative opens up lots of opportunities for us to create more value for our customers, communities and the environment. We know new ideas, whether it's the use of new technology or a different way of working, won't always work, but when they do, the results take us steps forward.**

In what will be the country's first scheme of its kind, we're working with Kingston Council to explore the opportunity to use heat recovered from sewage treatment to provide clean, green heating to more than 2,000 homes.

Using a state-of-the-art energy centre at our Hogsmill sewage treatment works, biogas recovered from the sewage treatment process would be captured, treated and supplied as heat to local buildings. The power generated by the process will also be used in turn to power the process itself – maximising cost effectiveness and efficiency.

This scheme is likely to supply up to seven gigawatt hours of low carbon heat per year and would save an estimated 105 kilo tonnes of carbon dioxide equivalent (ktCO<sub>2</sub>e) emissions over 30 years – equivalent to 157,000 return flights from London to New York or more than 15,000 car journeys around the world. Our aim is to expand the network to public and commercial buildings in Kingston town centre.

We're also researching new ways to improve our existing energy generation processes. This year, at our Beddington sewage treatment works, we trialled a pioneering method to run our anaerobic digesters – which we use to recover energy from sewage sludge. Our new dynamic feeding approach makes our energy generation more flexible and reliable, able to produce energy on demand rather than continuously.

We estimate that this will save 116MWh of electricity per year – that's the equivalent of electricity used to make more than 1.2 million cups of tea.





## Stakeholder engagement

We know we've lost the trust of some stakeholders over several years and to rebuild that trust we need to be fully transparent and deliver on our priorities.

Listening to and engaging with all our groups of stakeholders really helps us to understand the challenges and opportunities we face. It's also important that we work together to turn around this business so our customers, communities, and the environment really are able to thrive.

We know we've not always been great at really listening and we've been working hard to improve the way we engage with and understand the needs of all our stakeholders.

The impact of Covid-19 has affected the way we engage with our stakeholders over the last year, however we've continued to interact with them virtually to keep vital conversations going.

We held our first virtual Annual Stakeholder Review in July 2020. This year, we have plans to build on that event and engage with our stakeholders as we shape the future and develop our vision for 2050.

You can find more about some of our customer engagement, and how we used it to redesign our bill, on page 21 of this report.

### NGOs and community groups

There are lots of community groups and non-governmental organisations (NGOs) who, quite rightly have a keen interest in our activities, particularly around environmental protection and enhancement.

#### What they expect

- To know we really care about the impact of our services on the environment and that we're committed to doing the right thing
- To work with them in partnership where we have joint goals
- To know we're easy to engage with and that we're really listening to their feedback on local projects and initiatives that will affect them
- An improvement in the way we communicate, for example around sewage entering rivers

#### How we've engaged

- Meetings to understand their views on our work in their areas and so we can inform neighbourhood plans
- Develop partnerships to deliver projects and programmes, such as smarter water catchments
- Through the Blueprint for Water coalition, which is made up of organisations with an interest in water policy, including WWF, RSPB and the Wildlife Trusts

#### Outcome of the engagement

They are armed with a greater understanding of our community work and improving environmental performance. Partnership working is instrumental to our smarter water catchments work to improve river water quality and the opening of our sites, such as Walthamstow Wetlands. Collaboration also increases the reach of our "Bin it, don't block it" and water efficiency messaging.

#### How it informs our strategy

One of the key topics of engagement this year has been around cleaning up our rivers, and through positive engagement with NGOs and community groups we've launched three smarter water catchment plans (see page 29) and our new automated alert system (see page 30). We're also just embarking on a new collaboration with WASP to improve the River Windrush.

### Policy makers and elected representatives

Policy and legislative changes have a significant influence on the water sector and, therefore, our plans. Councillors and MPs are interested in how our activities will affect the people they represent.

#### What they expect

- For us to provide a reliable and affordable service – and to do the right thing when things go wrong
- For us to support economic prosperity and recovery from the pandemic in the regions we serve
- To play an active role in shaping the future direction of the sector

#### How we've engaged

- A structured programme of engagement with officials at all levels of Government; MPs; councillors and London Assembly Members
- Discuss and contribute to the development of policies affecting water and the environment, and changes to legislation
- Hold memberships with groups such as London First, the Thames Valley Chamber of Commerce and BiTC
- Submit responses to Select Committee inquiries to ensure our voice is heard in the policy debate
- Engage with Defra and our regulators, for example attending their Green Recovery roundtable and Environment Bill Water targets workshop

#### Outcome of the engagement

Feedback helps us understand whether we are meeting stakeholders' expectations in the communities we serve. It helps us improve the delivery of projects and informs future plans. It also keeps us close to changes to policy that affect the regulatory environment in which we operate and helps to magnify our voice to policy makers.

#### How it informs our strategy

We've used feedback during the year to help us build our plans to recruit new jobs and skills across our region, and as we start the journey to clean up rivers.

## Stakeholder engagement continued

### Suppliers

Our suppliers are critical in delivering water to our customers. It's important they understand and share our commitment to improving customer service and being more sustainable.

#### What they expect

- Clear and honest two-way communication about opportunities and issues that might affect their business and plans
- A fair approach to procurement
- The opportunity to discuss more innovative ways of doing things
- To understand how we view their performance, while being given the chance to feedback on our processes

#### How we've engaged

- A Supplier Summit, with the opportunity to talk 121 with suppliers and get direct feedback on their challenges and the things on their mind
- Direct emails and newsletters
- Discussing best practice at health and safety conferences and category forums
- Review performance at quarterly meetings
- Engagement with the wider supply market through high profile pre-tender market engagement and launch events
- Host "innovation exchanges" to encourage new solutions and partner with organisations representing the supply chain

#### Outcome of the engagement

Engagement helps build a diverse supply community. It keeps us at the forefront of market trends and allows us to develop our operational approach alongside our supply chain, to assist the delivery of our strategy. It provides insight to help mitigate risk, improve resilience and drive added value for customers. We've launched a new approach to build more senior level engagement and to give more information about our objectives.

#### How it informs our strategy

Through engagement, we're able to work together to make improvements to customer service and we can understand the impact of Covid-19 and Brexit on our ability to deliver our essential service.

### Regulators

We have a number of regulators including Ofwat, our economic regulator, the Drinking Water Inspectorate, the Environment Agency, Natural England and Historic England.

#### What they expect

- Productive and open conversations about our performance, Purpose and long-term plans
- They also want us to work together with them, and our peers, to make sure we do our best for customers and the environment

#### How we've engaged

- The Board, senior management and other people across Team Thames met with all our regulators throughout the year, through virtual performance updates and operational meetings
- We also engaged with them about adapting our priorities in light of the Covid-19 pandemic, and about longer-term landmark projects such as the Thames Tideway Tunnel and the proposed reservoir in Oxfordshire
- We have quarterly meetings with the Environment Agency to discuss our performance, and we have quarterly meetings with CCW

#### Outcome of the engagement

Our regulators understand why our performance is where it is and we can rebuild trust. It also helps us work together to drive cross sector improvements and initiatives, such as driving innovation through the innovation fund. Through engagement with the Environment Agency, we now send them reports following serious pollution incidents. Through meetings between our CEO and Ofwat, we've shared our plans to turn around Thames Water's performance. As well as Ofwat and the Environment Agency, we've also engaged with the Drinking Water Inspectorate and Defra to help us form Water Resources Management Plan and Drainage and Wastewater Management Plan. We've also taken part in consultations about the next business planning process – PR24.

#### How it informs our strategy

As we invest in resilient assets and systems, and generate public value, we've worked with Ofwat to shape our plans to invest in London as part of the conditional allowances, and also green recovery. We've also been working with Ofwat and Water UK to help businesses during the pandemic.

### Investors and external shareholders

Our debt and equity investors play a really important role in funding our investment, so we can improve our performance for customers and the environment.

#### What they expect

- Transparency about our performance, opportunities, risks and challenges
- For us to deliver
- A return on their investment

#### How we've engaged

- Our external shareholders have four representatives on our Board, so they can hear directly from the rest of our Board, Executive team and other senior management. They also meet with employees through our Workforce Engagement programme led by our Independent Non-Executive Director, Ian Pearson
- We also listen to, engage and update our lenders through 1-2-1 meetings, group calls and presentations and provide information through our annual reports and statements. These include this document, our Annual Report, our Annual Performance Report, and our ESG Statement

#### Outcome of the engagement

By really understanding our challenges and the improvements we need to make, our external shareholders have supported the decision to not pay dividends in the four years to 2020/21. For more information about our dividends, see page 54. Through transparent engagement, our external shareholders are able to balance the needs of their investment with the needs of our customers. With their experience of other sectors, they can also provide constructive advice and share different view points.

#### How it informs our strategy

This ongoing engagement is key in aligning our collective views on current priorities, PR24 planning and our longer term vision to 2050. As ultimate owners of Thames Water, an important factor within the long term investment rationale is the company's role within the natural environment and how we can maximise our positive impact.

## Section 172 Statement

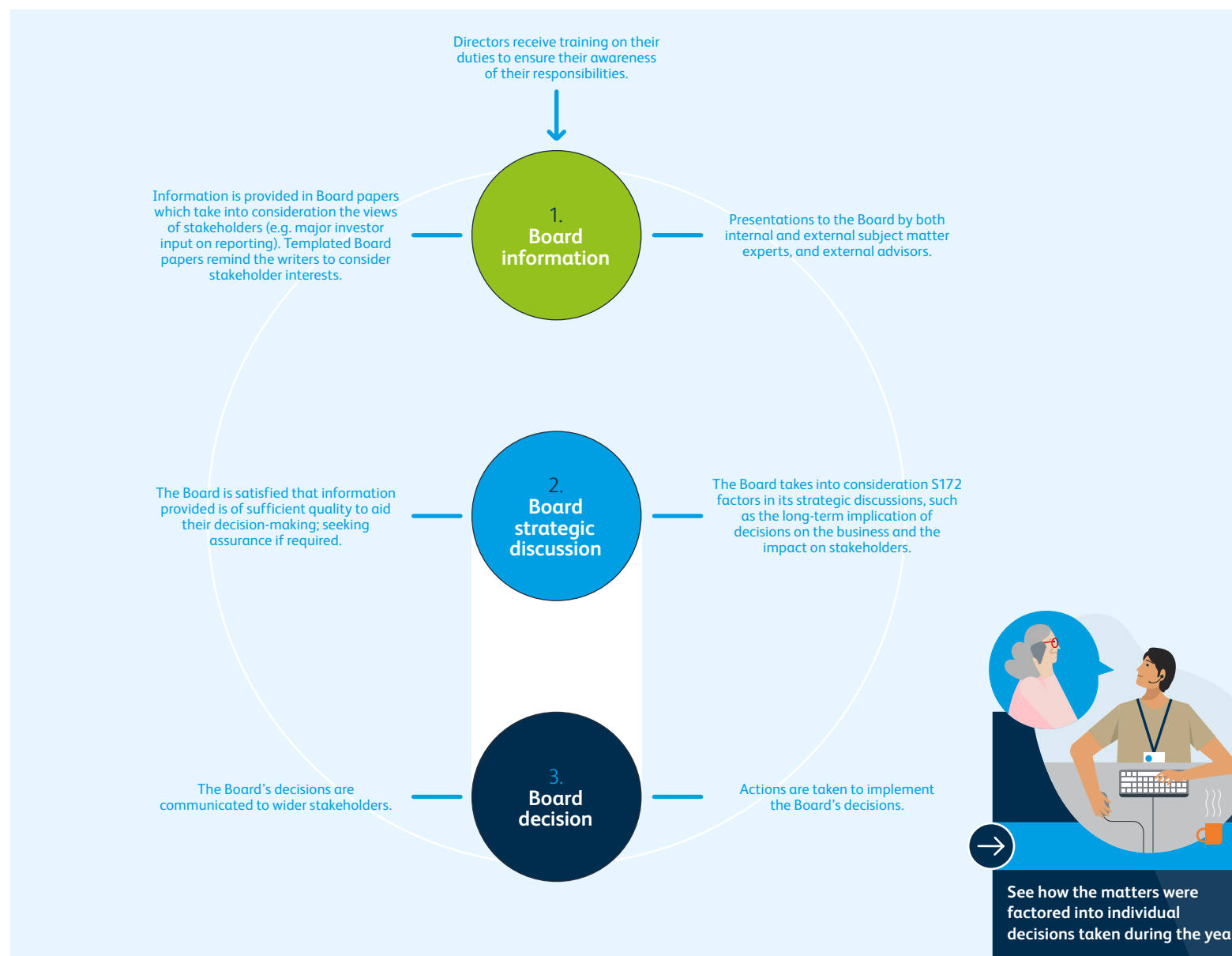
### Our approach

Under S172(1) of the Companies Act 2006 ("S172"), the Directors of Thames Water must act in the way they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole. In doing so, the Directors must have regard (among other matters) to:

- a. The likely consequences of any decision in the long term
- b. The interests of the Company's employees
- c. The need to foster the Company's business relationships with suppliers, customers and others
- d. The impact of the Company's operations on the community and the environment
- e. The desirability of the Company maintaining a reputation for high standards of business conduct
- f. The need to act fairly as between shareholders of the Company

Thames Water's governance framework is conducive to Board-level decisions being made with stakeholder interests, and the longer-term impact, in mind.

On the following page are some examples of how the Board of Directors considered matters and reached decisions, demonstrating how they have had regard to S172 when discharging their duties this year.



## Section 172 Statement continued

Each Director at Thames Water receives, as part of their induction, a formal introduction to the business and the Executive team and a full briefing on their legal duties as a Director, including those covered by section 172 of the Act. The induction process is managed by the Company Secretary, and, if considered necessary, includes input from independent advisers.

All Directors receive a monthly report on the performance of the business covering a range of management information that includes health and safety, customer experience, operations, digital strategy and transformation, asset management, regulation, capital delivery, corporate affairs and sustainability, people, finances and commercial activity.

As set out in the Governance Report (from page 61), the Board met formally seven times during the year in full session. The Board has six sub-committees, which all report up to the Board. Details of how Board members engage directly with stakeholders, including customers, employees, investors, community groups and policymakers can be found on page 77.

### **The likely consequences of any decision in the long term – s172(1)(a)**

The Company's governance structure, based on appropriate delegation of management responsibility, allows the Board to remain focused on the longer-term strategic issues affecting the business. The Board also includes four Non-Executive Directors appointed specifically to represent the interests of the Company's ultimate shareholders, which ensures an additional emphasis on longer-term considerations in the decision-making process given the relative stability of the Company's equity investor base.

The Company takes a comprehensive and long-term approach to risk management, an activity which is overseen by the Audit, Risk and Reporting Committee ("ARRC"). Board Directors receive regular updates from ARRC, as they do from all Board Committees. The ARRC report for this year can be found on page 81, while an overview of the Company's risk management system and our Long-term Viability Statement can be found on pages 41 to 50.

In September 2020, the Board held its annual day-long strategy session, at which it reviewed, among other matters, the Integrated Business Plan for AMP7 and the trends likely to affect the water industry in the next 20 to 30 years, including environmental and resourcing issues.

### **The interests of our employees – s172(1)(b)**

The health, safety and wellbeing of Thames Water's employees is critical and is an area of focus for the Board and the Health, Safety and Environment Committee. Detailed reports and updates relating to health and safety and to staff wellbeing are regularly presented at Board meetings.

Ian Pearson, the Non-Executive Director who leads the workforce engagement programme, has continued to hold sessions with employees throughout the year, subject to the restrictions on face-to-face meetings due to Covid-19, and provided regular updates to the full Board. Further details on the Board-led workforce engagement programme and the feedback generated by it can be found on page 19. Details on how Thames Water manages its working environment and culture, and how we seek to support employees, can be found in the People section on page 14.

### **The need to foster our business relationships with suppliers, customers and others – s172(1)(c)**

Day-to-day business relationships are managed by the Executive team under the supervision of the Board, and details of how the business engages with suppliers are included on page 37. Oversight of customer service and engagement issues are within the remit of the dedicated Customer Service Committee of the Board, whose report can be found on page 85.

In July 2020, five Directors, along with three members of the Executive, participated in an online discussion with ten customers to receive feedback specifically on the Company's handling of customer leaks.

### **The impact of the Company's operations on the community and the environment – s172(1)(d)**

As an essential services provider, our interaction with and impact on both our communities and the environment are of particular interest to Directors. Environmental protection and climate change are identified as principal risks requiring the Board's attention. ARRC leads on mitigation of risks on behalf of the Board, while environmental considerations are a key part of the remit of the Health, Safety and Environment Committee.

The Sustainability Report on page 26 provides further detail about our activities in relation to climate and environmental concerns. Our engagement with community groups and NGOs is explained on page 36, while the Board's direct role in such engagement is set out on page 77 of the Governance Report.

### **The desirability of the Company to maintain a reputation for high standards of business conduct – s172(1)(e)**

The Board is clear about the need for Thames Water, as a high-profile company running a critical public service and operating in a tightly regulated environment, to maintain the highest standards of business conduct. ARRC is responsible for overseeing our systems for managing compliance, fraud and whistleblowing and the internal audit function, and making appropriate recommendations on policy and actions to the Board.

Under the Company's Policy Framework, all policies relating to "significant strategic, operational, financial or compliance risk areas" move up for review and sign-off through the Executive, to Board Committee if needed and then to the full Board. Following a review by ARRC, the Company's Honest and Ethical Behaviour Policy was formally approved by the Board in November 2020, along with other policies throughout the year.

### **The need to act fairly as between members of the Company – s172(1)(f)**

Since Thames Water is ultimately owned by a limited number of institutional shareholders, who are represented on the Board through four Non-Executive Directors, there is direct and regular contact between all equity investors and the Board. The composition of the Company's Board is detailed on pages 65 to 69. The Board of Thames Water's ultimate parent company, Kemble Water Holdings Ltd, is composed entirely of shareholder representatives, acting between themselves for all ten investing entities.



## Section 172 Statement continued

The table below sets out a sample of how the above matters were factored into individual decisions taken by the Board and its Committees during the year:

AMP7 Integrated Business Plan	Covid-19 Management	Policy Approvals	Regulation	Health & Safety	Environment and Water Quality
<b>Relevant Section 172 Categories</b> <b>a.</b> Long-term Impact <b>b.</b> Employees <b>c.</b> Supplier & Customer Relationships <b>d.</b> Community & Environment <b>e.</b> High Standards of Business Conduct <b>f.</b> Fairness Between Members	<b>Relevant Section 172 Categories</b> <b>b.</b> Employees <b>c.</b> Supplier & Customer Relationships <b>d.</b> Community & Environment	<b>Relevant Section 172 Categories</b> <b>a.</b> Long-term Impact <b>b.</b> Employees <b>c.</b> Supplier & Customer Relationships <b>d.</b> Community & Environment <b>e.</b> High Standards of Business Conduct <b>f.</b> Fairness Between Members	<b>Relevant Section 172 Categories</b> <b>a.</b> Long-term Impact <b>f.</b> Fairness Between Members	<b>Relevant Section 172 Categories</b> <b>b.</b> Employees <b>c.</b> Supplier & Customer Relationships <b>f.</b> Fairness Between Members	<b>Relevant Section 172 Categories</b> <b>d.</b> Community & Environment <b>f.</b> Fairness Between Members
<b>Discussion/Action</b> Directors reviewed the AMP7 IBP at multiple Board meetings and other sessions throughout the year, factoring in various considerations including those relating to customer and stakeholder impact, regulatory impact and long-term deliverability.	<b>Discussion/Action</b> The Board received updates on the impact of Covid-19 on staff, customers, and wider business operations at each Board meeting as part of its regular Health, Safety and Wellbeing updates.	<b>Discussion/Action</b> During the course of the year, the Board and relevant Committees reviewed and discussed the Company Code of Conduct and multiple individual policies.	<b>Discussion/Action</b> At its June meeting, the Regulatory Strategy Committee reviewed options for taking a longer-term view of regulatory issues.	<b>Discussion/Action</b> In its review of the regular health and safety report at its June 2020 meeting, the Health, Safety and Environment Committee considered various relevant matters.	<b>Discussion/Action</b> In its review of the environmental report at its November 2020 meeting, the Health, Safety and Environment Committee considered various relevant matters.
<b>Outcome/Impact</b> Initially approved in September 2020, the plan was subject to subsequent revisions to allow for increased spend on water quality investment. Shareholders and other stakeholders were kept informed of progress, and the upgraded plan was formally reviewed and approved by ARRC and the full Board. The approval of this plan impacted all our stakeholders, including employees, customers, regulators and our wider community, as it covers all strategic aspects of our business.	<b>Outcome/Impact</b> This particularly impacted upon employees. The Board reviewed actions and guidelines designed to help staff working from home and to protect field staff (who were counted as key workers), stressing the need for robust protection for those who were required to attend workplaces and for full engagement with staff as and when any widescale return to office working was mandated.	<b>Outcome/Impact</b> The Board approved the Code of Conduct and policies including those relating to: People; Sustainability; Honest and Ethical Behaviour; and Protecting Drinking Water Quality and Safeguarding Public Health. The consideration and approval of policies affects all our stakeholders, including employees, customers and suppliers, as they set out how we do business.	<b>Outcome/Impact</b> The Committee requested that from November 2020, the regulatory diary it received in its papers should include both one-year and five-year trajectories. The Committee also recommended to the Board that its terms of reference should be updated to reflect its involvement in the development of the business's regulatory strategy. This will help to further improve our relationships and ways of working with our regulators.	<b>Outcome/Impact</b> The Committee decided to recommend a review of the current whistleblowing policy to ensure it was effective from a health and safety perspective, and also to review, and if necessary revise, incident categories and to amalgamate the most serious incidents into an overarching category in order to better be able to assess trends in the business and look after our employees.	<b>Outcome/Impact</b> The Committee agreed that the Company should consider how to report and use the data from "near miss" pollution and environmental incidents to drive a culture change to risk assessment and move to a zero-pollution culture. Our local communities and our environment is a key stakeholder group in this respect.

## Managing risk

As with everything in life, there are risks to our business which need careful management. We have a robust approach to considering and managing our risks so we can maximise opportunities to deliver our Purpose and objectives, while also managing our risks to an acceptable level rather than eliminating them completely.

As we turn around Thames Water, we're taking our risk management to a new level. We're re-evaluating our risks as we implement our plans to fix the basics, raise the bar and shape the future, alongside responding to increasing challenges such as global cyber security threats and climate change.

### Our approach to risk management

Our risk management process is aligned with ISO 31000:2018 (Diagram 1) to make sure we consider all our risks and take appropriate action to manage them.

When new risks are identified, we capture the risk causes, consequences and the mitigating controls, which we have in place to manage them. Risks are mapped to a risk category (strategic, operational, financial and compliance) and allocated to a principal risk. We operate a 'three lines' approach to provide assurance over the processes, procedures and controls in place to respond to and monitor risk. You can find out more in our Risk and Compliance Statement on page 108 in our Annual Performance Report.

As part of our risk management process, we look internally and externally to identify emerging risks which, over time, have the potential to increase in significance and affect performance or the achievement of our strategic objectives, but are difficult to assess at the initial point of identification. We also identify risks which have an extreme impact on the business but are very low likelihood.

### Our risk governance

Risks are considered and challenged at least quarterly through business function leadership team risk reviews, the Executive Risk Committee and ARRC (Diagram 2). You can find more information in our Audit, Risk and Reporting Committee (ARRC) Report on page 81.

Diagram 1: Our risk management process



Diagram 2: Our risk governance process



## Managing risk continued

### Continuous improvement

Continuous improvement is a key principle of our approach to risk management. During 2020/21 we've focused on:

**The impact of Covid-19:** We've reviewed how Covid-19 has exacerbated existing risks and introduced new risks in the short and medium term. We've conducted regular monitoring of short term risks through our Gold Command incident management process and tracked key decision points to understand the impact on our control framework.

**Risk maturity:** We've assessed our current level of risk maturity and identified areas for development through a company-wide assessment involving members of our Board, Executive team, members of our leadership community and key individuals involved in risk management. The outcome of this assessment has helped inform our programme to fix the basics, raise the bar, and shape the future by strengthening our approach to managing risk in the coming year.

**Risk deep dives:** We facilitated a series of Executive Risk Committee and ARRC risk deep-dives and received updates from operational teams on our management of key risks and performance measures covering:

- Asset investment cycle
- Cyber security
- Data records and retention of data
- Water quality
- Operational asset failure (water and wastewater)
- Cash and collections.

**Risk appetite:** We've concluded a programme of Board level risk workshops to agree how much risk we are willing to take for each of our defined principal risks. We worked to operationalise our risk tolerance for water supply resilience through engagement with our Board, Executive team, customers and stakeholders to be used to identify investment needs for our water supply systems.

**Catastrophic loss risks:** We focused on the prevention and preparedness actions we have in place to manage risks with an extreme impact but very low likelihood.

**Controls and assurance:** We are continuing the expansion of the documented controls framework through identification of the controls and assurance in place against our top inherent risks.

**Resilience:** To create and maintain a resilient business, we've established a resilience framework which is an extension of our current risk management process. This is being developed through our updated Resilience Action Plan which brings together activities to enhance our operational, corporate and financial resilience.

In 2020/21, our focus was to define our approach to operational resilience, developing a robust baseline resilience assessment for water supply, to be adopted across water and wastewater, and working with our Board, Executive team, customers and stakeholders to define our risk tolerance for water supply resilience. This will define the need for further action, whether through enhanced incident response or investment.

We recognise our services also rely on and impact a wide range of other systems including the environment, other infrastructure providers, the economy and agriculture and we are working with stakeholders such as Water Resources for the South East (WRSE) to understand these interdependencies.

In 2021/22, our key focuses will be to:

- Increase our understanding and management of long term risks associated with Covid-19, and review and embed lessons learnt, including how well our controls environment performed during the period of disruption
- Align Enterprise Risk Management (ERM) and Operational Risk Management (ORM) frameworks to provide an integrated, co-ordinated view of risk across the business
- Embed risk management as a critical component of decision making
- Improve visualisation of risk relationships, common causes and consequences and incidents to improve cross-functional management of risks
- Develop and embed process for consistently identifying and responding to long-term risks including climate change and support Defra's Climate Change Adaptation Reporting Power and the Task Force on Climate-related Financial Disclosures (TCFD) (see page 33)
- Progress current gaps in our resilience maturity to ensure an aligned approach to risk and resilience





## Our principal risks and uncertainties

### Changes to risk landscape

Over the course of 2020/21 internal and external factors have influenced the risk agenda:

**Covid-19:** many risks were compounded by the impact of Covid-19, with a focus on ensuring our workforce have the equipment and working environment they need; health, safety and wellbeing is maintained at home or in the field; our supply chain is able to consistently deliver and maintain the standard we expect of them; and we maintain sufficient money to operate alongside reduced revenue.

**Brexit:** there was a minor impact on the supply chain following the introduction of border controls and we're continuing to monitor the impact of these

**Pollutions/river water quality:** it's unacceptable that we still need to discharge untreated sewage into rivers after heavy rain. We will need to work with stakeholders to accelerate work to stop them being necessary.

**Cyber security:** there has been an increase in targeted cyber security attacks on water and regulated industries internationally.

**Quantum of change:** we need to increase the pace of change to deliver our turnaround plan and meet challenging transformation and performance targets at a time of significant change in senior leadership.

### Emerging risks

There are several emerging risks which will be a focus for further analysis in 2021/22:

- Longer term impact of Covid-19 and the changing distribution of service demand
- Potential economic recession impacting, amongst other things, our customers' ability to pay
- Maintaining good mental health whilst transitioning to new ways of working
- Continued pressure internally and externally to improve the environment

- Transitional climate change risks
- Capacity in sector to deliver capital programmes
- Ongoing supply of chemicals due to dependency on a small number of suppliers and reduced availability of specific critical chemicals in the long term.

### Changes to principal risks

We've updated our principal risk model to reflect our internal priorities and revised accountabilities:

**Business planning and delivering transformational change:** this reflects the scale of transformation needed to achieve the AMP7 business plan and to prepare a robust PR24 business plan

**Health, safety and wellbeing:** we've included wellbeing to reflect the importance of supporting both physical and mental health

**People:** we've emphasised embedding the right behaviours and culture.

We also added a new principal risk:

**Understanding our assets:** this considers the importance of robust, accurate and reliable asset information to make informed asset investment decisions, maintain the asset base and effectively respond to incidents.

The principal risks have been used as the basis for the downside events and scenarios in the Long-term Viability Statement.

## Summary of our principal risks for 2020-21

Principal Risk	Risk Trend
<b>Strategic</b>	
1. Environmental protection and climate change	↑
2. Political, regulatory, legislative, and societal changes	→
3. Maintaining the trust and confidence of stakeholders	→
4. Business planning and delivering transformational change	→
<b>Operational</b>	
5. Supply of enough 'wholesome' water	→
6. Collection, treatment and recycling of wastewater	→
7. Physical and cyber security	→
8. Information and operational technology	→
9. Customer service	→
10. People	↓
11. Health, safety and wellbeing	→
12. Supply chain management	→
13. Understanding our assets	NEW
<b>Compliance</b>	
14. Legal and regulatory compliance	↑
<b>Financial</b>	
15. Financing our business	→


### Risk trend key

- ↑ Increasing
- Stable
- ↓ Decreasing

## Our principal risks and uncertainties continued

### 1. Environmental protection and climate change

**We may cause damage to/pollute the natural environment through our operations, be unable to deal with the physical impacts of climate change (e.g. extreme weather events and temperature rise) or fail to meet our zero carbon targets and commitments**

Link to strategic ambitions: 

#### ↑ Explanation of trend

- Increased scrutiny from stakeholders on river water quality and use of combined sewer overflows, with commitment to preventing discharges of untreated sewage which requires broad stakeholder support to deliver
- Preparing for increase in reporting to align with the requirements of climate change (see pages 32-33)

#### Risk impact

Short to long-term environmental damage, increased disruption and cost to maintain our operational service due to extreme weather and temperature rise, and reputational damage if we fail to make sufficient progress.


#### How we are managing the risk

- Working with stakeholders to accelerate work to stop discharges of untreated sewage being necessary, as a result of wet weather
- Implementing our Pollution Incident Reduction Plan focusing on prevention through proactive sewer cleaning, infrastructure upgrades, improved monitoring, enhanced training and behaviour and improved response when pollutions happen
- Working with local partners on smarter water catchments initiatives to nurture the water cycle, improve river quality and enhance ecosystems
- Trialling the monitoring of river quality, at agreed pilot locations, for the purposes of establishing designated bathing rivers
- Increasing resilience of our waste network to wet weather through catchment infiltration reduction plans
- Net Zero Carbon Taskforce and development of our Net Zero Carbon Route Map to achieve net zero operational carbon by 2030 and to go further by 2040
- Reviewing physical and transitional climate change risks, in particular, preparing our Climate Change Adaptation Report for Defra and reviewing our financial reporting on climate matters as set out in our TCFD report.

You can read more in our Sustainability Report on pages 26-35.

### 2. Political, regulatory, legislative, and societal changes

**We may be unable to effectively anticipate and/or influence future developments in wider society and/or the political, regulatory or legislative environment**

Link to strategic ambitions: 

#### → Explanation of trend

- Overall this risk has remained stable, with political, regulatory and societal changes aligning with our own strategies and objectives to protect the environment, contribute to wider society, innovate and plan for the long term
- Covid-19 has influenced how we've collaborated with stakeholders with an increase in digital communication and higher expectations from us as stakeholders balance competing priorities

#### Risk impact

Our operations might be impacted by changes to the regulatory framework or legislation which influence how we govern ourselves or require significant investment over what we anticipated in our business plan.

#### How we are managing the risk

- Ongoing monitoring of the political and regulatory environment
- Active and ongoing engagement and consultation with regulators, politicians and regional and local stakeholders on a broad range of issues, particularly those of high concern such as resilience, river water quality and the impact of Covid-19
- Facilitating discussion and collaborative work on matters of policy
- Working in partnership with other organisations such as Water UK, other water companies and industry bodies to inform the public policy debate around the water sector.

You can read more about engagement with stakeholders on page 36.

### 3. Maintaining the trust and confidence of stakeholders

**Failure to secure the trust and confidence of our stakeholders (regulators, investors, communities, pressure groups, etc.), if we fail to meet their expectations or deliver on our promises and commitments**

Link to strategic ambitions: 

#### → Explanation of trend

- Remains a challenging environment with continued external scrutiny driven by our poor operational performance and customer service
- We have new leadership in place, are increasing our level of transparency and openness and have overhauled our communications and engagement during incidents

#### Risk impact

We may be unable to secure the necessary engagement, support and investment necessary to deliver our long-term ambitions.

#### How we are managing the risk

- Extensive engagement with stakeholders at national, regional and local levels to understand their needs, expectations and preferences
- Implementing our turnaround plan to improve our performance
- Public value programme to support wider community engagement and environmental improvement
- Implemented robust 24/7 communication and engagement with stakeholders during incidents
- Proactive engagement with impacted customers and stakeholders to support delivery of our AMP7 Capital Delivery programme
- Proactive consultation with stakeholders on key business plans, 2050 Vision, Water Resources Management plan (WRMP) and Drainage and Wastewater Management Plan (DWMP)
- Introduced new structures and processes to support stakeholder engagement across the business to support a more coordinated approach internally
- Working to ensure all commitments have been properly thought through and are tracked through to completion.

You can read more about engagement with stakeholders on page 36.

## Our principal risks and uncertainties continued

### 4. Business planning and delivering transformational change

**We may be unable to effectively plan, deliver and embed the scale of change necessary to achieve our AMP7 business plan and prepare for PR24 and beyond**

Link to strategic ambitions: 

#### → Explanation of trend

- We have a clear view of where we need to focus to deliver and embed transformational change and recognise the scale of transformation required in key areas of our operations, particularly water networks and customer service
- We are insourcing capability in our Capital Delivery model and transition to an Intelligent Client to help deliver our £3.1 billion capital programme for AMP7

#### Risk impact

We may fail to allocate funds appropriately or deliver the scale of transformation needed to meet our customers and stakeholders needs, or fail to achieve the necessary confidence to secure a PR24 plan which enables us to deliver our long-term ambitions.


#### How we are managing the risk

- Implementing our turnaround plan to improve our performance with targeted business wide transformation programmes for customer, operations, people, strategic planning, and understanding our assets
- Robust investment governance process in place to ensure we're being efficient and optimising our activities
- Enhancing established business planning process to ensure we're doing the right thing at the right time
- Developing our Vision 2050 to guide long-term decision making
- Improving our decision making around assets by developing an asset management system that is ISO 55001 certified
- During the Covid-19 pandemic, we have continued to monitor decisions which impact our performance targets and have postponed some non-essential projects, and have assessed the impact of these to our business

You can find more information in our CEO's statement on page 4 and in our Section 172 Statement on page 38.

### 5. Supply of enough 'wholesome' water

**We may be unable to provide a reliable supply of 'wholesome' water and maintain a robust water network**

Link to strategic ambitions: 

#### → Explanation of trend

- Leakage and mains repairs have been higher than forecast due to the cold winter and the impact of a freeze thaw event in February. Over the year we've invested at a number of water treatment works, improving their reliability, and have increased our understanding of our water supply resilience and worked with customers and stakeholders to identify areas for improvement

#### Risk impact

We may impact business, domestic customers and communities due to interruptions to water supply or cause danger to public health due to poor water quality.


#### How we are managing the risk

- Reducing water demand through improvements in customer water efficiency, installing digital water meters and addressing customer side leakage
- Proactively maintaining our network through leakage detection and trunk main monitoring, and undertaking repair and replacement programmes
- Increasing our use of data through monitoring across key water quality processes and improving real-time awareness of our network and calming pressure across our system to prevent bursts and reduce leakage through our Smart Metering rollout and Smart Water programme which have allowed us to meet unprecedented demand for water during Covid-19
- Refurbishing critical water assets such as our ring main and several water treatment works
- Enhancing the competency of our staff to minimise water quality failures and supply interruptions
- Enhanced incident management arrangements to reduce response times and developed playbooks for critical systems to maintain supply
- Undertaken Water supply system resilience assessments, with active engagement from customers and stakeholders, to prioritise future resilience investment
- Our Water Resource Management Plan sets out how we will manage the water supplies in our region to meet current and future needs up to 2100

You can find more information about how we're increasing the resilience of our assets and systems on pages 23-25.

### 6. Collection, treatment and recycling of wastewater

**We may be unable to collect and treat wastewater and safely return clean water to the environment or recycle sludge**

Link to strategic ambitions: 

#### → Explanation of trend

- Overall this risk has been stable with ongoing focus on enhancing our wastewater systems to prevent spills, responding to wet weather due to infiltration, improving the resilience at a number of sewage treatment works, and preparing for evolving bioresources and sludge treatment markets

#### Risk impact

We may disrupt business and domestic customers due to interruption to drainage services and sewer flooding.

#### How we are managing the risk

- Working with the government, Ofwat, the Environment Agency and others to accelerate work to stop discharges of untreated sewage being necessary
- Implementing our Pollution Incident Reduction Plan focusing on prevention through proactive sewer cleaning, infrastructure upgrades and improved monitoring
- Improved response when pollutions happen and enhanced training programmes
- Increasing our use of data through the installation of sewer depth monitors across our network to enable intelligence-based proactive maintenance and targeted interventions
- Increasing resilience of our waste network to wet weather through catchment infiltration reduction plans
- Developing our Drainage and Wastewater Management Plan which sets out how we will manage the waste service in our region to meet current and future needs
- Continuing our network enforcement activity to reduce fats, oils and grease being disposed to sewers, whilst campaigning for the "fine to flush" standard to be adopted by all manufacturers
- Engaging with WaterUK regarding the future of sludge recycling and developing long term strategy for sludge to land
- Developing wastewater resilience assessment, based on good practice in water supply, to prioritise future resilience investment


You can find more information about how we're increasing the resilience of our assets and systems on pages 23-25.



## Our principal risks and uncertainties continued

### 7. Physical and cyber security

**We may be unable to protect our sites, systems, and assets (incl. data) from internal, or increasingly sophisticated malicious, external threats such as a targeted cyber-attack**

Link to strategic ambitions: 

#### → Explanation of trend

- No material increases in vulnerability
- Close monitoring of targeted cyber-attacks on utilities and government bodies internationally

#### Risk impact

May result in data loss, damage to property or infrastructure or disruption to operational and customer services. This may cause reputational harm, regulatory investigations or penalties.

#### How we are managing the risk

- Clear policies and procedures and mandatory security awareness training and communications
- Technological security measures, including effective modern firewalls, patching policies, threat/vulnerability monitoring, identity management controls, multifactor authentication and encryption of information
- Increasing the use of incident alerting tools, and tools to prevent the deliberate and accidental loss of data
- Regular risk assessments of physical security threats and measures
- Physical and electronic site security controls, including site alarms and CCTV that are actively monitored with programme of maintenance and improvement
- Improving the quality and accuracy of user information in our systems
- Incident response process

### 8. Information and operational technology

**We may be unable to prevent service interruptions or become blind to the actual state of critical assets due to information (IT) or operational (OT) failures**

Link to strategic ambitions:   

#### → Explanation of trend

- IT systems have coped well with significant shifts in homeworking during 2020/21
- Reduction in system outages demonstrating impact of continued investment in IT infrastructure resilience
- Increased focus on improving operational technology

#### Risk impact



May result in disruption to corporate, operational and customer systems resulting in delays in responding to customers and operational outages.

#### How we are managing the risk

- Continuous improvement of the stability of our IT systems
- Migration of applications to cloud platforms to improve accessibility, application rationalisation and cessation of grey IT
- Standardisation of agreements with IT providers to increase reliability and consistency of service provision
- Replacement of operational field devices to enhance staffs' working experience, reduce hardware failures and address security risks
- Improvements to continuity planning and recovery plans for key systems including regular testing
- We have successfully replaced upgrade of the legacy RTAP system in London with a modern SCADA system which oversees the production, treatment and delivery of drinking water
- Operational technology lease line upgrade programme

### 9. Customer service

**We may be unable to improve and then maintain the levels of customer service necessary to deliver what our customers tell us they want**

Link to strategic ambitions:  

#### → Explanation of trend

- Remains a challenging environment with high, but improving, level of complaints received, particularly for charging and billing

#### Risk impact

If we are unable to deliver the levels of customer service expected by our customers we may experience an increase in complaints, perform relatively poorly on C-MeX and D-MeX measures and fail to achieve the necessary customer advocacy and support to secure a PR24 plan which enables us to deliver our long-term ambitions.

#### How we're managing the risk

Stabilise, optimise and transform customer service with a consistent and low effort customer experience by:

- End-to-end customer intent led transformation in retail (around billing and metering journeys) and operations (water and waste) that enables improved satisfaction, reduced complaints and channel shift to digital
- Introduction and optimisation of next generation contact centre and workforce management systems, improving the interface and interaction with all our other back-end systems (including billing and website)
- Transform data quality by focusing on data completeness, accuracy and integration of property, asset and customer data
- Continued focus on driving inclusive service by actively seeking data sharing with third parties to drive up reach of priority services and affordability as well as maintain our certification of BSI 18477 (inclusive service provision)
- Continue to build and develop a customer-centric culture where everyone feels responsible and empowered to deliver for our customers

You can read more about how what we're doing to improve our customer service on pages 20-22.

## Our principal risks and uncertainties continued

### 10. People

**We may be unable to attract, develop and retain an appropriately skilled, diverse, and engaged workforce and leadership team that demonstrate standards of behaviour, attitudes and actions that make for a positive workplace culture**

Link to strategic ambitions: 

#### Explanation of trend

- Risk trend is improving demonstrated by increasing employee engagement, and continued improvements in diversity and the competency of our workforce

#### Risk impact

Without an appropriately skilled, diverse, and engaged workforce and leadership team we may be unable to deliver the transformational change necessary to deliver our AMP7 plan and long-term ambitions.

#### How we're managing the risk

- People strategy based on engagement, equality, diversity, talent attraction and development, training, reward and recognition
- Talent and succession planning and leadership development programmes in place with increased investment in Graduate and Apprenticeship schemes to promote emerging talent
- Learning management and mandatory training programmes in place supported by developing competency framework
- Ongoing monitoring of employee engagement and targeted response plans
- Strategic workforce plan in place to identify short, medium and long-term resourcing requirements
- Investment in recruitment and on-boarding systems to ensure a positive hiring and induction experience
- Working with EU Skills to understand where the workforce is today and where it needs to be for the future
- Developing future ways of working to ensure we implement a flexible and efficient hybrid working model
- Engaging on how we pay and contract in the future
- Implementing a robust Licence to Operate programme to further develop technically competent colleagues and demonstrate competency to our regulators
- Focus in the coming year on 'behavioural re-set' programme to underpin an inclusive culture.

You can read more about our people on pages 14-19.

### 11. Health, safety, and wellbeing

**We may endanger the health, safety or wellbeing of our people, operating partners and/or members of the public**

Link to strategic ambitions: 

#### Explanation of trend

- Risk is stable with ongoing monitoring of the effect of Covid-19 and new ways of working on the physical and mental health and wellbeing of our people
- Over the year there has been a significant reduction in lost time and RIDDOR notifiable incidents, including a significant reduction in the number of incidents where electrical, telecom and gas pipes and cables were struck during road excavations

#### Risk impact

Physical or psychological harm to members of the public and our people, damage to property and third party infrastructure including disruption to our operations.


#### How we are managing the risk

- Strong health and safety and wellbeing culture throughout the business
- Robust health and safety management system externally accredited to ISO 45001
- Board Health, Safety and Environment Committee monitors performance and oversees and reviews health and safety risks
- Robust mental and physical health strategies alongside health and safety advisers, in-house occupational health team and mental health first aiders
- During the Covid-19 pandemic, measures undertaken include the provision of appropriate PPE to frontline staff, modifying work practices to maintain social distancing and enhanced resources to ensure our employees are kept up to date with company activity and evolving protocols
- External risk-based audits of critical operational areas
- Focus in the coming year on everyone understanding the basics of health and safety management whilst raising the bar through peer-to-peer inspections and focus on behaviours

You can read more about our people, and how we look after their health, safety and wellbeing on pages 14-19.

### 12. Supply chain management

**We may be unable to source high-calibre suppliers/expertise, and manage contracts and supplier relationships to deliver innovation and best value services in a sustainable and ethical way**

Link to strategic ambitions: 

#### Explanation of trend

- Our position has stabilised following an initial negative outlook as a result of Covid-19, with no major supplier failures or supply chain driven failures in critical service
- Looking forward, there is uncertainty about potential import difficulties post Brexit and the impact on our supply chain following the closure of the government Furlough scheme
- We are anticipating a significant scale up in our capital programme

#### Risk impact

Failure to effectively engage our supply chain may result in under delivery of our performance commitments, services to customers and transformation objectives or increases in total expenditure. Failure to manage our contracts effectively may result in a reduced pool of suppliers that are willing and able to work with the water sector and company. Failure of suppliers for critical goods and services may result in operational disruption.

#### How we are managing the risk


- Enhanced monitoring of supply chain health in the face of Covid-19 economic fallout
- Active participation with Water UK and the government on resilience in the chemical supply chain
- Improved approach to supplier management including centralised governance, improved visibility and management of suppliers and understanding of early warning signs
- Enhancing market knowledge and engagement to make better and more informed decisions creating further optionality in sources of goods or services
- Embedding an Intelligent Client Model including in enhancing capability and capacity
- Collaborating with our supply chain to deliver innovations that drive towards a more sustainable service, including mitigating single source supply

You can read more about engagement with our suppliers and other stakeholders on pages 36-37.

## Our principal risks and uncertainties continued

### 13. Understanding our assets

**We may be unable to optimise delivery of water/wastewater services, prevent H&S incidents, invest effectively for the long term, or miss our performance commitments if we don't fully understand our assets – their condition, performance and risk**

Link to strategic ambitions: 

#### **NEW** Explanation of trend

- Asset data and insight is one of our top five transformation priorities with increasing internal and external focus on asset health and improving our understanding and visualisation of assets. This is a long-term area for development to understand the condition, performance and risk of our assets

#### Risk impact

If we don't have a comprehensive understanding of our assets, we may fail to deliver our transformation plans and achieve the necessary confidence in our PR24 plan to enable us to build resilience for the long term.


#### How we are managing the risk

- Maintain an asset risk register which is used to define targeted maintenance programmes
- Asset standards in place with monitoring and continual improvement
- Developing a long-term plan to enhance our understanding of the data we hold, identify where there may be gaps and opportunities to enhance monitoring and real time data collection and visualisation
- Developing how we raise and manage asset risk and visualise risk to inform investment planning
- Building smart platforms to improve our visualisation of water and wastewater system performance
- Implementation of an asset management system that is ISO 55001 certified to maximise the value from our assets

You can find more information about how we're increasing the resilience of our assets and systems on pages 23-25.

### 14. Legal and regulatory compliance

**We may fail to comply with legal and regulatory obligations and responsibilities**

Link to strategic ambitions: 

#### Explanation of trend

- Risk has increased as we continue to face the risk of prosecution for historic pollution incidents and have also seen an increase in the size and complexity of material litigations, including a recent class action

#### Risk impact

Failure to comply with legal and regulatory obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. We could be subject to lengthy investigations and resultant fines linked to company turnover, particularly in the areas of environmental, health and safety, competition and data protection.


#### How we are managing the risk

- The Executive, with oversight from the Board, promotes high ethical standards of behaviour and ensures the effective contribution of all Directors
- Horizon scanning for changes to the legal and regulatory environment
- An embedded policy framework to understand and meet legal and regulatory compliance obligations
- Documented processes and controls for key activities, together with a compliance programme
- Active monitoring of consent and permit compliance
- Robust health and safety culture and audit and review programme
- Mandatory training programmes

You can read more in our Risk and Compliance Statement on page 112 of our Annual Performance Report.

### 15. Financing our business

**We may be unable to fund the business sufficiently to meet our liabilities as they fall due**

Link to strategic ambitions: 

#### Explanation of trend

- Despite the economic uncertainty caused by Covid-19 and certain periods of market volatility, we continue to have efficient access to debt capital markets. Furthermore, we have ready access to significant credit facilities

#### Risk impact

If we are unable to fund the business sufficiently this may trigger a deterioration in credit ratings which could potentially give rise to increases in associated funding costs and/or reduced access to debt capital markets. This, in turn, may adversely impact our ability to deliver transformational change.

#### How we are managing the risk

- Focus on cashflow management to maintain a strong liquidity position supported by available committed banking facilities
- Ongoing focus on credit ratings and financial covenant headroom in budget setting
- Treasury strategy covering funding, hedging and cash management in place
- Tailored bad-debt recovery alongside financial assistance to household customers affected by Covid-19
- Robust investment governance process in place
- Regular communication with key stakeholders (e.g. lenders and credit rating agencies)

You can find further details on our financial resilience in our Long-term Viability Statement (on page 49) and in our CFO's statement (on page 51).



## Long-term Viability Statement

### Introduction

In accordance with the UK Corporate Governance Code the Directors have undertaken a robust assessment of the long-term viability of the Company. The main purpose of performing such an assessment is to ensure that the business is able to withstand various severe but plausible scenarios where operations and financing arrangements are able to continue to deliver critical customer service in the instance such negative events materialised. Decisions taken by the Board that support our long term viability are discussed in our S172 statement on pages 38 – 40.

### Board's approach to the viability assessment

Using various risk management processes (see pages 41-48), the Board regularly assesses the risks facing the Company and takes into consideration the preventative and mitigating actions available to it. As mentioned in the going concern assessment, the Directors have considered the uncertainties associated with Covid-19, namely the downside risk of further potential lockdowns in the short-term. This would lead to lower non-household billable volumes, reductions in household cash receipts and higher bad debt. Such impacts would be partially offset by various mitigants such as a lower totex due to lower volumetric activity. Given the long-term nature of the viability assessment, the Directors have taken into account the corresponding impact on medium term forecasts caused by the effects of Covid-19 in the short term. This includes a true-up of revenue shortfalls crystallising in 2023/24, a two year lag relating to lower than expected consumption in 2021/22 due to lockdown restrictions. This revenue recovery is partially offset by the higher regulatory penalties which also crystallise with a two year lag in 2023/24 and relate to operating performance in 2021/22.

The Board has selected a 10 year assessment period ending 31 March 2031 which covers AMP7, AMP8 and AMP9. Whilst the Company has reasonable visibility over AMP7, the level of uncertainty increases the longer the look-forward period as the variability of potential outcomes increases over time. Given the long-term nature of the business providing an essential water and waste water services, the Directors consider the 10 year period to be an appropriate period to assess the Company's prospects.

### Severe but plausible downsides and conclusion

The Board has assessed the financial resilience of the business against a range of severe but plausible scenarios derived primarily from the principal risks and uncertainties set out on pages 43-48. By conducting stress testing, the Directors have considered the impact on the covenants attached to the Company's funding position, the credit rating and liquidity (taking into account the dependency on existing financing arrangements and the availability of new debt).

In addition to testing scenarios with single individual downside events, the impact of combination scenarios aggregating multiple downside events were also considered. Three combination scenarios were developed which significantly increase the severity of the impact and were negative enough that credit ratios neared Event of Default thresholds at certain points during the assessment period. All combination downsides include (i) the impact of an adverse macroeconomic environment, (ii) significant cash flow shocks from regulatory penalties for failure to achieve certain performance targets, (iii) additional expenditure required to achieve business plan objectives, (iv) an increase in the cost of new debt issuance associated with any potential credit rating downgrade arising from adverse operational and/or financial performance and (v) implementation of Ofwat's gearing sharing mechanism as per the Final Determination published in December 2021.

We have reflected the Competition and Markets Authority's recent review of the water sector by removing the gearing sharing mechanism after AMP7 in our base case. Recognising that gearing remains a focus for Ofwat, we then include in our combination downside scenarios the impact were a mechanism such as the gearing sharing mechanism to be applied beyond AMP7.

Scenario	Principal Risk
<b>1. Economic downturn and Covid-19</b> Prolonged low GDP growth leading to low inflation and poor collection rates, mitigated in part by low interest rates.  We have assessed the impact of inflation and interest rates being lower than base case assumptions for 6 years.	<b>Risk 2:</b> Political, regulatory, legislative, and societal changes  <b>Risk 15:</b> Financing our business
<b>2. Severe climate events and operational failures</b> Unplanned costs associated with extreme hot, cold and wet weather events and the failure of key assets impacting delivery of our water and waste services. This reflects the risks mentioned in the disclosure around climate change reporting.  We have assessed the impact of yearly incidents amounting up to around 4% of forecasted allowed totex (annual average) applied for a period of 6 years.	<b>Risk 1:</b> Environmental protection and climate change  <b>Risk 5:</b> Supply of enough 'wholesome' water  <b>Risk 6:</b> Collection, treatment and recycling of wastewater  <b>Risk 9:</b> Customer service  <b>Risk 11:</b> Health, safety, and wellbeing  <b>Risk 13:</b> Understanding our assets
<b>3. Water quality failures</b> Widespread water contamination event resulting in a significant supply interruption and penalties.  We have assessed the impact of two incidents over the assessment period with each event amounting to around 4% of allowed totex (annual average).	<b>Risk 5:</b> Supply of enough 'wholesome' water  <b>Risk 9:</b> Customer service  <b>Risk 11:</b> Health, safety, and wellbeing  <b>Risk 13:</b> Understanding our assets  <b>Risk 14:</b> Legal and regulatory compliance
<b>4. Cyber security</b> A severe compromise of technology and systems impacting the control of our water or wastewater services or data loss.  We have assessed the impact of an incident over the assessment period, amounting to around 1.5% of forecasted allowed totex (annual average).	<b>Risk 7:</b> Physical and cyber security  <b>Risk 8:</b> Information and operational technology resilience  <b>Risk 9:</b> Customer service  <b>Risk 14:</b> Legal and regulatory compliance
<b>5. Failures to achieve performance commitments and non-compliance with regulations</b> Penalties from failing to deliver performance as per the business plan and fines from regulatory/legal bodies.  We have assessed the impact of further penalties and fines equivalent to around 5% of forecasted revenue (annual average).	<b>Risk 4:</b> Business planning and delivering transformational change  <b>Risk 14:</b> Legal and regulatory compliance

## Long-term Viability Statement continued

Scenario	Principal Risk
<b>6. Failure to achieve business plan objectives</b> Further overspend incremental to the business plan.  We have assessed the impact of around 4% overspend in forecasted totex, incremental to the additional investment already incorporated in the business plan.	<b>Risk 4:</b> Business planning and delivering transformational change  <b>Risk 10:</b> People <b>Risk 12:</b> Supply chain management
<b>7. Increase in the cost of new debt issuance</b> An increase in the cost of new debt issuance has been assumed to reflect any potential credit rating downgrade arising from adverse operational and / or financial performance.	<b>Risk 15:</b> Financing our business
<b>8. Gearing sharing mechanism</b> An assumption that this mechanism in its current form continues after AMP7.	<b>Risk 2:</b> Political, regulatory, legislative, and societal changes <b>Risk 15:</b> Financing our business
<b>9. Combination of scenarios 1, 2, 5, 6, 7, 8</b>	See above
<b>10. Combination of scenarios 1, 3, 5, 6, 7, 8</b>	See above
<b>11. Combination of scenarios 1, 4, 5, 6, 7, 8</b>	See above

The Directors have also considered various mitigating actions when applying the combined downside scenarios, these involve limiting distributions from the Company and further cash injections from shareholders funded by raising incremental debt at the holding company level, namely from Kemble Water Finance Limited. Other mitigants include the reprofiling of totex spend, management of working capital and increasing insurance cover where applicable. As a significant proportion of debt and some totex is index linked, the Company is reasonably well placed to manage inflation risk.

For completeness the Board has also considered how the forecast economic downsides would impact the Company's defined benefit pension liability. The Board determined that a decrease in inflation would probably result in a decrease in the pension liability and a decrease in interest rates would likely result in an increase in the pension liability. These two impacts would not be expected to directly offset each other, however, overall the impact of such macroeconomic factors is not considered to have a severe impact on the defined benefit pension liability over the assessment period. Additionally, for the assumption around longevity the Directors concluded that it is not considered that a plausible change in this assumption would be significant enough to have a severe impact on the defined benefit pension liability.

In conducting the viability assessment, the Board has assessed the intercompany arrangements and the corporate structure of the Group (as detailed on page 64). No scenarios were identified that would impact the fundamental viability of the Company.

We have in place an established process to assess the Company's prospects which is performed annually by senior management. The results of the assessment are considered by the ARRC, which reviews and recommends the Long-term Viability Statement to the Board, where it is then in turn reviewed by the Directors for approval.

The Board's viability assessment is subject to review by our external auditor, who comments on whether there are any inconsistencies between this and the rest of the financial statements. Its audit opinion on pages 110-117 of this Report has not highlighted any inconsistencies.

### Board's conclusion

In assessing the impact of the principal risks, the Board has considered the preventative and mitigating actions that are available to address the aggregated impact and importantly the impact on the covenants that attach to the Company's key funding facilities. Based on this assessment the Board has a reasonable expectation that the Company will be able to operate within its financial covenants, maintain an investment grade credit rating and maintain sufficient liquidity facilities to meet its funding needs over the ten year assessment period. This conclusion has been made assuming capital markets continue to operate under normal market conditions and that no renationalisation of the water sector takes place over the assessment period.

## Our Chief financial officer statement

### Our Financial Review in 2020/21

“The last year has been defined by the impact of Covid-19 and we’ve worked hard to maintain stable finances at a time of such uncertainty and difficulty for so many of our customers.”



**Brandon Rennet**  
Chief Financial Officer

Thames Water is entering its next chapter and after four years as Chief Financial Officer, I’ve decided that now is the right time to hand over the reins. This will be my last Annual Report statement before I leave at the end of September and I look forward to welcoming Alastair Cochran, the new CFO, when he joins in early September.

The last year has been defined by the impact of Covid-19 and we’ve worked hard to maintain stable finances at a time of such uncertainty and difficulty for so many of our customers. Our cash collections have been down this year, due to the financial impact of the pandemic on our customers and that’s inevitably had a knock-on impact on our financial performance. That said, our focus has been to prioritise support for our customers and keep our essential services running smoothly.

Despite the pandemic and its impact on our financial position, we’ve not had to take government funding like many other companies and we’ve not furloughed any of our employees. See the next section for more on Covid-19.

We’ve also continued to invest in our infrastructure, which we all know is vital as we work to fix the basics and get our performance on track. However, there is still a long way to go and we’re behind where we wanted to be in terms of capital projects at the end of this year, and are therefore focused on catching up during the current financial year. We’ve also been re-evaluating other areas of spend and we closed our defined benefit pension schemes this year. This also brings our pension offering in line with other companies.

During the current financial year, we paid a dividend of £32.9 million (31 March 2020: £56.5 million). This will be used to pay interest costs for third party debt at our holding company. Our external shareholders continue to support the additional investments we are making in the business and they will not receive any dividend for a fourth consecutive year. It is, of course, important for a healthy company to be able to deliver an appropriate return to its investors and our intention remains to restart paying dividends to external shareholders in line with the relatively modest levels factored in to our business plan for AMP 7, so long as the conditions of our dividend policy are met.

Something I’ve often talked about is the need to be transparent about our finances and we’ve taken another step this year as we split the Annual Performance Report out from the Annual Report and Sustainability Report. We hope it helps make things clearer for our different audiences, so they can find what they’re looking for more easily. We continue to produce Our finances explained, which is a document designed to explain our finances in a simple way, and we’ll publish our next version later this year.

Looking after and enhancing the environment is a crucial part of our long-term strategy and we are increasingly looking to integrate this into our broader approach to finance. We are enhancing the way that climate risk is linked to our strategy and have committed to adopting

TCFD guidance. We have also undertaken a Natural Capital assessment of 100% of our landholdings and are exploring how we can use the insight to inform how we make business decisions.

#### Covid-19 impact

As mentioned in the introduction, Covid-19 has had material impacts on our business, and while the full extent of continued disruption remains unknown, we are confident in the mitigations already in place and our risk assessment process of possible scenarios. The key areas of the business where there has been significant financial impact this reporting period include:

- a reduction in current year cash collection rates and cash received from household customers who have found themselves increasingly vulnerable to financial circumstances due to the pandemic;
- a reduction in revenue from non-household customers of £83.9 million, which is due to a combination of increased property vacancy rates and lower consumption from these users more broadly;
- reduced consumption and the ability of retailers in the competitive retail water market to pay;
- a fluctuating demand in our services from household customers as more time is spent at home through flexible working arrangements, which has led to an increase in subsequent revenue from these customers of £28.8 million;
- an increase in operating costs of approximately £7.7 million arising predominantly from reduced power generation as we noted change in waste flows across London and Thames Valley, additional consumables to heighten health and safety measures across the sites, change in job mix and additional temporary plant hire;
- a reduction in total expenditure arising from capital programmes disruption, access restrictions and fewer activities that would otherwise rely on physical exposure to customers; and
- an increased proactive focus on our liquidity position and covenant headroom due to the above fluctuations.



## Our Chief financial officer statement continued

In response to the pandemic, we have continued to invest in our workforce resilience and IT infrastructure. Any revenue shortfalls can be recovered using the well-established regulatory mechanisms that allow for this to be recovered in future periods and we have actively engaged with Ofwat to assess the impact of Covid-19 on our ability to deliver our performance commitments.

In addition to an increase in the level of debt provisioning (a further £9.0 million being provided for Covid-19 impacts covering 2020/21), we have proactively performed further due diligence on our ability to recover revenue and our provisioning for bad debt.

We will continue to proactively monitor the situation around Covid-19 and the expected impact on our assumptions used within the business. This outlook is discussed within the going concern statement of the Director's Report and our Long-Term Viability Statement.

### Environment, Social and Governance (ESG)

To support our strategic ambitions and our approach to sustainability, we continue to focus on putting the Environment, Social and Governance (ESG) agenda at the heart of our financial decision making.

Back in November 2018, we tied the interest cost on our current £1.65 billion Revolving Credit Facility to our sustainability performance. We committed that any outperformance would be donated to charitable causes and any underperformance would be borne by our external shareholders.

This has been measured by our participation in the Infrastructure Global Real Estate Sustainability Benchmark (GRESB) assessment. GRESB is an independent external ESG benchmark which assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Our latest GRESB score is 89 out of 100, which is an improvement on the previous two years, where our score was 86 for both years. As a result of this improvement, we achieved a small reduction in the margin paid on the facility. As we promised, the financial gains will be put towards

our charitable fund for water and health or environmental causes. Our GRESB score ranks us 37th globally out of 406 infrastructure companies, putting us in the top 10%, and third for participating water and sewerage companies.

In 2018, in line with the International Capital Market Association ("ICMA") Green Bond Principles, we established our first Green Bond Framework to support the financing of our water and wastewater recycling projects related to the environmentally sustainable management of natural resources and land use, as well as climate adaptation. We aim to provide transparency, disclosure, integrity and quality in our Green Bond reporting, and this includes our annual Green Bond Impact Report, which highlights the positive environmental impacts our Green Bonds have contributed towards. All relevant reports can be found on our website.

Our latest Green debt issuances occurred in 2020, with the raising of c.£74 million from two bonds issued to separate investors. All proceeds will be used to refinance Eligible Green Projects in line with our 2018 Green Bond Framework.

During 2021 it is our intention to update our current framework in order to better demonstrate our ESG credentials, as well as to keep up with current, accepted market standards. As such we are working towards expanding our current framework into a Sustainable Financing Framework.

### Financial performance

Our financial statements include the amounts billed in relation to the construction of the Thames Tideway Tunnel, which are passed to Bazalgette Tunnel Limited ("BTL"), the independent company responsible for the construction of the tunnel. As this money is not retained by us, we exclude it from our underlying results.

### Revenue

The bills we send our customers for the essential water and wastewater services we provide make up our revenue. Our economic regulator, Ofwat, determines the amounts we charge in our bills every five years through a price review process, which is driven by the costs we expect to incur to invest in and operate our business over that five-year regulatory period. Our current regulatory period covers 1 April 2020 to 31 March 2025 ("AMP7").

### Financial performance

Year ended

	31 March 2021			31 March 2020		
	Underlying (Excludes BTL)	BTL <sup>1</sup>	Total	Underlying (Excludes BTL)	BTL <sup>1</sup>	Total
Revenue (£m)	2,032.9	73.8	2,106.7	2,108.5	64.3	2,172.8
Operating expenses (£m)	(1,739.5)	(0.2)	(1,739.7)	(1,667.5)	(0.2)	(1,667.7)
Operating profit (£m) <sup>2</sup>	415.2	73.6	488.8	513.4	64.1	577.5
Net finance expense (£m)	(208.1)	–	(208.1)	(334.5)	–	(334.5)
Net (loss)/gain on financial instruments (£m)	(522.2)	–	(522.2)	190.8	–	190.8
(Loss)/Profit before tax (£m)	(315.1)	73.6	(241.5)	369.7	64.1	433.8
(Loss)/Profit after tax (£m)	(258.1)	59.6	(198.5)	186.6	58.0	244.6
Capital expenditure including intangibles (£m)	1,105.0	–	1,105.0	1,223.0	n/a	1,223.0
Net debt (statutory) (£m)	12,334.1	–	12,334.1	12,137.5	–	12,137.5
Dividends paid to immediate parent company (£m)	32.9	–	32.9	56.5	–	56.5
Distributions paid to external shareholders (£m)	–	–	–	–	–	–
Interest cover (PMICR) <sup>3</sup>	1.7	–	–	1.8	–	–
Gearing (%) <sup>4</sup>	83.2	–	–	82.3	–	–
Moody's Corporate Family Rating	–	–	Baa2 stable	–	–	Baa2 stable
S&P Class A Debt Rating	–	–	BBB+ negative	–	–	BBB+ negative

1 Refer to page 121 for information about the Bazalgette Tunnel Limited ("BTL") arrangement.

2 Operating profit includes revenue and other operating income (disclosed in note 2), offset by operating expenses.

3 As defined on page 130.

4 Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 130.

## Our Chief financial officer statement continued

Our total revenue for the year ended 31 March 2021 decreased by £66.1 million to £2,106.7 million (31 March 2020: £2,172.8 million). The decrease was driven by the combination of lower allowed revenue set by Ofwat in AMP7, the adverse impact of Covid-19 on the non-household market with many business premises being empty or at reduced capacity throughout the period and the impact of Covid-19 on household bad debt (see below note).

Decreases in revenue have been partly offset by an increase in household water consumption due to warm weather and home working. BTL revenue increased £9.5 million to £73.8 million (31 March 2020: £64.3 million) due to the phasing of construction works.

### Bad debt

Bad debt arises predominantly from those who choose not to pay their bill, despite being financially able to, as opposed to those who cannot pay. We offer a range of support for people in financially vulnerable circumstances. We are working hard to reduce bad debt and we have started to see the impact of a number of new initiatives implemented during the prior year. However, the impact of these initiatives may be reduced by the difficulties for customers caused by Covid-19.

During the year ended 31 March 2021, we have seen an increase in our overall bad debt cost of £12.7 million to £86.6 million (31 March 2020: £73.9 million). The increase, including the additional management provision, is primarily due to the impact of Covid-19 on our current year cash collections, offset by the initiatives implemented in the prior year to reduce the bad debt. The current year charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £49.9 million (31 March 2020: £33.1 million), which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £36.7 million (31 March 2020: £40.8 million), which is shown within operating expenses. Our total bad debt charge equates to 4.1% (31 March 2020: 3.4%) of total gross revenue.

### Operating profit

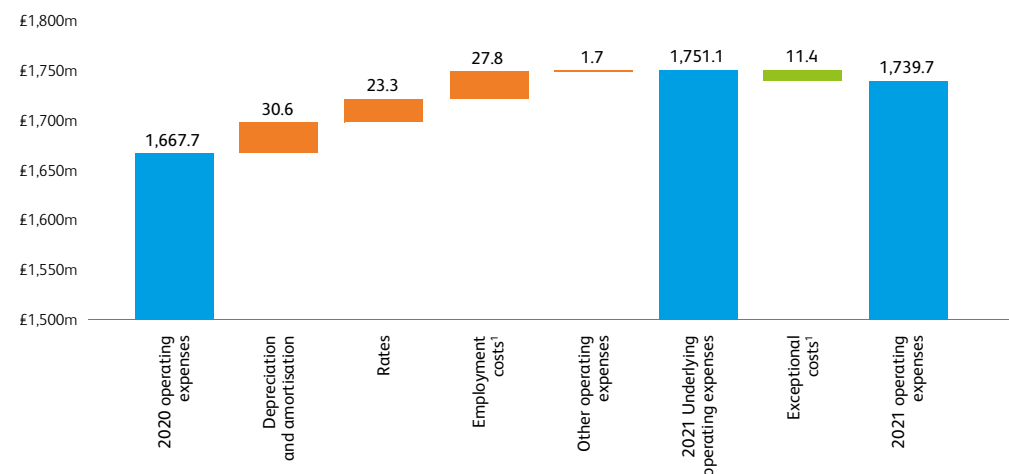
For the year ended 31 March 2021 our total operating profit was £488.8 million; a decrease of £88.7 million compared to the prior year. This is driven by the £66.1 million decrease in revenue and £72.0 million increase in total operating expenses, offset by a £49.4 million increase in other income.

The increase in operating expenses is primarily driven by:

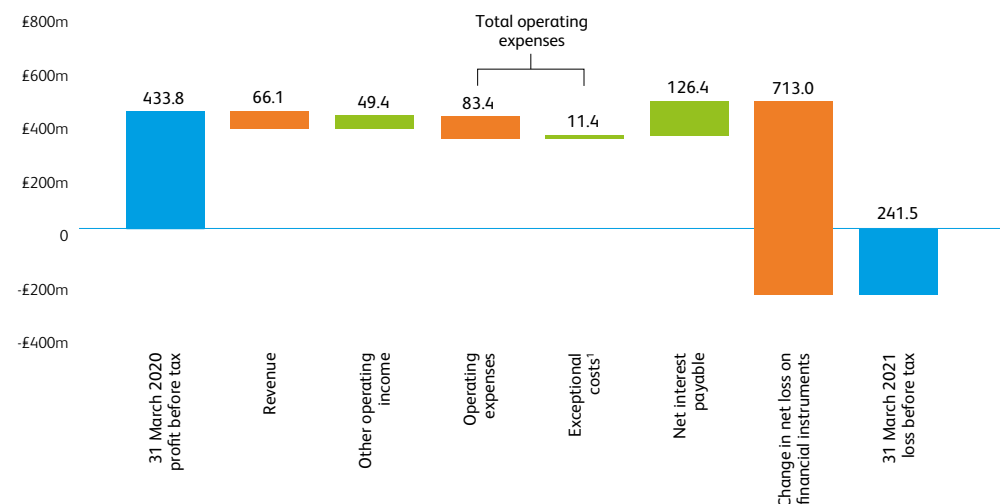
- a £30.6 million increase in depreciation and amortisation, as we continue with our significant investment programme;
- a £27.8 million increase in our employment costs, arising from increased resources to improve our service to customers and, pay rises for non-manager grades;
- a £23.3 million increase in our rates costs following the receipt of a £23.0m rebate in the prior period;
- a £1.7m increase in other operating expense, relating to the following:
  - increases in provisions covering environmental risk, additional power costs due to lower generation, additional consumables to heighten health and safety measures, and higher research and development expenditure; which has been offset by
- the impact of our cost reduction programme and an increase of own work capitalised due to a greater focus on insourcing of capital delivery work, reducing operating expenditure
- a decrease in 'exceptional' costs of £11.4 million relating to a significant restructuring of the business that primarily occurred in the previous period.

Underlying operating profit, excluding amounts related to BTL but including exceptional items, for the year decreased by £98.2 million to £415.2 million (31 March 2020: £513.4 million). The amounts excluded from the underlying operating profit relate to the £9.5 million increase in BTL revenue.

### A summary of the movement in our operating expenses



### A summary of the movement in our Loss Before Tax (LBT)



1 Exceptional items are those which are unusual by either nature or scale. Further information can be found under Accounting Policies and in note 3

## Our Chief financial officer statement continued

### Net (loss)/gain on financial instruments

We raise debt in a variety of currencies and use derivative contracts to manage the foreign exchange risk exposure on this debt along with the interest rate risk and inflation risk that we are exposed to on our borrowings. Fluctuations in external market variables such as changes in interest rates, inflation and foreign exchange rates generate changes in the balance sheet value of these financial instruments with the associated accounting gains or losses impacting profits. We only use derivatives for risk management purposes, and both the debt and derivative contracts are generally held until maturity, so there is no cash impact due to these valuation changes. This year, we made a loss on financial instruments of £522.2 million (2020: gain of £190.8 million). The movement of £713.0 million reflects a £197.8 million gain on foreign currency borrowings as GBP appreciated against USD and EUR, offset by a £908.2 million loss on swaps where hedge accounting is not applied and a £2.6 million loss on cash flow hedge transferred to the income statement. The £908.2 million loss is comprised of a £197.8 million foreign currency loss on swap principal

amounts offsetting the foreign currency gains from borrowings and a £710.4 million loss due to higher RPI expectations, interest rate movements and foreign currency impacts on future cash flows. The £2.6 million loss is in relation to forward starting swaps (where hedge accounting had been applied) that have already commenced and the related debt has been issued.

### Net finance expense

There has been a £126.4 million decrease in our net finance expense, reflecting £97.6 million increase in finance income and £28.8 million decrease in finance expense. The £126.4m decrease mainly reflects the impact of the £2,090 million notional of RPI swaps transacted in the prior year and the restructure of the interest rate profile of three index-linked swaps, also in the prior year, with lower actual RPI (compared to prior year) resulting in lower accretion on index-linked debt and swaps offset by lower capitalisation of borrowing costs.

### Loss before tax

Our total loss before tax is £241.5 million, a decrease of £675.3 million compared to the prior year (31 March 2020: £433.8 million profit before tax). Drivers for this movement are discussed in the sections before.

### Taxation

During this financial year, we paid significant contributions to HMRC of £229 million in business rates, national insurance contributions, PAYE and other taxes. £154 million of this we incurred directly, mostly through business rates, and the remaining £75 million we collected on behalf of our employees.

Consistent with our prior years, we have not paid any corporation tax to HMRC. This is primarily due to our interest costs and tax relief for our capital investment programme. The corporation tax credit for the financial year of £43.0 million consists of a deferred tax credit of £53.9 million and a current tax charge of £10.9 million, the latter arising because Thames Water Utilities Limited pays for tax losses from other group companies.

The overall tax credit is lower than the charge in the prior year due to the decrease in accounting profits.

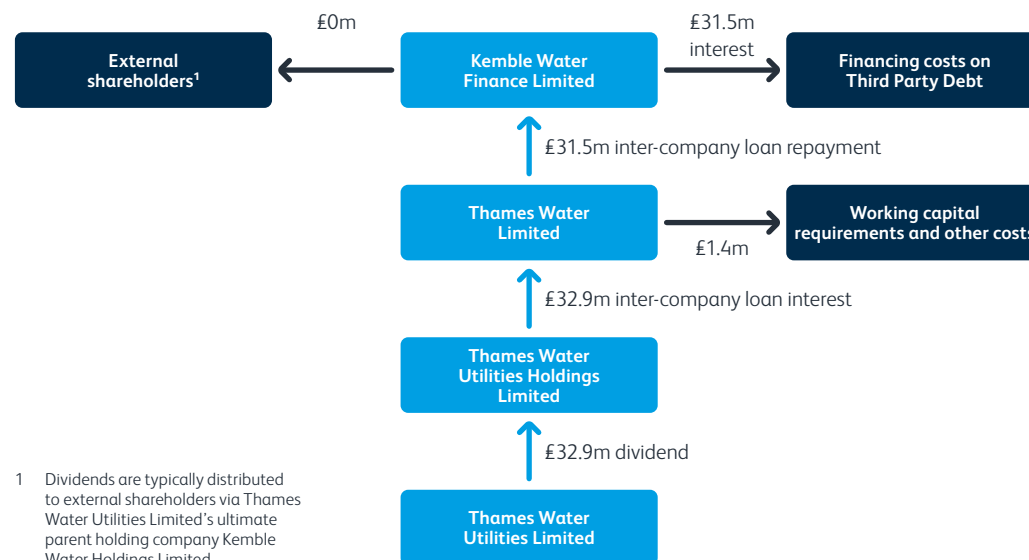
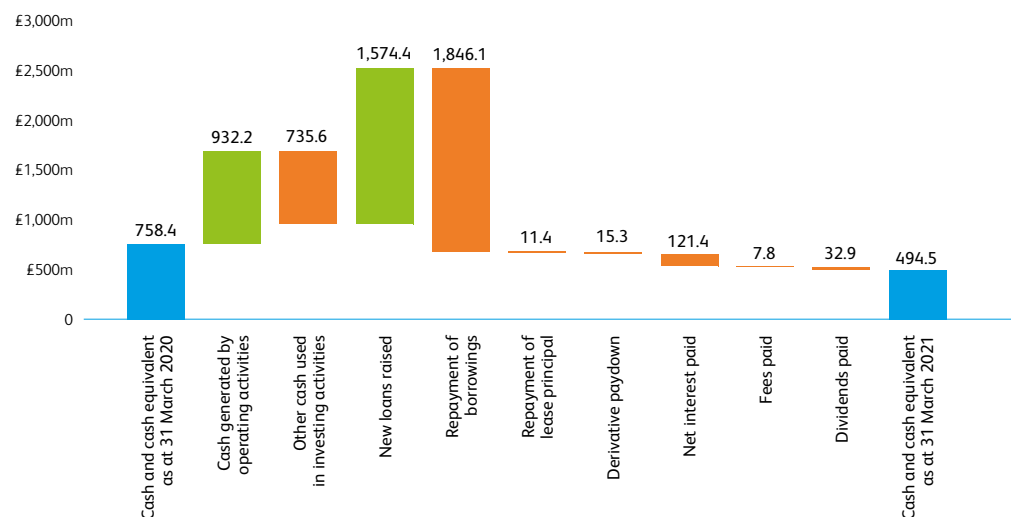
### Cash flow

Net cash generated from operating activities for the year ended 31 March 2021 was £932.2 million, which has decreased from the £1,131.1 million generated in the previous year. The decrease is driven by lower cash collected from customers and the increase in our pension deficit repayment of £69.7 million in the current year, which covers the remaining AMP7 period. The £69.7 million payment is classified as exceptional in the current year; excluding this the cash generated by operating activities would be £1,001.9 million.

### Dividends

During the year, we paid dividends of £32.9 million (31 March 2020: £56.5 million) to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent

### A summary of the movement in our Cash Flows





## Our Chief financial officer statement continued

company. The dividends are all to service debt obligations and working capital requirements of other companies within the wider Kemble Water Group. No distributions were paid to external shareholders of the group, who own shares in our ultimate parent company, Kemble Water Holdings Limited. A flow chart is presented that show how our dividends are paid to service debt obligations.

### Capital expenditure

During the year, we invested £1,105.0 million (31 March 2020: £1,223.0 million) in our assets, of which £69.7 million related to capitalised borrowing costs. This investment is down on last year due to transitioning into a new AMP with the associated supply chain engagement and mobilisation, combined with the impact Covid-19 has had on delivery over the year.

Key projects within capital expenditure include:

- £167.0 million through our Infrastructure Alliance on our Water Network (Water) to reduce leakage and improve our trunk main network;
- £44.0 million on our metering programme (water);
- £23.0 million on connecting our network to the Thames Tideway Tunnel;
- £12.0 million on the Workforce Management Programme (WFM), to standardise and improve operational processes for business functions;
- £8.0 million on Beckton STW for future population growth and readiness to receive flow from the Thames Tideway Tunnel;
- £5.5 million relating to the replacement of our Public Switch Telephony Network (PSTN) across the estate; and
- £3.8m on Next Generation Call Centre, improving our existing telephony platform.

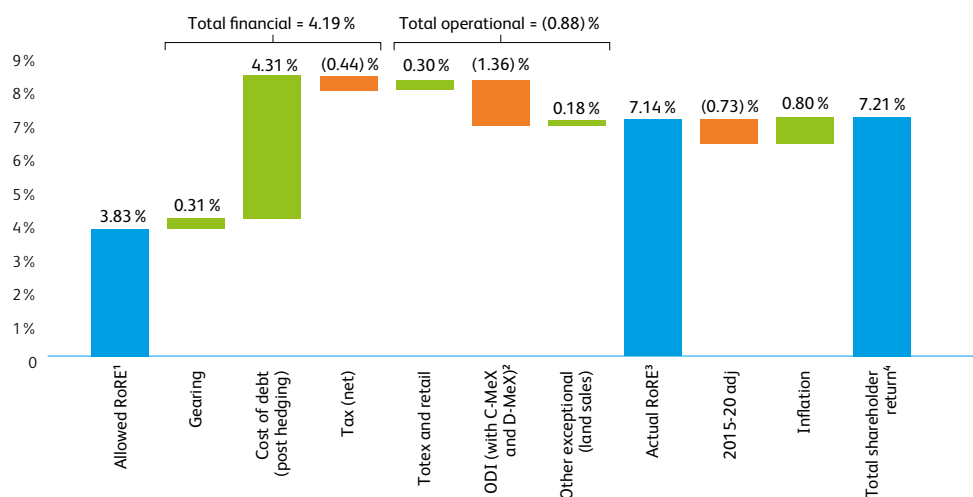
### Financial flows

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

The chart below shows the bridge from the base allowed return to the total shareholder return, following the methodology set by Ofwat. A detailed commentary on the component parts is provided in our Annual Performance Report on page 49. At a high level, it can be seen that the 4.31% financial outperformance on the cost of debt underpins an overall increase in returns of 3.38% (above the base allowed return) to 7.21%. It can also be seen that the impact of higher gearing at TWUL

(83% versus Ofwat's notional level of 60%) is relatively low at 0.31%, due to the impact of the Gearing Sharing Mechanism, which effectively shares the financial outperformance from higher gearing with customers. In 2020/21, due to the disruption caused by Covid-19 and the transition to a new capital delivery model at the start of AMP 7, our actual wholesale totex expenditure was considerably lower than our Final Determination allowance and internal budgets. Our Retail expenditure was in-line with 2019/20 levels although our Retail allowance from the Final Determination has reduced, resulting in a higher level of additional spend. When adjusted for customer sharing, the net wholesale and Retail expenditure variance increased returns by 0.30%. We plan to catch up on the wholesale totex spend in the rest of the AMP whilst continuing to deliver efficiencies in our Retail business. Overall, we plan on spending additional investment expenditure focused on improving outcomes for customers which will be at levels significantly above that allowed for in the Final

### Breakdown of 2020/21 actual return



Due to rounding, numbers presented may not add up precisely to the totals provided.

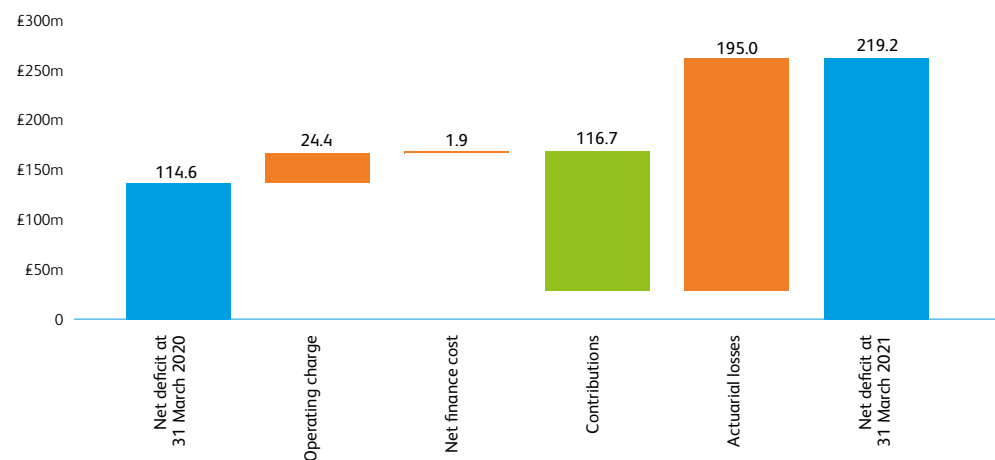
<sup>1</sup> Based on notional capital structure.

<sup>2</sup> As per Ofwat's guidelines, incentive payments for customer measures (C-MeX and D-MeX) have been set to nil for 2020/21.

<sup>3</sup> Based on actual capital structure.

<sup>4</sup> The Company does not have any voluntary sharing arrangements for AMP7.

### A summary of the movement in the Defined Benefit Pension Schemes



## Our Chief financial officer statement continued

Determination. By the end of AMP 7, we expect to this additional investment to materially reduce shareholder returns in relation to wholesale totex and retail cost to serve.

### Pensions

TWUL operates three pension schemes for our employees. One is our defined contribution scheme, to which we contributed £15.2 million (31 March 2020: £13.1 million) during the year, and we have two independently administered defined benefit schemes, both of which are closed to new employees. These two schemes include Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS").

TWPS was closed to future accrual as of 31 March 2021 as a result of the formal consultation process which commenced in October 2017, between the Company, Trade Union and Pension scheme representatives. This was regarded as the best achievable outcome to ensure that we continue to provide a competitive pension benefit which is valued by members at an affordable cost. As compensation to members for this change, an enhanced closure package was agreed for members over age 54 comprising of free access to an online retirement modeller tool and an Independent Financial Advisor at a discounted rate. Members of TWPS have been enrolled in our defined contribution pension scheme, The Aon MasterTrust, with enhanced contribution rates until 31 March 2024. From 1 April 2024, contribution rates will be aligned with the rest of the defined contribution pension scheme.

In the prior period, we completed the triennial valuation dated 31 March 2019 for our two defined benefit pension schemes. Our defined benefit schemes' accounting valuation has been updated to 31 March 2021 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net pension deficit for the two schemes as at 31 March 2021 was £219.2 million (31 March 2020: £114.6 million). The increase was due to changes in actuarial assumptions occurring across all industries, which includes a decrease in the discount rate

for both schemes due to falls in corporate bond yields, higher future RPI inflation and higher future CPI inflation, which has resulted in an actuarial loss. In November 2020, a further High Court judgement was made in respect of the equalisation of Guaranteed Minimum Pension, which had an immaterial impact on the increase of the pension liabilities of £0.5 million.

We have been taking measures to reduce the overall deficit by making regular contributions and deficit repair payments and, as part of the last triennial valuation dated 31 March 2019, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027. There has been an exceptional £69.7 million payment relating to the deficit repayment plan during the year, which covers the remaining deficit payments agreed during AMP7. This payment is included within cash generated from operations in cashflow for the year ended 31 March 2021.

### Credit ratings

We retain investment grade credit ratings for TWUL Group, that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

In April 2021, Moody's affirmed the Corporate Family Rating ("CFR") for TWUL as Baa2 with a stable outlook (2020: Baa2 with stable outlook). Moody's also affirmed our securitisation group companies' senior secured (Class A) debt rating as Baa1 with stable outlook (2020: Baa1 with stable outlook) and subordinated (Class B) debt rating as Ba1 with stable outlook (2020: Ba1 with stable outlook).

In January 2021, S&P affirmed our securitisation group companies' credit rating of BBB+ and BBB- (2020: BBB+ and BBB-) in relation to our senior secured (Class A) debt and our subordinated (Class B) debt respectively, both with negative outlook (2020: negative outlook).

### Financing our investments

As we are investing heavily in the business, we continue to focus on the importance of ongoing investor engagement to support our strategy of diversifying our sources of funding and maintaining a balanced debt maturity profile. Our strategy of adopting a prudent approach to liquidity has continued given the ongoing uncertainty that the Covid-19 pandemic has introduced. In anticipation of our 2020 to 2025 investment programme, during the year ended 31 March 2019 we increased the size of our Revolving Credit Facility (RCF) from £950.0 million to around £1.65 billion. In November 2020 we extended the maturity of £1.44 billion of that facility by one year from 2024 to 2025.

Throughout the year, total new debt issuance and facilities of £1,187 million equivalent were completed in TWUL Group, as follows:

- in April 2020 we issued a £350 million bond due 2040;
- in May 2020 we issued £40 million bonds due 2050 and entered into a £110 million term loan maturing in 2023, which was subsequently cancelled in line with other financing initiatives;
- between October and December 2020 we issued £612 million equivalent of debt through a series of bond transactions (£84.7 million due 2023; €500m due 2023; \$57 million due 2030 and \$40 million due 2027); and
- in November 2020 we entered into a £75 million Class B revolving credit facility commencing in April 2021 and maturing in April 2024.

Kemble Water Finance Limited, a holding company within the wider group, raised £100 million of new debt through two £50 million privately placed transactions in July and August 2020 respectively. In September 2020, £80 million of this was down-streamed through intercompany loans and loan repayments to enable the Company to repay debt. The holding companies plan to make a further £380 million of loan repayments to the Company during AMP7, to enable the Company to repay debt. In November 2020, Thames Water (Kemble)

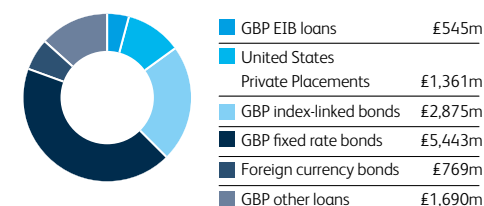
Finance plc, Kemble Water Finance Limited's financing subsidiary, raised £250 million due 2026 through a public bond issue, which was increased by £150 million to £400 million in February 2021. The proceeds were used in November 2020 to repurchase, through a public tender, £60 million of the issuer's bond debt due in 2022, and in December 2020 for the early repayment by Kemble Water Finance Limited of a £75 million loan due in 2022.

As a result, at 31 March 2021, the TWUL Group had £2,143 million of cash, short term investments and undrawn bank facilities available to it. TWUL Group also has £550.0 million of undrawn liquidity facilities which can only be drawn in limited circumstances. The facility is renewed in August every year. Since 31 March 2021, the Company has further strengthened its financing position through its financing subsidiary, Thames Water Utilities Finance plc (TWUF), entering into a £180.0 million Class B loan facility due June 2026, which is currently undrawn. Since 31 March 2021, £525.0 million of the Class A RCF has been drawn and the following debt has been repaid:

- £214.3 million Class B RCF
- £225.0 million Class A bond due April 2021
- £300.0 million Class B term loan due June 2023

We currently expect to have in excess of 18 months of liquidity.

The following piechart shows the overall debt mix excluding the impact of swaps as at 31 March 2021.



## Our Chief financial officer statement continued

Alongside our funding plan, we also manage our exposure to interest rate, inflation and currency risk on an ongoing basis:

- during 2020 we transacted £527 million notional of cross currency swaps to hedge the foreign currency debt issuance referred to above into GBP;
- in 2019 we restructured the interest rate profile of three index-linked swaps which increased interest income in the current year by £51.4 million;
- in 2019 we extended the maturity of many of our interest rate swaps with accompanying adjustment to the interest rates, which reduced swap interest expense by £22.8 million in the current year; and
- in 2019 we transacted £2.1 billion of index-linked swaps with maturities of five and ten years. These swaps help manage inflation risk and effectively convert existing debt which was issued at a fixed nominal rate into a fixed real rate with the underlying principal amount linked to inflation. All of these swaps are structured to pay the inflation accretion amount at maturity. In the current year, this increased interest income by £42.7m.

For the year ended 31 March 2021, the reprofiled derivative transactions reduced interest costs on a cash basis by £84.2 million, although this will be offset by increased costs in later years.

Some of our interest expense is incurred in relation to borrowings raised to deliver major capital projects. Under IFRS accounting rules we are able to capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £69.7 million this year (2020: £97.6 million), with the reduction caused by a reduction in the average net interest rate on our net debt used for the borrowing cost capitalisation calculation.

Alongside managing liquidity and credit ratings, we also monitor a number of financial covenants within our lending documentation. Overall gearing (on a covenant basis as defined on page 130), as at March 2021 was 83.2% (2020: 82.3%), below the permitted maximum of 95.0% under our financial covenants. Additionally, our PMICR (see PMICR definition on page 130) in 2020/21 was 1.7x (2020: 1.8x) and was above the minimum covenant requirement of 1.1x.

### Gearing

As we continue to invest in the business, significantly beyond the Final Determination ("FD") allowances, our statutory net debt (as defined on page 130) increased by £196.6 million to £12,334.1 million (31 March 2020: £12,137.5 million). During the period an additional pension deficit repair payment of £69.7m was made, representing payments that otherwise would have been paid in the remainder of AMP7. The impact on net debt was offset by an £80 million cash injection into Thames Water Utilities Limited ("TWUL") during the year, funded from incremental debt at a holding company and following an £249.8m cash injection made in 2019. During the remainder of AMP7, we expect approximately £380 million of cash injections to be made into TWUL and repay debt, funded by incremental holding company debt.

The increase in net debt was accompanied by an increase in the Regulatory Capital Value ("RCV"), as published by Ofwat, of £296.0 million to £15,025.3 million (31 March 2020: £14,729.3 million), meaning that overall gearing (on a covenant basis), as at 31 March 2021, was 83.2% (31 March 2020: 82.3%), below the mandated maximum of 95.0%. The increase in gearing reflects a number of factors including the end of AMP6 adjustment to RCV (applied on 1 April 2020), the inflation assumptions used in the FD, and lower inflation than would have been expected prior to Covid-19.

The net downward adjustment on to RCV on 1 April 2020 was £201.5 million (based on March 2020 prices), with the largest component being a sector-wide RCV reduction relating to an inflation mismatch within the 2010 to 2015 regulatory period Capital Incentive Scheme. Due to the lower than expected outturn for inflation, gearing is higher than would otherwise have been the case however this was partly offset by lower accretion on RPI-linked debt and swaps.

## Non-financial Information Statement

To comply with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006, we are providing the details below to help stakeholders understand our position on key non-financial matters.

We have used cross referencing as appropriate to deliver clear, concise and transparent reporting.

Non-financial information	Section	Pages
<b>Business model</b>	Business model	11-13
<b>Policies</b>	Non-financial information	58-60
<b>Principal risks</b>	Our principal risks and uncertainties	43-48 20-25 and
<b>Strategic ambitions</b>	Strategy overview	28-31

Performance against our strategic non-financial performance measures is one indicator of the effectiveness and outcome of our policies and guidance.

Within the year, we updated our policy framework to improve the emphasis on policy compliance. This activity included additional clarification on what is a policy, roles and responsibilities for policy review and monitoring, supported by templates and training to ensure policies protect both employees and the business by establishing consistent and monitored descriptions of expected behaviour.

Across Thames Water, policies and statements of intent are in place to ensure consistent governance on a range of issues. For the purposes of the NFR requirements, these include, but are not limited to:

### Our people

People are at the heart of our business. We value and harness the unique skills, experiences and backgrounds that each individual brings to our family. Our ongoing commitment to maintaining a safe, inclusive and great place to work enables us to attract and retain diverse talent. This helps us ensure we are representative of our communities, who flourish with us, helping us to succeed, driving the right outcomes for our customers, business and environment. We have a comprehensive suite of policies that support our people which are available on our company intranet.

Further information is available in the following sections of this Annual Report and Sustainability Report

Non-financial information	Section	Pages
<b>Market drivers</b>	Business model	11-13
<b>People</b>	People	14-19
<b>Gender pay</b>	People	16
<b>Diversity of the Board</b>	Corporate Governance	69
<b>Ratio of pay</b>	Remuneration report	87
<b>Performance</b>	Performance overview	
<b>Commitments</b>	(and also in our Annual Performance Report)	6-10

Policy	Description
<b>Code of conduct</b>	Our code of conduct covers our approach to business activities and how we work, providing a clear, ethical and legal framework for our employees, customers and stakeholders.
<b>Health and safety policy statement</b>	We aim to protect our people, our contractors, and the customers who live and work in the communities that we serve, by ensuring Thames Water operations are carried out safely every single day.
<b>Employee relations policy</b>	Our employees are our most important assets. We recognise that sound and effective employee relations are an integral part of the success of our business. We're committed to building strong relationships with our employees which are based on trust and mutual respect.
<b>Diversity and inclusion policy</b>	Our equality, diversity and inclusion policy provides employees and managers with the knowledge, guidance and support needed to ensure Thames Water is a diverse and inclusive great place to work.
<b>Board diversity policy</b>	We recognise and embrace the benefits of having an effective and diverse Board, representative of the communities we serve, as an essential element in promoting the long-term sustainability of the company.
<b>Mandatory training policy</b>	We recognise the importance of continuous training and development and there are some topics that are essential for all our staff and, in some cases, our business partners. Our mandatory training policy provides clarity on the process for agreeing and developing new training, including how we roll out training to our workforce, measure progress and measure compliance.

### Environment

We fully recognise that, in providing our services, we influence, and are influenced by, the natural environment. We're committed to continually improving our environmental performance and, at a minimum, complying with environmental and regulatory standards.

What we do, and how we do it, can have a positive and lasting impact on society and the natural environment. By going above and beyond the basics of delivering our essential service efficiently, we can create significant public value.

We know we cannot do this alone and seek to work together with our customers, stakeholders, delivery partners, suppliers and regulators to make a substantive difference to the quality of our rivers.

We have many policies in place to help us address our impact on the environment, all of which are available on our website.

Further information is available in the following sections of this Report:

Non-financial information	Section	Pages
<b>Generating public value</b>	Sustainability Report	26-35
<b>Performance Commitments</b>	Performance overview	6-10
<b>Environmental stakeholders</b>	Stakeholder engagement	36-37



## Non-financial Information Statement continued

Policy	Description
<b>Environment policy</b>	We are committed to continually improving our environmental performance, protecting and enhancing the environment in which we operate, preventing pollution and sustainably managing water resources.
<b>Climate change policy</b>	<p>We believe that a twin track approach of managing the unavoidable impacts of climate change on our business ('adaptation'), combined with a reduction in our greenhouse gas emissions ('mitigation'), is essential if we are to manage the challenges that climate change represents.</p> <p>We have committed to reduce our operational emissions to Net Zero by 2030.</p>
<b>Biosecurity policy</b>	As custodians of large areas of land and water, the increasing threat of invasive, non-native species is of real concern to us. To take care of our estate we are committed to ensuring compliance with all invasive, non-native species (INNS) regulatory guidance through the implementation of good biosecurity practice.

Policy	Description
<b>Biodiversity policy</b>	<p>To balance the needs of the animals, plants, birds and insects that call our sites home we are committed to continually improving our biodiversity performance at those sites and beyond, whilst aiming to deliver our services in the most sustainable way.</p> <p>As a minimum we will ensure compliance with all biodiversity, environmental and regulatory requirements, and through our ambitious delivery programme we aim to achieve much more. Our commitment to enhancing biodiversity during our activities goes beyond the 10% biodiversity net gain industry standard. We have also challenged ourselves to deliver 5% net gain on 253 of our most valuable biodiversity sites.</p>
<b>Energy policy</b>	<p>Managing our energy use innovatively has an important part to play in delivering efficiency and resilience. This ensures the services we provide are sustainable for future generations.</p> <p>We are committed to continually improving our energy performance, increasing our use of renewable energy, and minimising our greenhouse gas emissions.</p>
<b>Sustainability policy</b>	Striking a balance, doing the right thing for people, for the performance of our business and for the natural environment is what being more sustainable means to us.

Policy	Description
<b>Heritage policy</b>	<p>We have a long and unique heritage that allows us to tell the story of water supply and sewage treatment in the UK, with fascinating historic assets that bring the story to life.</p> <p>As a minimum we will ensure compliance with all heritage and regulatory requirements.</p>

### Human rights

We acknowledge and operate in accordance with the United Nation's guiding principles on business and human rights. We promote human rights through our employment policies and practices and through our supply chain. We have policies (including those mentioned in the section on Our people), and processes in place which ensure we're compliant with these requirements, and they're enforced throughout our business.

Further information is available in the following sections of this Report:

Non-financial information	Section	Pages
<b>People metrics</b>	People	14-19
<b>Stakeholder engagement</b>	Stakeholder engagement	36-37
<b>Gender pay</b>	People	16

Policy	Description
<b>Modern slavery act statement</b>	<p>We recognise our responsibility to comply with all relevant legislation including the UK Modern Slavery Act 2015. In accordance with the requirements of the Act, we release an annual Statement on Modern Slavery, which outlines the actions we have taken to address the risks of modern slavery and human trafficking in our operations, supply chain, and customer and client relationships.</p> <p>Our modern slavery act statement is also available on our website. <a href="https://www.thameswater.co.uk/legal">https://www.thameswater.co.uk/legal</a></p>
<b>Privacy notices</b>	Our Thames Water privacy notice is available on our website. It explains how we process the personal data of our customers and other individuals with whom we have contact. We have a separate privacy notice outlining how we process our employees' data. We regard sound privacy practices as a key element of corporate governance and accountability.
<b>Data protection policy</b>	Our data protection policy sets out the data protection principles and obligations under the Data Protection Act 2018 with which we must comply. Across our business the privacy and security of personal information is respected and protected.

## Non-financial Information Statement continued

### Social matters

We are proud of our record in supporting our people, our business partners and the communities we operate in.

As well as the specific policies mentioned below, we have guidance and initiatives in place to support the following:

- Age UK, Citizens Advice Bureau and debt advice bodies
- An employee 'Time to give' programme and an employee charitable donations matching scheme to support local charities and groups
- Promotion of skills development through partnerships with universities and colleges
- Environmental groups such as WWF, RSPB and local Wildlife Trusts.

Further information is available in our Sustainability Report on pages 26-35.

Policy	Description
<b>Public value policy</b>	Our aim is to understand what others expect of us and to look for opportunities to work in partnership with them. We aim to be responsive to the needs of all our stakeholders, including our customers, employees, government, shareholders, investors, regulators, suppliers, alliance partners, and the wider community in which we operate.
<b>Procurement policy</b>	Our procurement policy incorporates our position on maintaining a sustainable supply chain and sets out how we source and procure all goods and services across the business responsibly, ethically and sustainably.
<b>Tax</b>	We comply with all tax legislation. Our tax arrangements are covered in 'Our Finances Explained', which is published on our website.

### Anti-corruption and anti-bribery

We seek to promote a culture of honesty and integrity in all our dealings, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data from the business. In addition to our code of conduct we have additional policies in place to guide our people. These are available on our company intranet.

Furthermore, we have a confidential 24-hour anonymous 'speak up' hotline, details of which are published in our Honest and ethical behaviour policy. This, and a robust whistleblowing process is available to all to raise concerns. We also have a responsive internal Business Integrity team available to answer questions or address concerns raised.

Policy	Description
<b>Honesty and ethical behaviour policy</b>	To provide the best possible service and safeguard our employees, we're committed to conducting all aspects of our business in an honest, ethical and transparent manner.
<b>Competition compliance policy</b>	The purpose of this policy is to set out Thames Water's principles with regard to competition law compliance and the steps that will be taken to mitigate the risk of breach of competition law.



<b>Governance</b>	
Chairman's introduction	62
Compliance with Governance Code	63
Our group structure	64
Meet our Board	65
Our Executive team	70
Roles and responsibilities	73
Stakeholder engagement	77
Board activities to drive our strategy	79
Nomination Committee Report	80
Audit, Risk and Reporting Committee Report	81
Regulatory Strategy Committee Report	84
Customer Service Committee Report	85
Health, Safety and Environment Committee Report	86
Directors' Remuneration Report	87
Remuneration at a glance	88
Annual Report of Remuneration	90
Executive Directors' remuneration policy	96
Directors' report	104

## Chairman's introduction

“Good performance in Environment, Social and Governance metrics isn't just a nice to have – it is critical to the success of Thames Water.”



**Ian Marchant**  
Chairman

### Governance standards and evaluation

As a Board, we follow the UK Corporate Governance Code, with some minor exceptions as set out in the Compliance section, and the Ofwat Principles on Board Leadership, Transparency and Governance. Following my return to the role of Chairman, we will be reviewing the role and composition of each of our six Board Committees to strengthen compliance where necessary with both the Code and Ofwat's Principles.

We are keen to make sure our Board and Committee structure not only reflects current best practice in corporate governance, but also provides the right support for our turnaround plan as the Executive team and senior leaders drive it forward. As we look at the Committees, we will take into account the fact I acted as Interim Executive Chairman for more than a year, and its impact on my independence and therefore the overall independence of the Committees.

Last year, following the external evaluation of the Board by independent assessors, which reported in March 2020, the Board identified several key priorities for this reporting year, including:

- Completing the recruitment of a new CEO
- Improvements to the monitoring of operational performance and assets
- Better information flow and more focused and concise Board papers
- A greater focus on long-term strategy and the alignment of expectations between the Board, shareholders and senior management

All the findings have either been addressed or are in progress, and we continue to monitor and evaluate the effectiveness of the Board internally. A formal Board evaluation will take place later this year, once Sarah has been in place as CEO for a year.

### Culture and ethical behaviour

The Board and its Committees receive regular updates on the operational performance of the business, the results of workforce surveys and feedback, and our risk

environment. Through this flow of information, as a Board, we assess how behaviours across Thames Water are in line with our values and Purpose and where additional management action may be needed to address any issues. As part of our regular policy appraisal process this year, we, as the Board, reviewed and approved the Company's Code of Conduct and Honest and Ethical Behaviour policy.

### Succession, diversity and inclusion

At our meeting in November 2020, we received an update on succession planning for senior management positions, including at Board level, and reviewed progress on promoting diversity and inclusion. The changes to the Board this year have improved our gender balance, as set out on page 69. Our policies on diversity are explained on page 58 in the Strategic Report.

### ESG and the role of the Board

Good performance in Environmental, Social and Governance metrics is not simply a nice to have – it is critical to the success of Thames Water and the delivery of our Purpose, and something the Board considers in all its decisions. Doing things in the right, rather than the quickest, way is so important to us. You can find more information about how we are performing on pages 26 - 35 in the Strategic Report and also in our annual ESG statement, which will be published later in 2021.

In addition to the Board and the Health, Safety and Environment Committee monitoring environmental outcomes, the Audit, Risk and Reporting Committee, for example, oversaw the development of a new Sustainable Financing Framework, to build on and replace the existing Green Bond Framework.

The Section 172 Statement on pages 38 - 40 in the Strategic Report explains how the Board and Directors have taken into account several of the issues that fall within the ESG categories, and you can find more information in this Corporate Governance Report.

**Ian Marchant**  
Chairman



## Compliance with the Corporate Governance Code

### Compliance Statement

We're committed to robust standards of corporate governance and we follow the requirements of both the UK Corporate Governance Code (the "Code") and Ofwat's Board Leadership, Transparency and Governance Principles ("BLTG Principles"). We've complied with all the relevant provisions of the Code throughout the year except Provisions 9, 17, 24, 32 and 38, to the extent set out below.

Provision 9 of the Code requires that the posts of Chair and Chief Executive are usually held by separate people, while the BLTG Principles call for "an explicit division of responsibilities between running the board and executive responsibility for running the business". Until August 2020, Ian Marchant temporarily combined the roles of Chairman and Interim Chief Executive pending the appointment of the new CEO. When Sarah Bentley joined as Chief Executive in September 2020, Ian, who was considered independent on appointment, reverted to his original role of Non-Executive Chairman, so we are now again in compliance with the provisions. We obtained Board and shareholder approval for this temporary arrangement. During this period and since, Nick Land has acted as Deputy Chairman to ensure continuity of effective governance and to provide an alternative contact point for Directors, shareholders and the Executive team in the event of any concerns about how the dual role was being managed. None of the activities that Nick has undertaken during his time as Deputy Chairman compromised his independence.

Provision 17 of the Code and the BLTG Principles both require that a majority of members of the Nomination Committee are independent Non-Executive Directors. Although no Executive Directors currently sit on our Nomination Committee, only two of the five members are considered fully independent under the Code, since the Chairman and two Non-Executives who represent our shareholders sit on the Committee. The Board is satisfied that this arrangement does not compromise the activities of the Committee, and ensures effective and early shareholder engagement with appointments to the Board.

Provision 21 of the Code calls for an evaluation of the Board every year. In March 2020, an external evaluation was carried out by Lintstock, as detailed in last year's Annual Report. As noted in the Chairman's Introduction, we decided to wait until Sarah Bentley had been in post as CEO for 12 months before undertaking another formal evaluation. Accordingly, we will commission an external evaluation later this calendar year, but this means that no formal, structured evaluation took place directly in this reporting year.

Provision 24 of the Code requires that the Audit Committee is composed of independent Non-Executive Directors. Although there are four independent members, two Non-Executives representing shareholders also sit on the Committee. As above, the Board is satisfied that this arrangement, which meets the BLTG standard of having an independent majority, does not compromise the activities of the Committee, and assists with investor scrutiny and oversight of the Company's activities and with effective engagement between the Committee and shareholders on audit and risk issues.

Under Provision 32 of the Code, the Remuneration Committee should comprise independent Non-Executive Directors. Although there are three such members, our Remuneration Committee also includes two additional Non-Executive Directors, representing the Company's shareholders, and the Chairman, none of whom are considered fully independent. Again, the Board is satisfied that this arrangement, which meets the BLTG standard, does not compromise the activities of the Committee, and ensures effective shareholder oversight of remuneration policy at an early stage.

Provision 38 stipulates that pension arrangements for Executive Directors should be in line with those in place for the wider workforce. As outlined on page 109 of last year's Combined Annual Report, all Executive Directors appointed after 1 July 2019 will have their pension contributions set at the same rate as the rest of the workforce. However, the CFO, who was appointed before this date, continued to receive contributions at a higher rate during this reporting year, although they have been capped in cash terms since July 2020.

### Corporate Governance Code Principles

#### Section 1: Board leadership and Company purpose

[See page](#)

<a href="#">Our Chairman's statement</a>	<a href="#">Page 3</a>
<a href="#">Business model</a>	<a href="#">Page 11</a>
<a href="#">Stakeholder engagement</a>	<a href="#">Page 36</a>
<a href="#">S172 statement</a>	<a href="#">Page 38</a>
<a href="#">Chairman's introduction to Corporate Governance</a>	<a href="#">Page 62</a>
<a href="#">Board stakeholder engagement</a>	<a href="#">Page 77</a>
<a href="#">Board activities to drive strategy</a>	<a href="#">Page 79</a>

#### Section 2: Division of responsibilities

[See page](#)

<a href="#">Meet our Board</a>	<a href="#">Page 65</a>
<a href="#">Roles and responsibilities</a>	<a href="#">Page 73</a>
<a href="#">Board Committees</a>	<a href="#">Page 73</a>

#### Section 3: Composition, succession and evaluation

[See page](#)

<a href="#">Our Chairman's statement</a>	<a href="#">Page 3</a>
<a href="#">Chairman's introduction to Corporate Governance</a>	<a href="#">Page 62</a>
<a href="#">Appointment and induction</a>	<a href="#">Page 75</a>
<a href="#">Training and professional development</a>	<a href="#">Page 76</a>
<a href="#">Nomination Committee Report</a>	<a href="#">Page 80</a>
<a href="#">Directors and their other interests</a>	<a href="#">Page 76</a>

#### Section 4: Audit, risk and internal control

[See page](#)

<a href="#">Managing risk</a>	<a href="#">Page 41</a>
<a href="#">Our principal risks and uncertainties</a>	<a href="#">Page 43</a>
<a href="#">Long-term Viability Statement</a>	<a href="#">Page 49</a>
<a href="#">Audit, Risk &amp; Reporting Committee Report</a>	<a href="#">Page 81</a>
<a href="#">Directors' confirmations</a>	<a href="#">Page 108</a>
<a href="#">Risk and Compliance Statement in our Annual Performance Report</a>	<a href="#">Pages 112 – 115</a>

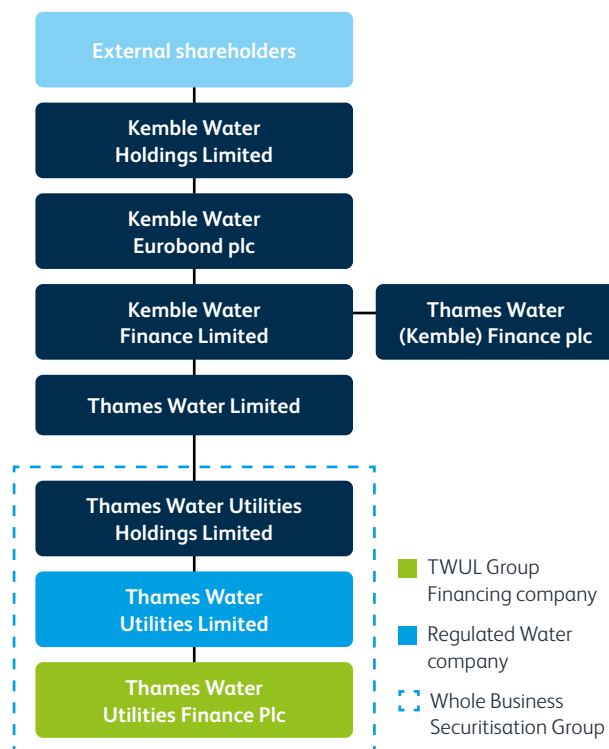
#### Section 5: Remuneration

[See page](#)

<a href="#">Remuneration Committee Report</a>	<a href="#">Page 87</a>
<a href="#">Remuneration at a glance</a>	<a href="#">Page 88</a>
<a href="#">Annual Remuneration Report</a>	<a href="#">Page 90</a>
<a href="#">Summary of Executive Directors' remuneration policy</a>	<a href="#">Page 96</a>

## Our group structure

### Our structure explained



Further details of the functions of each of these companies can be found in the latest version of Our Finances Explained on our website.

### Our external shareholders

Shareholder	Shareholding	Acquired stake	About
OMERS	31.777%	Four transactions between May 2017 and July 2018	<ul style="list-style-type: none"> <li>Ontario Municipal Employees Retirement System (OMERS) is one of Canada's largest pension plans with C\$109bn of net assets and considerable experience of managing essential infrastructure globally</li> </ul>
USS	10.939%	2017	<ul style="list-style-type: none"> <li>The Universities Superannuation Scheme (USS) is a UK pension scheme for academic staff of UK universities</li> </ul>
Infinity	9.900%	2011	<ul style="list-style-type: none"> <li>Infinity Investments S.A is a subsidiary of the Abu Dhabi Investment Authority (ADIA) is one of the world's largest sovereign wealth funds</li> </ul>
Wren House	8.772%	2017	<ul style="list-style-type: none"> <li>The global direct infrastructure investment vehicle of the Kuwait Investment Authority ("KIA"), one of the world's largest sovereign wealth funds</li> </ul>
BCI	8.706%	2006	<ul style="list-style-type: none"> <li>British Columbia Investment Management Corporation (BCI) provides investment management services to British Columbia's public sector</li> </ul>
Hermes	8.699%	2012	<ul style="list-style-type: none"> <li>Hermes GPE is one of Europe's leading independent specialists in global private markets. Manages the BT Pension Scheme (BTPS), one of the largest UK private-sector pension schemes</li> </ul>
CIC	8.688%	2012	<ul style="list-style-type: none"> <li>China Investment Corporation (CIC) is one of the world's largest sovereign wealth funds</li> </ul>
QIC	5.352%	2006	<ul style="list-style-type: none"> <li>Queensland Investment Corporation (QIC) is a global diversified alternative investment firm, one of the largest institutional investment managers in Australia</li> </ul>
Aquila	4.995%	2013	<ul style="list-style-type: none"> <li>Aquila GP Inc. is a leading infrastructure management firm and a wholly owned subsidiary of Fiera Infrastructure Inc., a leading investor across all subsectors of the infrastructure asset class</li> </ul>
PGGM	2.172%	2006	<ul style="list-style-type: none"> <li>PGGM (Stichting Pensioenfonds Zorg en Welzijn) are a pension fund service provider and manage the pensions for different pension funds, the affiliated employers and their employees</li> </ul>

## Meet our Board

### The right skills and experience to deliver our strategy

Thames Water is governed by our Board, which is responsible for ensuring our long-term success. The Board comprises our Chairman, two Executive Directors, six independent Non-Executive Directors and four shareholder-appointed Non-Executive Directors. Together, they give us a strong mix of experience to offer an external perspective, challenge the Executive Directors on the development of strategy and performance, and address our diverse customer and stakeholder needs.

We've ensured that the Board has an appropriate combination of Directors so that no one individual or small group dominates the Board's decision making, and we continue to meet Ofwat's expectation that Independent Non-Executive Directors form the largest single group on the Board and the Code requirement that, excluding the Chairman, Independent Non-Executives make up at least half the Board membership.

The Board considers that each Director has sufficient time to fulfil their roles, including preparing for and attending Board and Committee meetings. It also looks closely at the other appointments held by its Directors – see page 76 for our Directors' other interests. All Directors are subject to formal re-election at our Annual General Meeting.

#### Key to Committees

- (A)** = Audit, Risk and Reporting Committee
- (S)** = Regulatory Strategy Committee
- (R)** = Remuneration Committee
- (N)** = Nominations Committee
- (C)** = Customer Service Committee
- (H)** = Health, Safety and Environment Committee
- (●)** = Committee Chair

### Chairman



**Ian Marchant**  
Chairman – Thames Water Utilities Limited

Appointed to the Board: December 2017  
Appointed as Chairman: January 2018  
Appointed as Interim Executive Chairman:  
May 2019 – August 2020



#### Relevant skills and experience

- Highly experienced Chairman, CEO and Non-Executive Director with a focus on the utilities sector
- Expertise in governance, finance, regulation, renewable energy and climate change mitigation

During his ten years as CEO of SSE plc, as part of a 21-year tenure at the energy company, Ian led transformational change, performance improvements and the development of renewables. He is currently a Non-Executive Director at Aggreko plc, Chair of Logan Energy and is Honorary President of the Royal Zoological Society of Scotland. Through his company Dunelm Energy Limited, Ian advises and invests in start-up businesses.

He is the former Chairman and founder of the Scotland 2020 Climate Group and served as the President of the Energy Institute and Chairman of the renewable energy firm, Infinis. He is also the former Independent Chairman of energy services firm, John Wood Group plc, and former Chair of Nova Innovation Ltd. Ian is the founder of Scotland's 'Lights up Malawi' campaign for Climate Justice.

### Chief Executive Officer



**Sarah Bentley**  
Executive Director/Chief Executive Officer –  
Thames Water Utilities Limited

Appointed: September 2020

#### Relevant skills and experience

- Multi-disciplinary executive with extensive water industry experience
- Strong operational leadership with track record of developing strategy and delivering transformational change

Sarah was previously Chief Customer Officer at Severn Trent plc where she led the Consumer Retail, Wholesale Network Operations, Group Technology and Transformation divisions.

Prior to that, Sarah was the managing partner for Accenture's digital business unit in the UK & Ireland, where she delivered digital transformation programs to a range of large UK consumer-facing businesses. She has also worked internationally in a number of roles including strategy, marketing and propositions for BT's Global Services division, as CEO of Datapoint, an Alchemy-backed company delivering customer relationship management (CRM) services throughout Europe, and as senior vice president of eLoyalty, a global CRM and marketing consultancy.

Sarah is also a Non-Executive Director of Lloyds Bank plc and Bank of Scotland plc, and acts as the Thames representative on the Board of Water UK.

### Chief Financial Officer



**Brandon Rennet**  
Executive Director/Chief Financial Officer –  
Thames Water Utilities Limited

Appointed: March 2017

Will step down in September 2021

#### Relevant skills and experience

- Strong expertise in leading the execution of multi-billion-pound funding, primarily in the public debt capital markets and creating sustainable financing structures to support corporate sustainability aims
- Valuable utility experience combined with public policy exposure

Brandon brings substantial financial leadership success to his role as Chief Financial Officer, having spent three years of his ten years at regulated energy company SSE plc as Managing Director of Finance. While in post he led the execution of more than £7 billion of funding and initiated a finance transformation programme.

He has a broader background in corporate finance and M&A focused primarily on regulated utilities, as well as wider infrastructure. This experience includes roles in industry, investment banking, the accounting profession, advisory work with local and central government, and a secondment to the Prime Minister's Delivery Unit.

## Meet our Board continued

### Independent Non-Executive Directors



**Nick Land**  
Deputy Chairman/Senior Independent  
Non-Executive Director

Appointed to the Board: February 2017



#### Relevant skills and experience

- Significant experience on the Boards of leading, global companies
- Highly experienced Chartered Accountant, with global financial and governance experience spanning more than three decades

Nick brings a wealth of multi-sector finance and governance experience following ten years as Chairman of Ernst & Young as part of his 36-year career at one of the world's largest accounting firms. He currently chairs the Private Equity Reporting Group of the British Venture Capital Association, and is Chairman of the Board of trustees of the Vodafone Group Foundation.

He is a former Non-Executive Director of the Financial Reporting Council, and has a long history of Non-Executive Director roles at global companies such as Vodafone Group, Alliance Boots GmbH and Royal Dutch Shell.



**Catherine Lynn**  
Independent Non-Executive Director

Appointed to the Board: November 2018



#### Relevant skills and experience

- Expertise in strategic business management within a regulated, highly dynamic environment
- Proven success embedding customer needs at the heart of business decision making in a large scale, complex organisation serving millions of customers

Catherine brings a wealth of commercial, operational, strategic and senior management experience, having played a leadership role in Europe's low-cost aviation sector for 20 years, with a focus on delivering outstanding customer service. She is currently the Chief Customer Officer for Parkdean Resorts, the UK's largest holiday park company. Previously, she was Group Strategy and Commercial Director of easyJet, where she was directly responsible for a number of major initiatives underpinning easyJet's successful exponential growth.

Catherine also has 18 years' experience as a Non-Executive Director.



**Hannah Nixon**  
Independent Non-Executive Director

Appointed to the Board: January 2021



#### Relevant skills and experience

- Thought leadership, delivery and influencing skills
- Progressive leader, with public/private sector experience across a range of industries
- Extensive regulatory expertise

Hannah has led the development and delivery of key regulatory work, advising regulators and companies in a range of countries and sectors on regulation, market structuring and competition issues. She is the former Chief Executive at the Payment Systems Regulator (PSR) where she built a high-performing organisation from scratch. Previously she served as Senior Partner and Head of Profession for Economics at Ofgem, where she led the division responsible for regulating the British energy distribution network.

Hannah is currently a Non-Executive Director at National Grid Electricity System Operator and at the Financial Reporting Council. She is also a Council Member and Trustee with the Regulatory Policy Institute at Oxford University, and has recently completed a seven-year term as a Non-Executive Director with the Jersey Competition and Regulatory Authority.



**Ian Pearson**  
Independent Non-Executive Director

Appointed to the Board: September 2014



#### Relevant skills and experience

- Experienced Company Chairman, Non-Executive Director and adviser, with expertise in strategic orientation and value creation
- Wealth of experience in the development of public policy relating to climate change and the environment

Ian brings extensive business and public sector insight to the Board. During a distinguished Ministerial career from 2001 to 2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury.

Ian spent five years as the Chairman of AIM listed OVCT2, a company which invested in a variety of renewable energy companies. He is also Chairman of Code Investing Ltd, a Senior Advisor to BAI Communications plc and has previously been a member of the UK Advisory Board of PwC.



## Meet our Board continued

### Independent Non-Executive Directors continued



**Jill Shedden MBE**  
Independent Non-Executive Director

Appointed to the Board: October 2018



#### Relevant skills and experience

- 30 years directing people strategies within a regulated utility
- Expertise in leading successful transformation programmes and driving the diversity and inclusion agenda

Jill is currently Group HR Director of Centrica Plc after holding senior HR positions across the Centrica group. She has championed diversity and inclusion throughout her career and has focused on building a high performing environment and a great place to work. In her role at Centrica, she has led major culture change, cost reduction and reorganisation programmes, as well as achieving “Best Companies” and “Great Places to Work” awards.

Jill was awarded an MBE for her work with the Women’s Business Council, a group set up to advise ministers how to maximise women’s contribution to the future economic growth of the country.



**David Waboso CBE**  
Independent Non-Executive Director

Appointed to the Board: February 2019



#### Relevant skills and experience

- Highly experienced Chartered Engineer and project manager, leading major infrastructure projects both in the UK and internationally
- Expertise in maximising the potential of digital technology and digitised assets to increase capability, connectivity and reliability

David brings decades of experience leading capital investment and digital transformation projects. After an early career in highways and water supply, he worked on major infrastructure upgrades including the Docklands Light Railway and the Jubilee Line Extension, and was also Technical Director at the Strategic Rail Authority, where he was the UK representative for the European Rail Agency, and a Non-Executive Director of the Rail Safety and Standards Board.

He then held executive positions at London Underground, where he led the Tube Upgrade Programme. He was subsequently MD Digital Railway at Network Rail before moving into non-executive roles in the infrastructure sector. He was awarded a CBE for services to transport in London in 2014 and was the President of the Association of Project Management from 2016 to 2019.

### Non-Executive Directors



**Paul Donovan**  
Non-Executive Director

Appointed to the Board: July 2019

Represents the interests of Aquila, BCI, QIC and PGGM



#### Relevant skills and experience

- Proven multi-sector Chief Executive Officer
- Expertise in leading successful transformation programmes
- Extensive international board level experience

Paul brings extensive senior executive experience to the Board. He is CEO of Arqiva Group (appointed 2020/21), a leading provider of critical national infrastructure to the Broadcast and Utility sectors.

Earlier CEO roles include Odeon and UCI Cinemas Group, and Eir – Ireland’s leading telecommunications provider. He has held senior roles at global customer focused companies such as Vodafone, where he was a member of the Group’s Executive Committee, as well as at Apple Computer, Cable and Wireless, Coca-Cola and Schweppes Beverages, Mars Inc. and BT. Paul is Chair at Action Artificial Intelligence Ltd. He is a Doctor of the University of Bradford and a Trustee of the Oxfordshire Community Foundation.



**Michael McNicholas**  
Non-Executive Director

Appointed to the Board: July 2019

Represents the interests of long-term investor, OMERS



#### Relevant skills and experience

- Chartered Engineer with a wealth of management experience
- Expertise in asset management internationally

Michael is currently Managing Director, Asset Management at OMERS Infrastructure, with a focus on Europe. His asset management experience currently focuses on regulated utilities and includes Scotia Gas Networks, Caruna and Ellevio.

Michael previously held the position of Group CEO of Ervia, with responsibility for Ireland’s national gas networks and its national water utility. Prior to that he was Group CEO of NTR plc., an infrastructure investment company with a focus on renewable and sustainable infrastructure. He was also an Executive Director at ESB, Ireland’s national electricity utility, where he held responsibility for Generation & Wholesale Markets, Customer Supply and latterly as Managing Director of ESB International.

## Meet our Board continued

### Non-Executive Directors continued



**John Morea**  
Non-Executive Director

Appointed to the Board: January 2019

Represents the interests of investors, Infinity and CIC



#### Relevant skills and experience

- Expertise in driving efficiency and embedding innovation to deliver performance improvements, while maintaining priority focus on safety and customer service
- Strong track record in driving sustainability, including promoting environmental protection and climate change mitigation

With a 30-year career in the utility sector, including ten years as the first, and current, CEO of Scotia Gas Networks (SGN), John has successfully led the regulated utility through four price controls and secured its place as the UK energy industry's leader for customer service. He has led the Company's digital transformation to drive operational and cost efficiencies. He has a personal interest in people development, including the diversity and inclusion agenda and promoting STEM subjects to young people. He is a current Director of the Energy Networks Association and past Non-Executive Director of Associated British Ports.



**Greg Pestrak**  
Non-Executive Director

Appointed to the Board: November 2017

Represents the interests of investors Wren House and USS



#### Relevant skills and experience

- Board level experience advising regulated and non-regulated global companies
- Expertise in delivering value creation programmes and bringing a constructively challenging perspective to business and operating models

Greg brings a strong track record in asset management and over 18 years' consulting expertise working with investors and corporates to drive performance improvements. This included time at KPMG, where he was the Partner leading on infrastructure. He is currently Managing Director, Asset Management, at Wren House Infrastructure, with a focus on asset management across the global portfolio.

### Former Directors

**Alistair Buchanan**

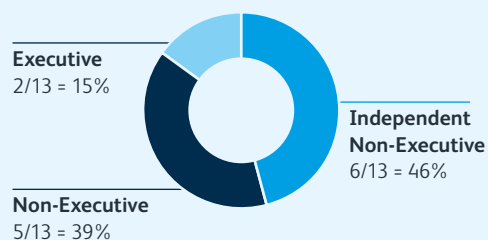
Independent Non-Executive Director



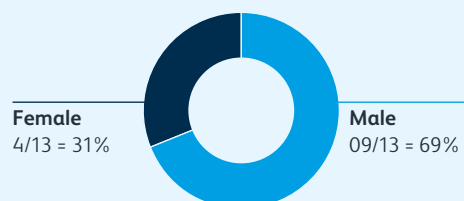
Stepped down in July 2020

## Meet our Board continued
















### Composition of the Board



### Board diversity overview



### Board tenure (years)

<b>Chairman</b>	Ian Marchant		3 years, 7 months	 Male  Female
<b>CEO</b>	Sarah Bentley		Appointed September 2020	
<b>CFO</b>	Brandon Rennet		4 years, 3 months	
<b>Independent Non-Executive Directors</b>	Nick Land		4 years, 4 months	
	Catherine Lynn		2 years, 7 months	
	Hannah Nixon		Appointed January 2021	
	Ian Pearson		6 years, 10 months	
<b>Non-Executive Directors</b>	Jill Shedden		2 years, 9 months	
	David Waboso		2 years, 5 months	
	Paul Donovan		2 years	
	Michael McNicholas		2 years	
	John Morea		2 years, 5 months	
	Greg Pestrak		3 years, 7 months	

### Board skills matrix

This Board skills matrix highlights the breadth of skills represented on our Board.

	All Board Directors have regulated industry exposure and strategic leadership experience	Our Chairman	Our CEO	Our CFO	Our Independent Non-Executive Directors						Our Non-Executive Directors			
		Ian Marchant	Sarah Bentley	Brandon Rennet	Nick Land	Catherine Lynn	Hannah Nixon	Ian Pearson	Jill Shedden	David Waboso	Paul Donovan	Michael McNicholas	John Morea	Greg Pestra
Experience	Utility industry experience or experience of network operations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance/ corporate	Economic regulation/public policy	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
	Finance	✓	✓	✓	✓		✓			✓		✓		✓
Customer	Customer service	✓	✓		✓	✓			✓		✓			✓
Technology	Technology/digital systems		✓		✓	✓				✓	✓		✓	
Resilience	Capital projects	✓		✓		✓				✓	✓	✓	✓	✓
	Engineering									✓		✓	✓	✓
Environment	Environmental/sustainability	✓	✓	✓				✓					✓	
Team	Culture change and transformation	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	Remuneration	✓			✓	✓	✓	✓	✓			✓		✓
	Health and safety	✓			✓	✓	✓			✓		✓	✓	

## Our Executive team

Our Executive team is responsible for the day-to-day running of our business. As at 30 June 2021, it consists of the CEO, CFO and nine directors responsible for specific areas or functions of the business. During 2020/21 and since year end, there have been several changes to the Executive team, including some adjustments to function titles and the responsibilities of individual directors.

In November 2020, Mike Potter joined as Interim Digital Transformation Director. In February 2021, Kelly Macfarlane stepped down as Customer Experience Director, with Warren Buckley joining in March as Retail Director. John Bentley stepped down as Capital Delivery Director in May 2021, being replaced by Francis Paonessa in that role.

Nicola Cocks is due to step down as Regulation Director on 31 July 2021, after completing a handover to Cathryn Ross, who is responsible for a new Strategy and Regulatory Affairs portfolio. John Beaumont will step down as Asset, Digital and Transformation Director on 31 August 2021.

Looking forward, we'll be welcoming Tony Vasishta to the Executive team on 6 July 2021 in a new role focused on the creation of value and public benefit from the Thames Water estate including renewable energy generation. In September, Alastair Cochran will join us as our new Chief Financial Officer and Nevil Muncaster will join as our new Strategic Resources Director. Later in the year, we'll be welcoming Caroline Sheridan as Engineering and Asset Director.



**John Beaumont**  
Asset, Digital, & Transformation Director

Joined the Executive: September 2017

Will step down in August 2021

### Relevant skills and experience

- Experience driving complex change in regulated companies.
- Proven background using digital technology to create customer obsessed businesses.

John directs asset strategy and planning with a focus on improving customer outcomes and reducing operating costs.

Prior to Thames Water he spent 12 years directing customer focused and operation-led transformations as a Partner at Bain & Company, where he worked expansively in the digital and technology space across a variety of infrastructure-heavy industries. His early career was spent at Deloitte and PA Consulting.



**Warren Buckley**  
Retail Director

Joined the Executive: March 2021

### Relevant skills and experience

- Extensive experience in leading customer service and sales transformation across multiple industry sectors.
- Over 30 years of people leadership and cultural change management, including frontline experience.

Warren joins Thames Water from HSBC plc where he was responsible for the onshore and offshore contact centres for its Retail and Wealth business, including customer experience transformation and sales and service performance. Warren led a team of 27,000 colleagues globally for HSBC as their Managing Director and Global Head of Channel Optimisation and Contact Centres.

Prior to HSBC, Warren held several positions at BT including Managing Director of Customer Service and Operations at BT Retail, and Managing Director of Service Management at Openreach, having previously held customer service, experience and operational leadership roles at Orange, Avaya, Lucent Technologies and Vodafone.

Warren is also the Chair of Citizens Advice, a position he took up in 2018 having served as a trustee since 2012.



**Nicola Cocks**  
Regulation Director

Joined the Executive: October 2019

Will step down in July 2021

### Relevant skills and experience

- Delivering high quality engagements, particularly focused on regulatory and economic analysis and project delivery.
- Wealth of experience within the utilities sector.

Nicola has over fifteen years of utility regulation experience. She spent five years at KPMG, as Director of Power and Utilities. This included acting as a strategic advisor to a number of leading UK network companies on their price control reviews, providing regulatory insight and assistance to companies facing compliance and/or enforcement action from their regulator, and undertaking agreed-upon procedure reviews of companies' regulatory reporting prior to submission.

Nicola was Head of Projects and Programmes at Ofgem, transforming the capability and effectiveness of the business in delivering projects that achieved most value for Ofgem and for consumers.



## Our Executive team continued



**Lynne Graham**  
People Director

Joined the Executive: January 2020

### Relevant skills and experience

- Experience in designing and delivering complex cultural and organisational change programmes.
- Skilled in leadership development; MSc in Coaching and Behaviour Change.

Lynne is accountable for the HR function, covering the entire employee life cycle including talent attraction and selection, reward and benefits, payroll and administration, learning and development, employee relations and organisational development.

She has led major change programmes that have delivered significant value through cost reduction and through productivity improvements by driving an engaged culture.

Prior to Thames Water she has operated at Executive and Main Board level in diverse sectors – Eurostar (rail); British Gas (gas utility); Westbury Street Holdings (hospitality); and Yodel (logistics).



**George Mayhew**  
Corporate Affairs Director

Joined the Executive: August 2019

### Relevant skills and experience

- Significant experience in corporate affairs.
- Proven background in stakeholder and government relations for organisations across a range of sectors.

Before joining Thames Water, George was Group Corporate Affairs Director at National Grid, where he was responsible for the company's reputation and stakeholder management strategy. His role included policy development, government and media relations, employee communications, corporate responsibility and brand.

Prior to this, George was Chief of Staff to the CEO of BAE Systems for four years and previously held various government relations roles at MBDA Missile Systems, Centrica and Granada TV.



**Francis Paonessa**  
Capital Delivery Director

Joined the Executive: April 2021

### Relevant skills and experience

- Strong track record of initiating and executing large and complex projects across a range of sectors.
- Broad range of engineering knowledge and experience, particularly in complex system integration and driving value for money.

Francis came to Thames Water from the business and strategy consultancy Aczel, where he advised clients on a number of high-profile projects in the defence and infrastructure sectors.

Prior to this, he was the Managing Director of Infrastructure Projects at Network Rail, where he was accountable for delivering £25 billion of major renewal and enhancement infrastructure projects over the five-year regulatory period. Before Network Rail, Francis spent four years at Bombardier, the world's largest designer and manufacturer of rail vehicles, where he held a number of positions including the Managing Director of its UK business. His early career was at Vosper Thornycroft, the military shipbuilder, where he was latterly Technical Director and then Managing Director of the Portsmouth Shipbuilding Facility.



**Mike Potter**  
Interim Digital Transformation Director

Joined the Executive: November 2020

### Relevant skills and experience

- Track record in driving growth, innovation and performance turnaround across complex public-sector organisations.
- Experience across international retail, energy and manufacturing businesses.

Mike started out as a Chemical Engineer building plants to make replacements for Chlorofluorocarbons. His experience since then has ranged from establishing a programme to transform the retail supply chain at Boots to leading the digital strategy for NHS Blood & Transplant as Executive Director, Business Transformation.

In his roles as Digital Transformation Director and Interim Chief Digital and Information Officer at HMRC, Mike led changes including launching the award-winning Personal Tax Account, which now has over 20 million users, and driving the strategy to use commercial software to improve tax compliance, known as 'Making Tax Digital'. Mike has also served as Director of Programmes at Rural Payments Agency and Director for EU Exit Capability at the Cabinet Office.

## Our Executive team continued



**Cathryn Ross**  
Strategy and Regulatory Affairs Director

Joined the Executive: June 2021

### Relevant skills and experience

- Experienced regulatory and competition economist.
- Proven background in advising on economic, regulatory and competition issues across a number of different sectors.

Cathryn was most recently Group Regulatory Affairs Director at BT Group, responsible for developing and implementing regulatory strategy. Previously, she was Chief Executive of Ofwat, where she successfully oversaw the delivery of a new strategy, focused on a vision for the sector of trust and confidence in water and wastewater services.

Prior to that, Cathryn was Executive Director of Markets and Economics at the Office of Rail Regulation (now the Office of Rail and Road), and Executive Director of Markets and Economics at Ofwat. She also served with the Competition Commission (now the Competition and Markets Authority) and has worked in economic consultancy.

In January 2020, Cathryn was appointed the inaugural Chair of the Regulatory Horizons Council, an independent committee established by BEIS, and she is also a Non-Executive Director of the Institute of Customer Service.



**Steve Spencer**  
Operations Director

Joined the Executive: April 2017

### Relevant skills and experience

- Significant experience of the water industry over 25 years.
- Proven track record of improving performance and delivering strong operational results.

Steve oversees the efficient running of water and wastewater operations. He is responsible for delivering high quality drinking water and reducing leakage, alongside safely processing wastewater, transforming it into renewable power and returning clean water to our rivers.

His career has been dedicated to the water sector. Not only has he held senior leadership positions across Thames Water, he has also worked at Southern Water and MWH Australia.

### Former Executive team members

**Kelly Macfarlane (Customer Experience)**  
Resigned February 2021

**John Bentley (Capital Delivery)**  
Resigned May 2021

## Roles and responsibilities

### The Board

The Board is responsible for the long-term success of Thames Water by providing leadership and strategic direction on our culture, values and purpose. It provides governance oversight and ensures effective management of risk. It balances the interests of our shareholders with those of our wide range of other stakeholders including customers, employees, and suppliers and the impact on local communities and the environment.

### The Chairman

Ian Marchant creates the conditions for the effective working of the Board. He is responsible for promoting high standards of corporate governance, and setting the agenda and conduct of Board meetings, taking account of the concerns of all Directors and encouraging active engagement. He ensures that Thames Water maintains effective communication with our external shareholders and other key stakeholders. He supports and advises Sarah, our CEO, and he leads the evaluation of the performance of the Board, its Committees, and individual Directors. For the period Ian acted as Executive Chairman, he received additional assistance with the Chairman's responsibilities from the Senior INED.

### The Deputy Chairman/Senior INED

Nick Land, our Deputy Chairman, is available to chair Board and Committee meetings if the Chair is unable to attend, and to answer any shareholder queries that cannot be addressed by the Chairman or Executive Directors. He supports the Chairman in his role and leads the Non-Executive Directors in oversight of the Chairman.

### The Independent Non-Executive Directors

Our INEDs are valued members of the Board who bring independent advice and review and challenge the Board on behalf of all stakeholders, including customers. They are independent in character and judgement, with relevant experience, and collectively have strong connections with, and knowledge of, the water industry. They understand the interests of our customers and how these can be respected and protected.

### The Non-Executive Directors

Our NEDs are nominated and appointed by our external shareholders, which is why they are not classified as independent. They provide strong experience and constructively challenge and monitor the performance and delivery of the strategy by the Board.

### Board Committees

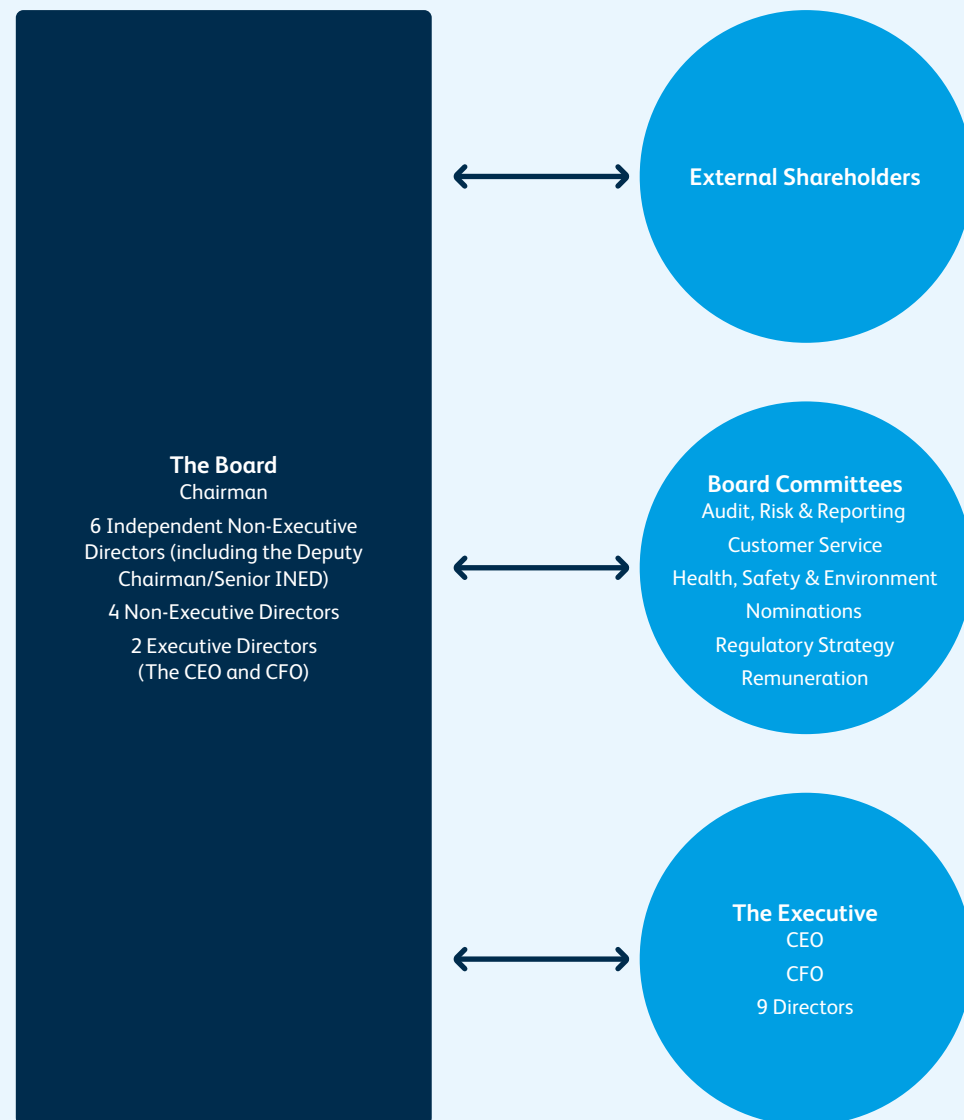
The Board is supported by six Committees, which focus on specific issues. They report to the Board on matters discussed and make recommendations on matters that require the Board's approval. The terms of reference of the Committees are published on our website.

The Board decides the membership and constitution of each Committee. In accordance with the BLTG Principles, each Committee is chaired by an Independent Non-Executive Director, except the Nomination Committee, which is chaired by the Chairman. The Committees may engage independent professional advisers and they can also call upon other group resources to assist them in their duties.

### The Company Secretary

David Hughes, the Company Secretary, acts as secretary to the Board and all the Committees. He provides advice to the Directors and is responsible for advising the Board on governance matters, ensuring the Board operates in accordance with relevant laws and governance principles. He also ensures good information flow to the Board and the Committees.

## Roles and responsibilities



## Roles and responsibilities continued

### The Executive

The Board delegates the execution of our strategy and day-to-day financial, operational and regulatory decisions to the CEO, supported by the Executive team, through a Schedule of Delegated Authority. The Board receives monthly reports on safety, financial and operational performance throughout the year, so it can satisfy itself that the Executive team are managing the business in line with the strategic objectives and targets set.

### The Chief Executive Officer

Sarah develops the business strategy, business plan and budget for approval by the Board. Together with the Executive team, he implements the decisions of the Board and its Committees. She is responsible for ensuring that the highest standards of health and safety and environmental protection are set, and for embedding a culture of customer service throughout the company. She ensures that effective business and financial controls and risk-management processes are in place, and that all relevant laws and regulations are complied with. She also oversees the appointment of senior managers and Executives and succession-planning processes.

### The Chief Financial Officer

Brandon is responsible for management and oversight of Thames Water's financial affairs. He develops and recommends the business plan and budget, and ensures that effective business and financial controls and risk-management processes are in place. Together with the rest of the Executive team, he assists Sarah in developing the business strategy and implementing the decisions of the Board and its Committees. He supports Ian and Sarah in developing strategic relationships with key stakeholders, political leaders and customers.

### External Shareholders

Although all strategic decisions come through the Board, some areas are subject to further review by the external shareholders, such as Board membership, remuneration, material regulatory matters and key areas of strategy, management and financial reporting. The full schedule of matters reserved for external shareholder approval is available on our website.

This additional oversight from our ultimate owners provides an effective system of checks and balances, similar to those that apply to listed public companies, while leaving operational authority and overall responsibility for the business in the hands of our Board.

During 2020/21, a number of reserved matters required approval, including:

- The appointment and remuneration of Sarah Bentley as CEO
- The re-appointment of Ian Pearson as an Independent Non-Executive Director and as Workforce Engagement Lead Director (WELD)
- Our Remuneration Policy
- Bonus payments for 2019/20 and Transformation Incentive payments for 2018-20 for the CFO
- The re-appointment of Ian Marchant as Chairman
- The appointment of Hannah Nixon as an Independent Non-Executive Director
- The annual budget for the financial year 2021/22
- The revised Integrated Business Plan for AMP7.

### Board meetings

The Board held seven formal meetings this year. Board members also attended workshops and informal sessions for more in-depth discussions on matters including our operational performance, leakage and network performance, budget proposals, and finance and treasury.

To ensure that the Board has good visibility of the key operating decisions of the business, members of the Executive team attend Board meetings regularly to update the Directors on performance. The Board also holds separate meetings on a regular basis, without the Executive Directors being present, to discuss any issues or concerns. There are also informal opportunities for the Directors to meet and discuss specific areas of the business with individual members of the Executive team and other employees.

### Board attendance

Membership of the Board during 2020/21

Meetings attended/  
not attended

#### Chairman/Executive Directors

Ian Marchant\* 

Sarah Bentley 


Brandon Rennet 

#### Non-Executive Directors


John Morea 


Greg Pestrak 


Michael McNicholas 


Paul Donovan 

#### Independent Non-Executive Directors

Catherine Lynn 

Ian Pearson 

Jill Shedden 

David Waboso 

Hannah Nixon 

Nick Land 

#### Resigned Directors

Alistair Buchanan  
(resigned 3 July 2020)



\* Attended four as Executive Chairman, three as Chairman.



Meeting attended



Meeting not attended



## Roles and responsibilities continued

### Appointment and induction

Independent Non-Executive Directors are appointed for an initial term of three years with the expectation they will continue for at least a second three-year period. Directors are nominated by the Nomination Committee and their appointments subsequently approved by the Board. All Non-Executive Directors are required to have a pre-appointment meeting with Ofwat. This is an opportunity to share insights on the challenges and opportunities facing the sector and ensure there is an understanding of the particular role of the non-executive directors in a water company.

The Chairman and Independent Non-Executive Directors have letters of appointment with the Company which set out their role and duties, the expected time commitment, their fees and the requirement to declare any other interests.

On appointment, all new Directors receive a bespoke induction programme over a number of months tailored to their specific requirements and designed to facilitate and develop their understanding of the business, as well as an understanding of the Company's operations and culture. The programme provides an overview of our customer service, financial and operational performance, along with an explanation of the regulatory regime and governance framework. It includes meetings with the Chairman, CEO and CFO, as well as the Executive team, external shareholders, the Company Secretary, other members of the senior management team, and external advisers who provide support to the Board or Committees.

### Inductions in action

Each Director is provided with an induction programme covering the following:

#### The business

- Briefings on Company history, business background, operational performance and plans, strategy, key performance indicators and targets
- Site visits during the first few months, to allow each Director to experience, first hand, the operations of the business
- Presentations from management on topics such as our strategy and business plan, finance and commercial matters, key operational areas and risk
- One-to-one meetings with members of the Executive team.

#### Culture and values

- Each Director is provided with a briefing on our people and company culture, including health, safety and wellbeing, talent and succession, trade unions and an overview of our remuneration policy.

#### Governance

- Training relevant to their duties as Independent Non-Executive Directors
- Meetings with the Chairman and Chairs of the Board's Committees
- Briefing on the regulatory and governance framework, Company policies and Board procedures
- An overview of our major risks and our internal risk management strategy.

#### Regulators and other stakeholders

- Participation in briefings with the Environment Agency, Defra and Water UK
- Briefing about customer engagement to understand our customers' views including engagement with our Customer Challenge Group and other key stakeholders.

### Induction in action

#### Sarah Bentley, Chief Executive Officer

Sarah spent her first few weeks getting to know the business and listening to colleagues and stakeholders. During her first month, she spent 18 full days visiting teams at over 20 different sites, reaching around 500 colleagues. Sarah also attended four days of strategy meetings with the Board and Executive team, and she met key stakeholders, including the Chair of Water UK, the Chief Executive of the Environment Agency, Ofwat, and representatives of local community groups.

During Sarah's first month (September) she visited:

- 5 water sites (inc. 1 x water networks day on the road)
- 8 sewage sites (inc. 1 x waste networks on the road and 2 x small sewage pumping stations)

- 2 customer contact centres (Walnut and Kemble)

- 2 nature reserves (Kempton and Farnmoor)

- 1 wetland (Walthamstow)



- 1 laboratory (Spencer House, Reading)

- 1 Thames Tideway Tunnel

- 1 visit to Battersea and Canary Wharf development

- 4 Board/Exec strategy days

## Roles and responsibilities continued



### Training and professional development

Several deep dives and technical sessions were held this year to ensure Directors remain up to date with key developments across the business and the wider industry. Further informal sessions were held with specific focus on topics of interest to the Board, including presentations, regular updates and briefings.

These informal sessions also serve as an opportunity for the Board to discuss strategy and risks with local management teams and gain further insight into our business and management capability.

The Board activities section on page 79 gives more information on topics covered during the year.

We aim to continually refresh and expand the Board's knowledge and skills to enable Directors to effectively fulfil their roles and contribute to discussions on technical and regulatory matters. All Directors have access to professional development provided by external bodies and our advisers. For example, in March 2021, Eversheds Sutherland provided a live training session on competition law and potential changes to the regulatory regime.

We also provide online training. Compulsory modules for Board members include Ethical Behaviour and Protecting and Securing our Data. Additional voluntary modules include 'Keeping Thames Secure' and 'Vulnerability Thames Water'.

### Directors and their other interests

As a matter of good governance, all Directors are required to disclose their other significant commitments to the Board. This ensures that third parties do not influence, compromise or override Directors' independent judgement. In accordance with the Companies Act, all Directors are also required to advise our Company Secretary of any actual or potential conflicts of interest (including those resulting from significant shareholdings) as soon as they arise, so they can be considered by the Board at the next available opportunity.

Any Director with a potential conflict of interest relating to a specific matter that is being considered by the Board or one of its Committees must recuse themselves from the relevant meeting while this item is discussed and may not vote on the matter. If the Chairman has such a conflict, he will recuse himself from the meeting and the Deputy Chairman will take the Chair for the discussion.

It is the Board's view that this procedure operated effectively during 2020/21. During the year, no Independent Non-Executive Director declared a material interest in any contract of significance with Thames Water or any of its subsidiary undertakings. Paul Donovan, a shareholder-appointed Non-Executive Director, in his capacity as CEO of Arqiva Limited, which is a major supplier of smart meters and associated technology to Thames Water, recused himself from Board discussions regarding the metering programme and did not receive relevant Board materials.

Of our Executive Directors, Sarah Bentley sits as a Non-Executive Director on the Boards of Lloyds Bank plc, Bank of Scotland plc and Water UK. Brandon Rennet does not act for any FTSE company as a Non-Executive Director or Chairman.

You can find information on payments to companies in which our Directors have interests on page 107 of our Annual Performance Report.

## Stakeholder engagement

### How the Board engages with stakeholders

All of our stakeholders are so important in helping us to deliver our Purpose and our strategy. You can find more information on how we engage with our stakeholders including customers, employees, regulators, shareholders and other groups on page 36.

Our Board and individual Directors are involved in driving our stakeholder engagement programme – examples of what they've been doing are set out below.

Group	Board Engagement	Key Issues raised	Outcome
<b>Customers</b>	<ul style="list-style-type: none"> <li>Qualitative and quantitative customer insight was considered by the Customer Services Committee and reported to the Board</li> <li>Catherine Lynn, Nick Land, Paul Donovan, Ian Marchant and Michael McNicholas attended an online customer immersion session on leakage issues, along with our independent leakage monitor and a member of our Customer Challenge Group</li> <li>Sarah Bentley has engaged with customers directly on LinkedIn</li> </ul>	<ul style="list-style-type: none"> <li>Updates on key improvement initiatives (e.g. new bill) and transformation initiatives</li> <li>Online customer experience and ease of contacting us</li> <li>Challenges faced during the Covid pandemic</li> <li>Customer views on leakage and communications during disruption</li> <li>Longer-term resilience of our systems</li> <li>'Hot topic' issues such as pollutions and river health</li> </ul>	<ul style="list-style-type: none"> <li>The Board maintains effective oversight of the customer engagement programme and receives and discusses customer feedback. The Board was satisfied that customer views are being listened to and help shape operations and future plans</li> <li>The Executive team was requested to consider more proactive messaging to customers, for example in respect of likely increased water usage during lockdown, and clearer two-way communications with customers on leakage, including updates to our website</li> <li>Sarah's direct messaging with customers and other members of the public on LinkedIn has led our new approach to openness and transparency in our communications. It also provides an alternative platform for customers to engage directly with us on the issues that matter most to them</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Despite Covid-19 restrictions, our lead Non-Executive Director for workforce engagement, Ian Pearson, continued to hold informal online engagement forums with staff across the business</li> <li>Board members led on employee 'Live events' and published key messages throughout the year within our weekly staff 'E-brief' emails</li> <li>'Sarah's soundbites' are published regularly in our employee monthly magazine 'Source'</li> </ul>	<ul style="list-style-type: none"> <li>Greater clarity and focus of internal communications, particularly for frontline staff</li> <li>More support needed to look after frontline employees' mental health</li> <li>Upskilling and career development</li> <li>Future working</li> <li>Health &amp; safety – particularly in relation to Covid</li> </ul>	<ul style="list-style-type: none"> <li>Plans to improve and tailor communication to frontline staff</li> <li>Launched new skills strategy that focuses on recruitment, training and career progression</li> <li>An explicit 'Frontline first' approach, led by the Board, showing recognition, direction, and appreciation</li> <li>Employees were kept informed and appraised of progress, and were listened to during a challenging year, particularly in respect of changes caused by Covid-19, and a significant change in leadership. Communications highlighted how and where employee concerns had been considered and addressed (e.g. results of our 'Hear 4 U' engagement survey)</li> <li>Board members showed personal commitment to the Thames water turnaround plan, including ensuring stability and expertise of leadership</li> <li>More information is included in the note from Ian Pearson, our Workforce Engagement Lead Director, on page 19</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>The Board maintains an active dialogue with shareholders, who are represented on the Board by four Non-Executive Directors</li> <li>Sarah Bentley and Brandon Rennet provide quarterly performance updates</li> <li>Monthly shareholder liaison meetings with Ian, Sarah and Brandon to discuss upcoming issues</li> </ul>	<ul style="list-style-type: none"> <li>Business strategy and objectives</li> <li>Financial and operational performance</li> <li>Integrated Business Plan</li> </ul>	<ul style="list-style-type: none"> <li>Having shareholder representatives on the Board enables other Directors to better understand investor views</li> <li>Stronger shareholder oversight enables more thorough review, analysis and challenge of Company plans</li> <li>Shareholders endorsed and approved the Integrated Business Plan and business strategy in line with the Board's recommendations</li> </ul>

## Stakeholder engagement continued

Group	Board Engagement	Key Issues raised	Outcome
<b>Other investors</b>	<ul style="list-style-type: none"> <li>Regular presentations and update calls throughout the year, usually hosted by Brandon Rennet, with participation and support from Ian Marchant and Sarah Bentley, including:               <ul style="list-style-type: none"> <li>Full year and interim results presentations</li> <li>Periodic group update calls</li> <li>Transaction-related investor meetings (e.g. in November 2020 to support a £250 million public bond issue from the Holding company)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Updates on operational and financial performance with a particular emphasis on the impact of Covid-19, our business turnaround and the outlook for key financial metrics</li> </ul>	<ul style="list-style-type: none"> <li>Banks and debt investors were kept informed of key news and developments, helping us to maintain cost-efficient access to capital markets. This included:               <ul style="list-style-type: none"> <li>Approximately £1 billion of Class A MTN issuance</li> <li>A new £75 million Class B bank facility</li> <li>£500 million of funding raised at the holding company, with £80 million used to pay down debt at operating company level</li> </ul> </li> </ul>
<b>Regulators</b>	<ul style="list-style-type: none"> <li>Regular calls and online joint working groups with Ofwat and other regulators</li> <li>Non-Executive Directors attend Ofwat's twice-yearly non-executive events</li> <li>Quarterly sessions with Ofwat on transformation progress</li> <li>Sarah Bentley attended quarterly Environmental Agency meetings and regular Water UK Board meetings</li> </ul>	<ul style="list-style-type: none"> <li>Financial, customer and operational performance</li> <li>Issues that could affect customers and the environment</li> <li>Transformation Programme</li> </ul>	<ul style="list-style-type: none"> <li>Increased Board understanding of regulatory challenges and priorities, through constructive dialogue with Ofwat</li> <li>Insight into our relative performance against the rest of the industry</li> <li>Regulators helped to consider impact of regulatory decisions and new policies</li> </ul>
<b>NGOs/Community</b>	<ul style="list-style-type: none"> <li>Sarah Bentley met with a number of community groups and NGOs – for example with representatives of a swimmers' group who had organised a petition about river water quality</li> </ul>	<ul style="list-style-type: none"> <li>Pollution problems and river health</li> <li>Sewage discharges into the Thames</li> <li>Neighbourhood plans</li> </ul>	<ul style="list-style-type: none"> <li>Sarah is leading a change in Thames Water's messaging and showing that we're committed to working collaboratively. Her engagement also informs our future plans and approach to engagement</li> <li>Joint partnerships developed to deliver long term strategic projects, e.g. smarter water catchments</li> <li>Thames Water committed to supporting a campaign for bathing water designation in Oxfordshire (see page 30)</li> </ul>
<b>Policymakers and elected representatives</b>	<ul style="list-style-type: none"> <li>Board Directors attended our (virtual) Annual Stakeholder Review with a range of stakeholders in July 2020, which included a Member of Parliament, a London Assembly Member and GLA officials</li> <li>Sarah Bentley held various one-to-one meetings during the year with MPs to discuss issues in their constituencies. She also met with Philip Dunne MP to discuss his Private Members Bill</li> <li>Board members have engaged with government ministers such as the Secretary of State for Business to discuss renewable energy, and the Minister for London to discuss our green recovery programme</li> <li>Sarah Bentley met with the Greater London Authority, meeting the Deputy Mayor for Environment and Energy Shirley Rodrigues, and attending the Mayor's London Infrastructure Group</li> <li>Sarah has also met with the CEO of the National Infrastructure Commission, and Ian Marchant became one of the newly-formed National Preparedness Commission's members, attending meetings during the year</li> </ul>	<ul style="list-style-type: none"> <li>Operational and customer service performance</li> <li>Water supply network resilience</li> <li>River health</li> <li>Flooding</li> <li>Pollutions</li> <li>Green recovery</li> </ul>	<ul style="list-style-type: none"> <li>Feedback from policy makers and elected representatives helps us understand whether we are meeting stakeholders' expectations in the communities we serve. It also keeps us close to changes to policy that affect the regulatory environment in which we operate</li> <li>Engagement has informed Thames Water's turnaround plan, which recognises that trust with stakeholders is low and needs to be improved</li> <li>Comments from individual meetings have influenced our approach in a number of ways. For example, as a result of discussions with Philip Dunne MP about sewage discharges and river health, we engaged with a number of MPs in our region to highlight the benefits of amendments to legislation his Private Members' Bill promoted</li> <li>Feedback from Helen Hayes MP led to us reviewing how best to co-ordinate activities and communications in the area she serves</li> </ul>



## Board activities to drive our strategy

### Strategic Ambition



#### To deliver brilliant customer engagement

### The Board's Governance Role

- Review our customer service, communications and media strategies to ensure customers remain at the heart of business decisions
- Receive and review regular updates on customer complaints and C-MeX metrics through monthly Board reports and presentations to Board meetings
- Particular focus placed on this area by the Board's Customer Service Committee

### Examples of Board activity in 2020/21

- Monitoring of strategy to support customers affected by Covid-19
- Oversaw roll out of new customer service software platforms
- Detailed formal analysis in June 2020 of customer complaints performance to inform approach to AMP7
- Review of new appointments to the Customer Challenge Group
- Oversaw development of Thames Water's strategic turnaround plan, which was approved in March 2021

#### Focused strategic sessions held:

- Online customer immersion session on leakage in July 2020
- Session on customer transformation in September 2020
- Customer workshop in November 2020



#### To invest in resilient systems and assets

- Review proposals to increase resilience of systems and assets, with a focus on improving performance in key areas such as leakage, supply interruptions and pollution reduction
- Approve expenditure and plans for capital projects to increase resilience
- Review the development and execution of our strategic approach to data to ensure it reflects the growing expectations of our customers and complies with regulations
- Review our operational and cost efficiency to drive maximum value for money for our customers and drive efficiency in the water cycle

- Approval of capital budget for 2021/22 and an updated Integrated Business Plan
- Oversight of the business planning and funding process including engagement with Ofwat to secure the unlocking of additional allowances and spending, for example Board sessions on the North East London Resilience programme held in October 2020, December 2020 and February 2021
- Monitored leakage activity with regular updates from the leakage task force
- Approval of cost-transformation plans to drive efficiency and quality outcomes in spending

#### Focused strategic sessions held:

- Session on asset management lifecycle in September 2020
- Session on smart waste, data analytics, and IT in August 2020
- Deep dives: on risk in October 2020 and on capital structure in December 2020



#### To generate public value

- Review our sustainability policy and associated policies and monitor progress
- Ensure we have the right governance framework in place to monitor the impact of our operations on the environment, and to make a positive impact on the communities around us
- The Health, Safety and Environment Committee considers our impact on the environment, as well as the safety of our operations on our sites and in the community
- Oversee our People Strategy
- Champion diversity and corporate values

- Considered and approved new policies, including Public Value policy and Protecting Drinking Water Quality & Safeguarding Public Health policy – with clear corporate commitments in respect of each goal
- Pollutions were considered at each meeting of the HS&E Committee
- Approved our roadmap to get to zero net carbon from our operations by 2030
- The Workforce Engagement programme continued throughout the year, with regular reports back to the Board from the lead Director
- Approved new strategy for recruitment, skills development, and increasing our diversity (read more on page 17)

#### Focused strategic sessions held:

- Session on PR24, stakeholders and communities in August 2020
- A deep dive session on people and culture in May 2020

Nomination Committee Report



Ian Marchant  
Chair of the Nomination Committee

This year has seen significant changes in terms of the composition of the Board with the appointment of Sarah Bentley as Chief Executive Officer with effect from 1 September 2020 and the appointment of Hannah Nixon as an Independent Non-Executive Director (replacing Alistair Buchanan). Ian Marchant continued in the role of Interim Executive Chairman for part of the year until Sarah Bentley took up her role as CEO in September 2020.

Attendance  
Membership and attendance

The Nomination Committee met formally five times during the year.

Membership of the Committee, excluding the Chair, consists of two Independent Non-Executive Directors, Nick Land and Ian Pearson, and two Non-Executive Directors, Michael McNicholas and Greg Pestrak. The Committee is Chaired by Ian Marchant.

The Company Secretary acts as secretary to the Committee, ensuring that all of the information required by the Committee to operate effectively is available. When appropriate the CEO, CFO, HR Director and external advisors may attend meetings by invitation.

The Committee is satisfied that there remains an appropriate combination of Executive Directors and Non-Executive Directors on the Board such that no one individual or group of individuals dominates the Board’s decision making. The Independent Non-Executive Directors remain the largest group on the Board.

Activity during the year

The Nomination Committee’s core responsibility is to manage the appointment process for new board directors – the exception being the appointment of a new Chairman which would be carried out by the Board, led by the Senior Independent Director. Following his appointment as Chairman of Electricity North West, Alistair Buchanan, stepped down as an Independent Non-Executive Director in July 2020 and the Committee began the process of identifying and nominating a candidate to fill this vacancy.

Spencer Stuart was engaged as the external search agency to support this appointment. Spencer Stuart has no other relationship to the Company and is a signatory to the latest Voluntary Code of Conduct for executive search firms, which seeks to address gender diversity on corporate boards.

The Committee considered a role profile in order to identify candidates with the appropriate technical and professional skills to take on responsibilities including the chair of the Regulatory Strategy Committee. These characteristics were broadened so as to identify candidates who would also enhance the strategic discussion in the boardroom.

A list of possible candidates was drawn up with interviews held with a shortlist of potential candidates. The merits, strengths and weaknesses were considered extensively by the Committee. Following due deliberations, the Committee unanimously agreed to nominate and recommend Hannah Nixon to the Board. Following a pre-appointment meeting with Ofwat, Hannah was appointed to the Board with effect from 14 January 2021.

Re-appointment of the Chairman of Thames Water

The Chairman’s initial three-year term came to an end on 30 November 2020. The Committee, led by the Senior Independent Director, considered the re-appointment of Ian Marchant as Chairman for a further three years. Following comprehensive consultation with various groups across the Board and shareholders, all of whom were supportive of Ian continuing for a further term, the Committee agreed that the re-appointment of Ian Marchant as Chairman of the TWUL Board for a further three years be recommended to the Board and shareholders. Ian’s reappointment, to 30 November 2023, was approved by the TWUL Board on 18 November 2020.

As the re-appointment of the TWUL Chairman is a matter reserved for the Kemble Board this was approved by the Board of Kemble Water Holdings Limited on 19 November 2020.

Attendance	
Membership of the Committee during 2020/21:	Meetings attended/ not attended
Ian Marchant (Chair)	●●●●●
Greg Pestrak	●●●●●
Michael McNicholas	●●●●●
Ian Pearson (I)	●●●●●
Nick Land (I)	●●●●●
● Meeting attended    ○ Meeting not attended	
(I) Independent	

Role of the Committee

The main duties of the Committee are to:

- Review from time to time the structure, size and composition of the Board of the Company and to make recommendations to the Board regarding any changes it considers necessary; and
- Keep under review the leadership needs of the Company and make recommendations regarding the formulation of succession plans for appointments to the Board, to maintain an appropriate balance of skills and experience as well as diversity to ensure that it remains effective and focused on driving forward the strategy of the Company.

## Audit, Risk and Reporting Committee Report



**Nick Land**  
Chair of the Audit, Risk and Reporting Committee

### Attendance

Membership of the Committee during 2020/21:

Meetings attended/  
not attended

**Nick Land (Chair) (I)**



**Alistair Buchanan (I)**  
(Resigned 3 July 2020)



**Paul Donovan**



**Michael McNicholas**



**Ian Pearson (I)**



**David Waboso (I)**



**Hannah Nixon (I)**  
(Appointed 14 Jan 2021)



Meeting attended Meeting not attended

(I) Independent

This report gives our stakeholders an overview of the activities and areas of focus during the year of the Audit, Risk and Reporting Committee (the "Committee" or "ARRC"). The Committee's primary responsibility is to provide support to the Company's Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework.

During the year the Committee held four formal meetings, in which it:

- Considered and discussed the impacts on the business, risks and controls relating to Covid-19 and its impact on going concern and the long-term viability assessment
- Reviewed and recommended to the Board for approval the six-monthly reporting to Ofwat in respect of the Section 19 Undertakings\* following its investigation into our leakage performance
- Provided oversight over revisions to leakage reporting and methodology (More detail is contained in pages 25 – 26 of our Annual Performance Report)
- Engaged with the Group's external auditor, PricewaterhouseCoopers LLP ("PwC"), on a regular basis in relation to the status of their audit work and matters arising
- Reviewed and challenged significant judgements, both from an accounting and risk perspective
- Formally considered sufficiency of resources to deliver our obligations at each of our scheduled meetings (the Ring-fencing Certificate)
- Reviewed financing arrangements such as funding, liquidity facilities and hedging
- Oversaw improvements to our risk management framework – assessing how we responded to risks such as Brexit, financeability, data and cyber security risks – and improved our understanding of our mitigation against catastrophic loss risks.

Additionally, the Committee received reports on whistleblowing, fraud and anti-bribery. Key cases are brought to the attention of the Committee including any lessons learned from those investigations.

Looking ahead to 2021/22, these items will remain a focus for the Committee. The Committee will: continue promoting clarity and transparency in all our reporting; oversee the further development of the Company's risk management processes; oversee the Company's assurance framework, ensuring processes and controls are appropriate and that published information is accurate, complete and reliable; and monitor the financing arrangements, long-term viability assessments of the Group and going concern, especially with the continuing impact of Covid-19.

### Governance

The Board considers the Committee has the appropriate composition, skills and experience to discharge its responsibilities. Both the Independent Non-Executive Directors and the other Non-Executive Directors on the Committee have the required financial experience and proficiency in accounting to fulfil their duties.

The meetings are regularly attended (by invitation) by the Chairman, Chief Executive Officer, Chief Financial Officer (CFO), Head of Risk, Audit & Assurance, Group Financial Controller and external auditor to ensure all the information required by the Committee for it to operate effectively is available. Other members of Thames Water's senior management team are invited to attend meetings when appropriate.

In conjunction with each meeting, the external auditor, the CFO and the Head of Risk, Audit and Assurance hold private sessions with the Committee without Thames Water management being present. In performing its duties, the Committee has access to the services of the Risk, Audit and Assurance function, the Company Secretary and, if required, external professional advisers.

Separately, the Chairman regularly meets with the external auditor, the CFO, the Head of Risk, Audit and Assurance and the Head of Internal Audit to ensure the impact of material issues and judgements are fully assessed and understood.

### The Committee's key responsibilities

The key responsibilities of the Committee, and the significant matters that arose during the year, relate to the following four areas:

- 1 Financial and Regulatory Reporting:** oversight of the financial and regulatory reporting, ensuring integrity, accuracy, completeness, and reporting and regulatory compliance. The Committee reviewed and recommended for approval the 2020/21 Interim Report, Annual Performance Report ("APR"), Annual Report and Sustainability Report, interim and annual covenant compliance certificates, and Annual Debt Prospectus. New reporting guidelines, such as the FRS's Climate Thematic Review, were also considered by the Committee during the year.
- 2 Internal Controls and Risk Management:** assessing the effectiveness of the Company's risk management framework and internal controls. During the year, this included reviewing significant risks and their impact on the business; with close attention to risks pertaining to Covid-19, cyber security, legal and data protection, supply chain and catastrophic loss. The Annual Controls Self-Assessment findings and actions were additionally reviewed by the Committee, as were any whistleblowing, fraud reporting or unethical behaviour reports.
- 3 Internal Audit:** assessing the effectiveness of the internal audit function and reviewing reports from the internal audit function and relevant Company policies. During the year, the Committee reviewed and approved the Audit Plan for 2021/22 and considered quarterly factors relevant to the annual approval of the Ring-fencing (Condition P) Certificate.
- 4 External Audit:** oversight of the external auditor's independence, objectivity, and effectiveness; including the recommendations to appoint or remove the external auditor, and approval of any non-audit services and the annual external audit plan. The Committee reviews audit findings identified during their work.

\* Undertakings for the purpose of section 19 of the Water Industry Act 1991

## Audit, Risk and Reporting Committee Report continued

### Financial and Regulatory Reporting

#### A fair, balanced, and understandable set of financial statements

The Committee received the Annual Report and Sustainability Report, and Annual Performance Report (“APR”), ahead of publication to ensure they were aligned with the Group’s position, performance and strategy, and that the narrative sections were consistent with the financial statements and tables. The significant issues considered by the Committee in relation to the 2020/21 financial statements included those identified by the external auditor in its audit report. These cover the basis of preparation, compliance with financial covenants over an assessment period of at least 12 months from the date of issue of the accounts, significant management estimates and judgements, appropriate disclosures made across the Annual Reports, consistency of accounting policies and standards across the Group and other financial reporting matters.

In conclusion, the Committee advised the Board that the 2020/21 Annual Report and Sustainability Report and the APR provide a fair, balanced and understandable assessment of the Group’s position; and that the necessary information is provided for shareholders to assess the Group’s prospects, performance, business model and strategy.

#### Significant judgements used in the financial statements

The adjacent table lists the most significant accounting judgements and estimates considered during the financial period. These matters were audited by our external auditor which is consistent with the Independent Auditor’s Report.

Accounting area and judgement	The Committee’s Role	Conclusion and Impact on Financial Statements
<b>Covid-19 impact</b>	There has been increased judgement within the financial statements due to the impact of Covid-19, creating more uncertainty. This has been taken into account during the Committee’s review of going concern and the Long-term Viability Statement disclosures within the financial statements. This review focused on the key assumptions and sensitivities used within the modelling, including downside scenarios and stress tests over a period of 10 years.	Based on the audit work performed by PwC, and the Committee’s review of key judgements and uncertainties, the Committee is satisfied with the preparation of the accounts on a going concern basis and the conclusion of the Long-term Viability Statement.
<b>Bad debt provision for household customers</b>	The ongoing impact of Covid-19 on a customer’s ability to pay, with an increased uncertainty around the future economic outlook, has required greater assessment of the methodology and provision. The Committee reviewed the methodology, the ageing used, and the basis driving the cash collection and write-off rates in the year. These assumptions were considered together with the findings from PwC.	Based on its review, the Committee was comfortable with the level of bad debt provision recognised by the Company for household customers. The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.
<b>Provisions and contingent liabilities</b>	The Committee considered other provisions within the accounts pertaining to potential legal and regulatory matters. The Committee considered the appropriateness of the methodologies used, the relevant details including the latest information from the in-house legal team and Eversheds Sutherland, and findings from PwC.	The Committee is satisfied with management’s judgement to retain our classification of contingent liabilities and with the estimates used by management in calculating the provision. See the respective Provisions and Contingent Liabilities notes in the consolidated financial statements.
<b>Capitalisation criteria</b>	The classification of costs between capital and operating expenditure requires judgement. The Committee sought to understand significant investments and expenditure during the year, any notable year-on-year movements and changes in policy.	The Committee has held regular discussions with management and PwC and deems the classification of expenditure as appropriate. The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.
<b>Valuation of defined benefit obligations</b>	The valuation of the Company’s defined benefit obligations is highly sensitive to assumptions used and requires significant judgement and estimation. The Committee considered the valuation exercise undertaken by independent actuaries Hymans Robertson LLP as at 31 March 2021, the assumptions used within this report, the additional risk from the impact of Covid-19 on the extent of market volatility, and PwC’s findings.	From these reviews and discussions, the Committee was satisfied with the valuation of the Company’s defined benefit accounting treatment. See the Retirement Benefit Obligation note in the financial statements for further disclosure.
<b>Exceptional items</b>	Exceptional items are significant one-off transactions; they wholly relate to transformation activities and advanced pension deficit repair payments. The Committee noted our exceptional items policy was consistent with the previous year.	The Committee is satisfied with the application of the policy.
<b>Valuation of financial derivatives</b>	The Committee reviewed and discussed the methodology adopted in the valuation of various derivative instruments with the Head of Treasury, Tax and Corporate Finance and PwC.	Based on the review, the Committee was content with the methodology applied to value derivatives in the financial statements.



## Audit, Risk and Reporting Committee Report continued

### Internal controls and risk management

The Committee continued to oversee improvements to our risk management framework, which covered both our assessment of new and existing risks, and the internal control processes. The Committee reviewed regular updates on the Company's top risks, the appropriateness of our risk appetite statements, updates to the Schedule of Delegated Authority (SoDA), and action taken in response to whistle-blowing cases.

There is a continued focus on the new emerging risks within the business and how we respond to these in addition to our existing risks. This is especially important with the significant risks around Covid-19, financeability, catastrophic loss risk mitigations and cyber security. In response to Covid-19, the Committee approved the introduction of a specific Covid-19 risk register to continue monitoring the risks within this area. In addition, the Committee received updates regarding performance measures over both pollutions and supply chain risks; legal and data protection risks; data quality risks; and management of regulatory reporting risks.

These updates allowed the Committee to make informed reviews of corporate policies, approve the annual internal audit plan, review key findings from the internal audit reports, recommend controls and mitigations, and consider sufficiency of resources to deliver our obligations at each of our scheduled meetings (as detailed in our Ring-fencing Certificate, previously referred to as the "F6A statement" or "Sufficiency of Resources Certificate under Condition P").

As part of our continuous improvement process, we have increased the engagement of all Board members in our risk process and in defining our risk appetite. In the year, workshops were undertaken covering our principal risks and critical 'systems', such as water supply, resulting in changes to the Company's risk appetite in certain areas.

The impact of climate change is a crucial area, and our ability to provide clean and safe drinking water is sensitive to environmental changes. We are currently identifying and assessing our climate related risks and how these fit into our overall risk management approach. We intend to

fully align with the recommendations from the Task Force on Climate-related Financial Disclosures ("TCFD") by 2022. This has driven increased climate-related disclosures throughout our Annual Report this year.

### Internal audit

The Committee monitored and reviewed the effectiveness of the Group's internal audit function in the context of the Group's overall risk management systems. In 2020/21 the Committee considered and approved the remit and activities of the internal audit function ensuring it had adequate resources and appropriate access to information to enable it to perform its function effectively, in accordance with the relevant professional standards, and was free from management or other restrictions.

The Committee reviewed and assessed the annual internal audit plan which contains a mix of risk based and cyclical reviews. The plan is delivered through appropriately skilled and qualified internal resources supported with external resources where more specialised skill sets are required, typically within Information Systems and Treasury. The plan is approved by the Committee each year after ensuring that the plan aligns with the Committee's view of risks.

Within the year, any published internal audits which were categorised as high risk triggered a requirement for management to present their action plan to the Committee, providing assurance the highlighted risks will be addressed in a timely manner.

Throughout the year, the Committee has also been provided with updates to audit standards, an assessment of compliance to both the new IIA (Institute of Internal Auditors) Code of Practice, recommendations from the Brydon report, and an overview of the impact of implementing the IIA's Three Lines model.

The Committee Chairman held private meetings with the internal audit team to ensure third line independence is being maintained.

### External audit

The Committee reviewed PwC's terms of engagement and the scope and execution of their audit work. The Committee assessed the independence and objectivity of the external auditor, considering relevant UK professional and regulatory requirements and the relationship with the auditor, including the provision of any non-audit services in accordance with the Group's Policy for the Provision of Non-Audit Services.

2020/21 is the third year PwC has been Thames Water's external auditor since being appointed as the Group's auditor after a competitive tender in 2018/19. The Group adopts the same approach to audit tendering as a FTSE 100 company, ensuring the Group's compliance with the current regulation on the statutory audit of public interest entities. Therefore, the Group will ensure the statutory audit is put out to tender by 2028/29 or earlier depending on the Committee's recommendation.

### Effectiveness of the external auditor

The Committee also assessed the effectiveness of the external audit during the financial year by considering the resources, continuity, qualifications, and experience of the external audit team. It also assessed the planning and organisation of the external audit including the appropriateness of the auditor's assessment of the key audit risks and its relevant response to these. These risks are detailed in the Independent Auditor's Report included within the consolidated financial statements. Following this year's annual review, and discussions held between the Committee and PwC throughout the audit process, the Committee is satisfied with the professional scepticism of the auditor and that sufficient challenge was demonstrated towards key areas of management judgements and accounting policies. Therefore, PwC was deemed effective in their role as external auditor in the year ended 31 March 2021.

### Auditor's independence and objectivity

An external auditor's independence is essential to the provision of an objective opinion on the true and fair view presented by the financial statements. There are safeguards in place to maintain this independence by frequently reviewing non-audit services performed by

the external auditor, ensuring employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Group, and rotating the lead engagement partner at least every five years and other key audit partners every seven years. Katharine Finn has been the current lead engagement partner and a key audit partner for three years. The fees for this financial year, as detailed within the consolidated financial statements, are reasonable and allow an effective audit to be conducted. The increase in fees this year is attributable to additional audit work as our business becomes more complex, extensive remote working during the audit due to the impact of Covid-19 and the greater diligence needed as part of the overall scope of work.

### Non-audit services

The Committee prohibits non-audit services other than in respect of certain services required for regulatory assurances which it would be impractical for another provider to provide. To safeguard the objectivity and independence of PwC, approval from the Committee Chairman is required for PwC to provide any of these non-audit services. This approval ensures the external auditor is not performing any work which could create a conflict of interests or breach an external auditor's independence and objectivity. These services are typically limited to where specific knowledge of the Company or Group is necessary for their provision; for instance, assurance work relating to Ofwat submissions, regulatory accounts, interim reviews, leakage reporting and AMP performance commitments. Non-audit services were £960,300 in the current period (2019/2020: £902,000). Despite this small increase, the Committee ensured safeguards were in place relating to non-audit work, including written representations from PwC which confirmed their independence, and was content that the non-audit fees incurred have not resulted in a loss of independence or objectivity.

## Regulatory Strategy Committee Report



**Hannah Nixon**  
Chair of the Regulatory Strategy Committee

### Attendance

Membership of the Committee during 2020/21: Meetings attended/not attended

<b>Hannah Nixon (I) (Chair)</b> <b>(Appointed 14 Jan 2021)</b>	
<b>Ian Marchant*</b>	
<b>Michael McNicholas</b>	
<b>Ian Pearson (I)</b>	
<b>Greg Pestrak</b>	
<b>Alistair Buchanan (I) (former Chair)</b> <b>(Resigned 3 July 2020)</b>	

Meeting attended Meeting not attended

(I) Independent

\* Chaired two meetings prior to Hannah's appointment

### At a glance

The Committee has primary responsibility for regulatory and compliance matters linked to the corporate strategy and the business plan.

The Committee met four times in this reporting period. Alistair Buchanan chaired one meeting before his resignation. Ian Marchant then chaired two meetings as acting Chair of the Committee. After Hannah Nixon joined in January, she chaired one Committee meeting in March 2021.

### Membership and attendance

Including the Chair, the Committee consists of two Independent Non-Executive and three other Non-Executive Directors. The meetings are also attended, as required, by the Chief Executive Officer, the Regulation Director and the Chief Financial Officer. Other members of the Executive team, other Thames employees and third-party advisers may be invited to attend meetings by the Committee. The Company Secretary acts as secretary to the Committee.

### The role of the Committee

The Committee's main objective is to assist and advise the Board by reviewing any significant issues related to current and future business planning and strategy, including regulatory and compliance matters, and the application of appropriate policy and practice.

- Considers future challenges to the business and any regulatory issues affecting its long-term strategy
- Reviews and challenges the business planning process and any assumptions made under it
- Provides guidance on current, emerging and future regulatory matters and advises the Board on regulatory strategy
- Has specific oversight of the regulatory price control submission process.

### Committee activities during the year 2020/21

The Committee reviewed and discussed, among others, the following matters:

- The Committee's Terms of Reference
- Section 19 Leakage Undertakings
- The Company's ongoing engagement with Ofwat
- The proposed response to the Condition B licence change consultation
- The Competition and Markets Authority's price control determination and its potential impact on the Company
- Lessons learnt from PR19
- The PR24 process and how the Committee could best add value to that
- Updates on other regulatory developments including compliance with regulatory undertakings and the ongoing Competition Act and Water Industry Act investigations.

The Committee looks forward to contributing to the development of the Company's longer-term strategy as the new Executive leadership seeks to take the business forward.

## Customer Service Committee Report



**Catherine Lynn**  
Chair of the Customer Service Committee

### Attendance

Membership of the Committee during 2020/21:

Meetings attended/  
not attended

**Catherine Lynn (Chair) (I)**



**Paul Donovan**



**Nick Land (I)**



**Greg Pestrak**



**Jill Shedden (I)**



Meeting attended Meeting not attended

(I) Independent

### At a glance

The Committee advises the Board on the needs and priorities of customers, to ensure that high-quality, effective services are provided and can continue to be provided into the future. The Committee met three times this reporting year.

### Membership and attendance

The Committee is made up of three Independent Non-Executive Directors and two other Non-Executive Directors. The Chief Executive Officer, the Retail Director, the Operations Director and the Regulation Director attend by invitation as required. Other attendees are invited at the request of the Committee. The Company Secretary acts as secretary to the Committee.

### The role of the Committee

The Committee looks at all users of our services including retail, wholesale and developer services customers, as well as the wider community within which we operate. The core objectives of the Committee are to provide assurance, support and challenge in delivering better outcomes for customers and effective customer engagement and communications, through for example:

- Customer strategy – reviewing the development of our Customer Strategy, reflecting on current challenges and anticipating future needs
- Performance – reviewing Company performance against regulatory commitments, industry comparators and external best practice
- Customer consultation and engagement – reviewing and advising on engagement strategies, messaging and communications channels.

### Committee activities during the year 2020/21

During the year, the Committee received and discussed updates on customer service performance and the delivery of our services strategy, including specific updates in relation to:








- The Customer Transformation Plan
- Analysis of C-MeX methodology and data submission
- Customer satisfaction drivers, complaint volumes and root causes
- Plans to optimise our brand and marketing strategy
- Customer Engagement insights on section 19 Leakage Undertakings
- The development of leadership behaviours to transform customer service culture
- The future of the Customer Challenge Group, and the appointment of a new chair and members.

The Committee Chair attended an online Leakage Customer Immersion Session on 1 July 2020 to engage directly with customers on Thames Water's leakage performance. The Committee remains focused on looking at ways to improve customer service levels and engagement with customers as the Company moves forward and recommending appropriate action to the Board.

Health, Safety and Environment Committee Report



David Waboso  
Chair of Health, Safety and Environment Committee

Attendance	
Membership of the Committee during 2020/21:	Meetings attended/ not attended
David Waboso (Chair) (I)	
Nick Land (I)	
Catherine Lynn (I)	
Michael McNicholas	
John Morea	
 Meeting attended  Meeting not attended	
(I) Independent	

At a glance

The Committee is responsible for reviewing and monitoring matters relating to health and safety, the environment, drinking water quality and security. The Committee met three times in this reporting period.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors and two other Non-Executive Directors. The Chief Executive Officer, the Operations Director, the Asset, Strategy and Planning Director, the People Director and the Health, Chief Safety & Security Officer also usually attend meetings. Other individuals may attend by invitation. The Company Secretary acts as secretary to the Committee.

The role of the Committee

The Committee undertakes an annual review of the Company’s health and safety policy and reviews any significant incidents or investigations. The Committee also considers the strategy and performance for pollution and environmental impact prevention and reduction, as well as receiving updates on any current or potential environmental prosecutions. The Committee seeks to ensure that any lessons learned from its work are applied to maintain continuous improvement in the Company in the relevant areas. The Committee also undertakes deep dives into specific areas of interest or concern to the Board.

Committee activities during the year 2020/21

At its formal meetings this reporting year, the Committee has considered and discussed:

- Regular health and safety reports
- Regular environmental and water quality reports
- A potential cultural shift in standards and asset health under the Transformation Plan
- The Pollution Incident Reduction Plan.

The Committee has also undertaken several deep dives into specifically identified risk areas including:

- Strategic Pumping Stations
- Public Use Bridges
- COMAH (Control of Major Accident Hazards)
- Sewer Flooding Protection
- Annual Reservoir Safety.

The Committee looks forward to continuing to challenge the business on how it manages health and safety issues and those relating to the environment, and as a result improving standards, practices and outcomes, as part of a broader process of change across the Company.



## Directors' Remuneration Report 2020/2021



**Jill Shedden**  
Chair of the Remuneration Committee

### Attendance

Membership of the Committee during 2020/21:

Meetings attended/  
not attended

<b>Jill Shedden (I) (Chair)</b>	
<b>Nick Land (I)</b>	
<b>Ian Marchant</b>	
<b>Michael McNicholas</b>	
<b>Greg Pestrak</b>	
<b>Ian Pearson (I)</b>	

Meeting attended Meeting not attended

(I) Independent

### Contents

- Chair's statement
- Remuneration at a glance
- Annual Report of Remuneration
- Summary of Remuneration Policy

This report details the activities of the Remuneration Committee for the financial year to 31 March 2021. It sets out the Remuneration Policy and remuneration details for the Executive Directors and Non-Executive Directors of Thames Water.

### Chair's statement

As a Committee we believe in the importance of transparency and we strive to ensure the reward received by our Executive Directors is set at a level which is fair, allows us to recruit and retain the right calibre of individual and reflects both the priorities and values of the business. We continually challenge proposals and decisions to ensure there is a clear and measurable link between remuneration and our Purpose – to deliver life's essential service, so our customers, communities and the environment can thrive.

### Overview of remuneration outcomes for 2020/21

At the start of the year, we set targets that focused on the following:

- **Safe people** – a reduction in lost time incidents, a number of strategic safety improvement actions and a year-on-year improvement in the employee engagement index.

- **Customer service** – a reduction in complaints and a shift in customer contact channels.
- **Customer and environmental delivery** – reduction in supply interruptions, the start of a transformation programme of water networks and a reduction in blockages.
- **Financial** – achieving the budgeted EBITDA target and reducing the gross OPEX run rate.

The targets for the Annual Management Bonus plan are linked to our KPIs where progress is tracked each month and reported to the Board. In assessing performance against the Annual Management Bonus targets, we've made some progress during the year:

- We reduced lost time incidents by 40%, made good progress against the strategic safety programme and employee engagement index increased from 64% to 75%.
- We outperformed the efficiency targets set for water networks and started the design of a new operating model.
- We improved the reported EBITDA outcome and out-delivered efficiency savings.

Some areas were more challenging:

- We have not made the progress we wanted on reducing customer complaints and overall customer contacts have increased.
- We reduced overall supply interruptions, however, there were two significant incidents that impacted customers in the year.

We have applied discretionary amendments for three measures where targets have been achieved but given the wider performance context it is appropriate to recommend a lower outcome. These included the strategic safety improvement assessment, channel shift and supply interruptions.

The performance outcomes against annual bonus targets are on page 91). The Annual Management Bonus will pay out at 52% of maximum opportunity, which produces a payment of £272,552 and £265,000 for the CEO and CFO respectively.

### Board Changes

We welcomed Sarah Bentley to the Board on 1 September 2020 as Chief Executive Officer (CEO). The remuneration arrangements for Sarah are fully consistent with our remuneration policy, including the alignment of pension entitlement with the wider workforce, equivalent to a contribution of 12% of salary.

Alastair Cochran will join Thames Water as its new Chief Financial Officer following Brandon Rennet's decision to leave the business. Alastair will join the Board and Executive team on 6 September 2021.

### 2021/22 Remuneration

During 2021/22 the remuneration arrangements will continue to be reviewed and we don't anticipate any material changes to the way we implement the policy. We continue to set stretching targets to align all elements of remuneration with the delivery of our Purpose and critical elements of our business plan.

In 2021/22, the Annual Management Bonus scheme will operate in a similar way to 2020/21 with a continued focus on safe people, customer service, customer and environmental delivery, strategic change programmes and financial delivery. We removed the personal performance element for the Executive Directors to focus on our performance/KPIs. The 2021/24 Long Term Incentive Plan (LTIP) award for Executive Directors will operate in a similar way to 2020/23 and includes a withholding period post vesting.

## Remuneration at a glance

### Remuneration policy and structure

Our remuneration policy is designed to attract, retain and motivate our leaders to ensure focus on delivering business priorities within a framework designed to promote the long-term success of Thames Water.

#### Remuneration principles

Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees

The policy should link remuneration to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture

Promote demonstrable links between reward for Executive Directors and performance for customers and shareholders, as well as performance against the Company's environmental targets

Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience

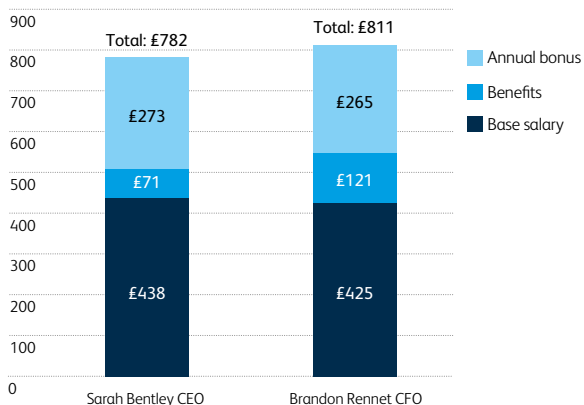
Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives.

#### Remuneration policy

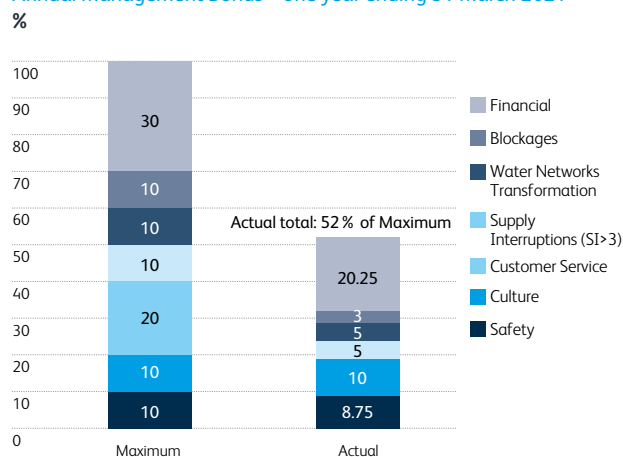
Element	Key elements
<b>Base Salary</b>	Reflects the scope and responsibilities of the role, the skills and experience of the individual and market No cap although increases will not normally exceed average increases for the wider workforce
<b>Pension</b>	Payment to the defined contribution pension schemes or cash in lieu of pension Pension contribution for new Executive Directors are aligned to workforce norms at 12% of salary
<b>Other Benefits</b>	Competitive range of benefits No maximum limit although set to be in line with market and the rest of workforce
<b>Annual Management Bonus</b>	Based on safe people, customer service, customer and environmental delivery, strategic programmes and financial performance over one year Maximum opportunity of 120 per cent of base salary Malus and claw back provisions apply
<b>Long-term incentives</b>	Based on achievement of the performance measures set over three years Maximum opportunity of 200 per cent of base salary A withholding period of up to 2 years Malus and claw back provisions apply

### Remuneration outcomes 2020/21

Total Remuneration for Executive Directors 2020/21  
£'000s



Annual Management Bonus – one year ending 31 March 2021



Key performance indicators (KPIs) performance

	Result	
<b>Safety – Lost Time Incidents Reduction</b>	40% reduction	●
<b>Safety – Strategic Safety Improvement Assessment</b>	100% programmes delivered	●
<b>Culture – Improvement in H4U Engagement Score</b>	75%	●
<b>Customer Complaints</b>	27% increase	●
<b>Channel Shift</b>	26%	●
<b>Supply Interruptions (SI&gt;3)</b>	14 mins 3 sec	●
<b>Water Networks Transformation</b>	On target	●
<b>Blockages</b>	75,000	●
<b>Group EBITDA</b>	£1,052 MN	●
<b>Gross Opex</b>	£78 MN	●

- At or above stretch target
- Between threshold and stretch target
- Below threshold target

## Remuneration at a glance continued

### Remuneration policy and structure continued

#### Approach to remuneration for 2021/22

##### Fixed

**Base salary**  
Individual performance, the external market, and internal and external economic factors

##### Pension allowance

For new hires, 12% of salary aligned with workforce

##### Benefits

- Car allowance
- Insurance

##### Annual bonus

- Safe People
- Customer Service
- Customer & Environmental Delivery
- Strategic Programmes
- Financial

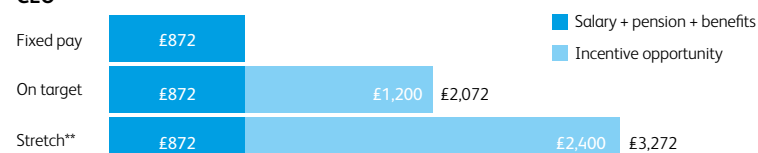
##### LTIP

- Integrated Performance Assessment
- Customer
- Environmental

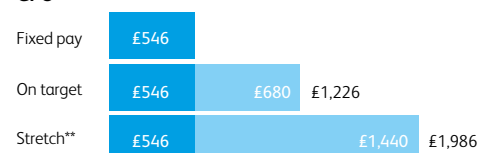
##### Variable

#### Possible outcomes under the Remuneration Policy\*

##### CEO



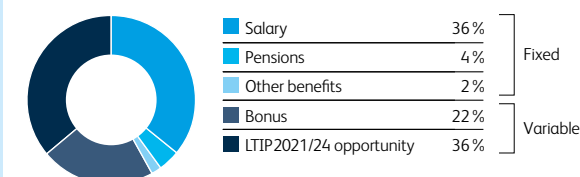
##### CFO



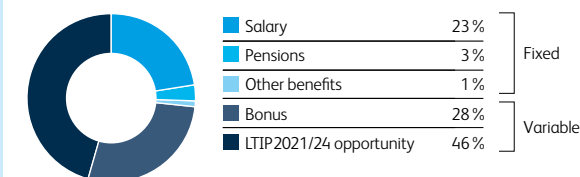
\* Fixed pay is the minimum payable, and is made up of base pay for 2021/22, pension allowance and benefits. For incentive opportunity, the maximum performance results in the maximum Annual Management Bonus (120% of salary). Performance is also shown in the chart at 50% of maximum which results in 50% of maximum payment (60% of salary). For the LTIP, stretch performance results in the maximum payment (200% of salary). On target performance results in 50% of maximum payment (100% of salary).

\*\* All Executive incentives at Thames Water are cash awards. As such, the above chart does not include the impact on the potential value of the package of a 50% appreciation in share price over the LTIP performance period.

#### Elements of CEO remuneration 2021/22 'on target' scenario

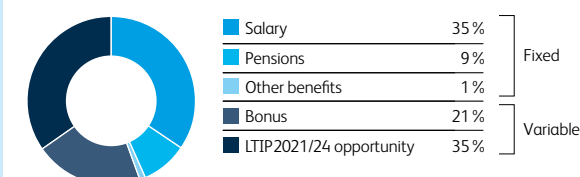


#### Elements of CEO remuneration 2021/22 'stretch' (maximum) scenario

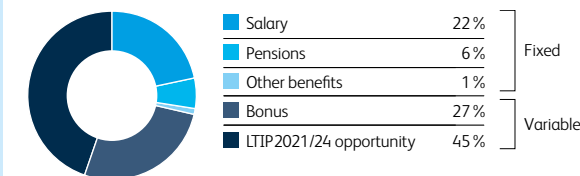


\* based on CEO's 2021/2022 package

#### Elements of CFO remuneration 2021/22 'on target' scenario\*



#### Elements of CFO remuneration 2021/22 'stretch' (maximum) scenario\*



\* based on CFO's 2021/2022 package

#### Summary of Remuneration Policy across wider group

The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases and remuneration arrangements for the Executive Directors. For other Executive team members, the Committee reviews and approves all incentive elements.

During the year, the Committee received periodic updates on wider workforce remuneration matters in line with the UK Corporate Governance Code 2018.

£378m

Total spend on pay

86%

employees due to receive a pay increase

£574 (1.75%)

expected average pay increase

## Annual Report of Remuneration

This section has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and 2008 amendments. The information has been audited as indicated.

### Single total figure of remuneration for Executive and Non-Executive Directors (audited) for 2020/21 and 2019/20

	Salary/Fees £'000		Taxable Benefits £'000		Annual bonus £'000		LTIP £'000		Other £'000		Incentive Recovered £'000		Pension related benefit £'000		Total pay £'000		Total fixed pay £'000		Total variable pay £'000	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>Executive Directors</b>																				
Sarah Bentley <sup>1</sup>	438	–	19	–	273	–	–	–	447	–	–	–	53	–	1,230	–	509	–	720	–
Brandon Rennet <sup>2</sup>	425	413	15	15	265	407	–	530	425	–	(28)	–	106	103	1,208	1,468	546	531	662	937
<b>Executive Chairman</b>																				
Ian Marchant <sup>3</sup>	460	596	–	–	–	–	–	–	–	–	–	–	–	–	460	596	460	596	–	–
<b>Independent Non-Executive Directors</b>																				
Alistair Buchanan <sup>4</sup>	18	70	–	–	–	–	–	–	–	–	–	–	–	–	18	70	18	70	–	–
Nick Land	75	75	–	–	–	–	–	–	–	–	–	–	–	–	75	75	75	75	–	–
Catherine Lynn	70	70	–	–	–	–	–	–	–	–	–	–	–	–	70	70	70	70	–	–
Hannah Nixon <sup>5</sup>	15	n/a	–	–	–	–	–	–	–	–	–	–	–	–	15	–	15	–	–	–
Ian Pearson	70	70	–	–	–	–	–	–	–	–	–	–	–	–	70	70	70	70	–	–
Jill Shedden	70	70	–	–	–	–	–	–	–	–	–	–	–	–	70	70	70	70	–	–
David Waboso	70	70	–	–	–	–	–	–	–	–	–	–	–	–	70	70	70	70	–	–
<b>Non-Executive Directors</b>																				
Paul Donovan	60	45	–	–	–	–	–	–	–	–	–	–	–	–	60	45	60	45	–	–
Michael McNicholas	60	58	–	–	–	–	–	–	–	–	–	–	–	–	60	58	60	58	–	–
John Morea	60	60	–	–	–	–	–	–	–	–	–	–	–	–	60	60	60	60	–	–
Greg Pestrak	60	60	–	–	–	–	–	–	–	–	–	–	–	–	60	60	60	60	–	–
<b>Total</b>	<b>1,951</b>	<b>1,657</b>	<b>34</b>	<b>15</b>	<b>538</b>	<b>407</b>	<b>–</b>	<b>530</b>	<b>872</b>	<b>–</b>	<b>(28)</b>	<b>–</b>	<b>159</b>	<b>103</b>	<b>3,526</b>	<b>2,712</b>	<b>2,144</b>	<b>1,775</b>	<b>1,382</b>	<b>937</b>

1 Sarah Bentley's remuneration for 2020/21 reflects annual salary, other benefits/car allowance of £30,000, annual pension of 12% of salary and around £1,500 for medical benefits prorated to time in office since 1 September 2020. Sarah made a donation of more than £46,000 to the independent Thames Water Trust Fund which was matched by Thames Water in support for our customers in vulnerable circumstances. This fund is an independent grant making trust which helps customers of Thames Water who are in difficult circumstances, including relating to the impact of Covid-19. As reported in last year's report, Sarah was granted awards to replace unvested awards which were forfeited as a result of her leaving Severn Trent. The payment of around £447,000 in the table includes £314,935 which relates to Sarah's 2019/20 annual bonus forfeited and £132,014 as compensation for the proportion forfeited for the 2020/21 annual bonus.

2 Brandon Rennet's remuneration for 2020/21 reflects annual salary, car allowance £12,500, annual pension of 25% of salary and around £2,500 for medical benefits. Brandon donated more than £26,000 to the independent Thames Water Trust Fund. As reported in 2019/20, Brandon was granted an additional incentive of 100% of base salary (£425,000) to recognise the material additional responsibilities undertaken to support the Interim Executive Chairman during the period of transition to a new CEO. This payment was made on condition that he remained in employment until 30 June 2020 or six months following the appointment of a new CEO. The payment was made to him in July 2020. Following a leakage measurement error during the year, £28,050 will be deducted from Brandon's Annual Management Bonus payment this year. Leakage was a component of the 2018-2020 Transformation Incentive that matured last year. For more information, see the Annual Management Bonus (audited) on page 92.

3 Ian Marchant's remuneration for 2020/21 reflects annual salary (£650,000 for 5 months to reflect his role as Interim Executive Chairman and £325,000 for 7 months when he resumed his role as Non-Executive Chairman). Ian donated more than £33,000 to the independent Thames Water Trust Fund.

4 Alistair Buchanan's fee pro-rated to end of contract date 3 July 2020.

5 Hannah Nixon's fee from appointment date 14 January 2021.

### Arrangements for Sarah Bentley

Sarah joined Thames Water on 1 September 2020 as Chief Executive Officer. All pay and benefits have been set in line with the current Remuneration Policy. Sarah's CEO base salary has been set at a level that the Committee regards as appropriate for the size and scope of the role. In line with the remuneration policy, Sarah's pension contribution of 12% of salary is aligned to the wider employee population. Sarah also receives other benefits including car allowance, private medical cover and life assurance.



## Annual Report of Remuneration continued

As part of Sarah's offer of employment, Thames Water committed to make payments to compensate for bonus' and unvested awards which were forfeited when she left Severn Trent. A payment of £314,935 was paid in September 2020 which relates to Sarah's forfeited 2019/20 annual bonus as confirmed by Severn Trent. A payment of £132,014, as compensation for the proportion forfeited for the 2020/21 annual bonus, will be payable in July 2021 and a further payment of £502,016, as compensation for the forfeited 2018 LTIP, will be payable on her first anniversary in September 2021. The buyout of a long term incentive award of around £940,000 payable in July 2022 is subject to performance conditions covering Thames Water's return on regulatory equity (RORE), Customer Service performance, Customer Delivery and Environmental performance over the period 1 April 2020 to 31 March 2022. In determining the structure and level of the buyout arrangements, the Committee took account of relevant factors including performance conditions attaching to forfeited awards, the likelihood of the awards vesting and the form and timing of the awards.

The total Executive Directors remuneration reflects the total work completed; however, this is paid proportionately from different entities to recognise the work that they do for the wider group outside of the Thames Water Utilities Ltd. entity. Kemble Holdings Ltd. is fully funded by shareholders. Of the total Executive Directors' remuneration of £2,436,883 (2020: £1,664,000), £1,827,663 (2020: £1,248,000) is for the Executive Directors for their services to Thames Water Utilities Limited and has been disclosed within note 4 to the financial statements. In addition, the Executive Directors received total remuneration of £609,211 (2020: £416,000) for their services to other companies within the Kemble Water Holdings Limited Group. No operational distinction is made between services provided by the Directors to one or the other.

### Additional requirements in respect of the single total remuneration figure table

#### Base salary (audited)

Base salaries are a fixed sum payable monthly in arrears. For the Executive Directors, these are reviewed every year, taking into account their individual performance, the external market and internal and external economic factors, with any changes taking effect from 1 July each year.

**Chief Executive Officer (CEO):** Sarah's base salary is £750,000 per annum.

**Chief Financial Officer (CFO):** Brandon's base salary is £425,000 and has remained at the same level as at the end of 2019/20 as there were no salary increases for managerial levels during the year.

#### Benefits

For Sarah, benefits include private medical insurance and other benefits/car allowance of £30,000 per annum.

For Brandon, benefits are unchanged from 2019/20. These benefits are private medical insurance and a car allowance of £12,500 per annum.

#### Annual Management Bonus (audited)

For 2020/21, all managers, excluding Ian Marchant, were eligible to participate in the Annual Management Bonus scheme. The maximum opportunity for Executive Directors was 120% of salary. The performance period was 1 April 2020 to 31 March 2021 with payment in July 2021. The scheme was assessed by the Remuneration Committee and approved by the Board against a number of performance areas as follows:

Bonus Element	Objective Measure	Element as % of Total Bonus Opportunity	Threshold	Target	Stretch	Approve Outcome	% Bonus payable
Safe People	Safety – Lost Time Injuries Reduction		10%	20%	30%	40% reduction	5%
	Safety – Strategic Safety Improvement Assessment	10%	80% delivered	100% delivered	>100% delivered	100% programmes delivered	3.75%
	Culture – Improvement in H4U Engagement Score	10%	70%	72%	74%	75%	10%
Customer Service	Customer Complaints	10%	-10%	-15%	-20%	27% increase	0%
	Drive channel shift (improve core processes, complaints, CSAT)	10%	20%	25%	30%	26%	0%
	End-year exit rate reduction of voice to other digital channels						
Customer & Environmental Delivery	Supply Interruptions (SI>3)	10%	12 mins	10 mins 30 secs	9 mins 26 secs	14 mins 3 secs	5%
	Water Networks Transformation	10%	TOM proven in pilot	TOM and benefits approved	TOM approved, contracts awarded, transition complete	TOM and benefits approved	5%
	Blockages	10%	76,000	75,000	72,500	75,000 (subject to audit)	3%
Financial	Group EBITDA	15%	£1,030m	£1,040m	£1,060m	£1,052m	12%
	Gross OPEX annualised run rate achieved through actions taken by 31 March 2021	15%	£66m	£76m	£96m	£78m	8.25%
<b>Total</b>		<b>100%</b>				<b>Outcome as % of maximum bonus</b>	<b>52.0%</b>

## Annual Report of Remuneration continued

Sarah and Brandon will receive an Annual Management Bonus pay out at 52% of the maximum. Sarah has a personal element of 30% in respect of the 2020/21 Annual Management Bonus scheme. There is no personal element for Brandon. Sarah has been assessed at above target (78%) for her personal element, but she has agreed to forfeit this element in order to be aligned with all other managers with the overall outcome of 52% of maximum. This represents a reduction in her overall annual bonus payment of about £41,000.

Applying the 52% of maximum outcome produces a payment of £272,552 and £265,000 for Sarah and Brandon respectively. Sarah's payment has been prorated to her time in role as CEO since 1 September 2020. These payments will be made in July 2021 at the same time as bonus payments for all other managers.

In 2019/20 we reported actual leakage of 595MI/d which was ahead of our target of 606MI/d. Leakage was a component of the 2018-20 transformation incentive scheme that matured last year and the payment made at the time was based on our reported leakage position of 595MI/d. Through the course of this year, as part of our data assurance processes, we found an error in a small proportion of the data we used to calculate leakage and that has meant we've had to revise our reported leakage last year to 600MI/d. The change to 600MI/d represents a 5MI/d variance in the leakage outcome and because of this, we're retrospectively reducing the payments for 2019/20 for the three members of the current Executive team who participated in the scheme. For Brandon, £28,050 will be deducted from this year's Annual Management Bonus payment. Sarah did not participate in the 2018-2020 Transformation Incentive as she started with Thames Water on 1 September 2020.

### Long Term Incentive Plan ("LTIP") (audited)

There is no LTIP payment due for the period 2020/21.

### Total pension entitlements (audited)

The Executive Directors are currently eligible to participate in our defined contribution pension scheme, with Thames Water making contributions up to a maximum of 12% of base salary, for those appointed after 1 July 2019, to align with the wider workforce. No element of Annual Management Bonus or LTIP is pensionable. Executive Directors may choose to receive a cash allowance in lieu of pension contributions.

For 2020/21, Sarah and Brandon elected to receive a cash allowance. Sarah's pension allowance was 12% of base salary and Brandon's pension allowance was 25% of base salary. None of the Executive Directors participate in either of the defined benefit pension schemes.

### Executive Directors' service contracts

All Executive Directors have service contracts which may be terminated by Thames Water with 12 months' notice and the individual giving 6 months' notice. The dates of the contracts for the Executive Directors and their notice periods are set out below. There is no maximum or minimum service period for any of the Executive Directors.

	Contract start date	Notice period (by individual/Thames Water)
Sarah Bentley, CEO	1 September 2020	6 months/12 months
Brandon Rennet, CFO	13 March 2017	6 months/12 months

### Payment for loss of office (audited)

There were no payments for loss of office in the year.

As indicated earlier in the report, Brandon will be stepping down as an Executive Director from the Board and the role of Chief Financial Officer on 30 September 2021. In accordance with our Remuneration Policy, Brandon will continue to receive his current contractual entitlements (base salary, pension and car allowance) through to his departure. Any payments made to Brandon for loss of office will be disclosed in the 2021/22 Annual Report.

### Payments to past Directors (audited)

There were no payments to past Directors in the year.

### Percentage change in remuneration of Directors and employees

The percentage change in remuneration between 2020/21 and 2019/20, excluding LTIP for the CEO, CFO, Non-Executive Directors and for the average of all other employees was as follows:

	Percentage change 2020/21		
	Base salary/ Fee	Taxable Benefits	Annual Bonus
<b>Executive Directors</b>			
Sarah Bentley, CEO	n/a	n/a	n/a
Brandon Rennet, CFO	0%	0%	(34.9%)
<b>Executive Chairman</b>			
Ian Marchant	(50%)	–	–
<b>Non-Executive Directors</b>			
Alistair Buchanan	0%	–	–
Nick Land	0%	–	–
Catherine Lynn	0%	–	–
Hannah Nixon	n/a	n/a	n/a
Ian Pearson	0%	–	–
Jill Shedden	0%	–	–
David Waboso	0%	–	–
Paul Donovan	0%	–	–
Michael McNicholas	0%	–	–
John Morea	0%	–	–
Greg Pestrak	0%	–	–
<b>Employee population</b>	2.6%	10%	0.3%

Salary, fee and benefits are annualised.

Sarah Bentley started in her role as CEO on 1 September 2020 and therefore no comparison to 2019/20 is available.

Brandon Rennet's decline in bonus is due to the outcomes of the Annual Management Bonus plan over 2019/20 and 2020/21.

Ian Marchant's fee decline relates to the change in role from Interim Executive Chairman in 2019/20 to Non-Executive Chairman in 2020/21, following the arrival of Sarah Bentley as the new CEO. Ian's fee has been annualised for comparison. Ian is not eligible for any benefits or bonus.

Non-Executive Directors are not eligible for benefits or annual bonus.

Hannah Nixon was appointed on the Board in 2021 and therefore no comparison to 2019/20 is available.

The employee percentages shown represent the change in average employee pay, benefits and annual bonus. This compares the average employee on 31 March of the relevant financial year with the average employee on 31 March of the preceding financial year. For annual bonus, this applies to the Annual Management Bonus plan where all managers, excluding the Executive Chairman, are eligible to participate in this plan.

The percentage change in benefits is due to increased employer contribution rates in respect of the two defined benefit pension schemes following the outcome of the 2019 actuarial valuation and a premium increase in private medical insurance.

## Annual Report of Remuneration continued

### Ratio of CEO remuneration to workforce

This table shows the pay ratio between the CEO and Thames Water employees. This includes all remuneration such as overtime, long service awards and benefits. The table below provides the ratio between the CEO single figure total remuneration and the median, 25th and 75th percentile total remuneration of all Thames Water's full-time equivalent UK employees on 31 March 2021.

The pay ratio calculation shows that in total remuneration terms, the CEO earns 25 times that of the median employee. This year's median pay ratio takes into consideration the change in CEO during 2020/21, with Ian Marchant's pro-rated fee as Interim Executive Chairman for 5 months and Sarah Bentley as CEO for 7 months. Ian was not eligible for pension, benefits or any incentive payments in his role as Interim Executive Chairman. The Committee will keep the published pay ratio under review.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	34:1	25:1	18:1
2020	Option A	25:1	19:1	14:1
2019	Option A	29:1	21:1	15:1

### Notes

We are using Option A as defined in the Companies (Miscellaneous Reporting) Regulations 2018.

In calculating the CEO data, we have used an aggregated figure which is the sum of the amount shown in the single figure table for Sarah Bentley in respect of the start of her services from 1 September 2020, and the pro rata fees paid to Ian Marchant in his role as Interim Executive Chairman for the period 1 April 2020 to 31 August 2021. This approach is consistent with legislative requirements.

Total remuneration reflects all remuneration including salary, benefits, employer pension contributions and incentives. Of the three alternatives available for calculating the ratio, we chose to use Option A as it is considered to be the most accurate way of identifying employees at P25, P50 and P75. Under this approach we calculate total remuneration on a full-time equivalent basis for all of our UK employees as at 31 March 2021 and rank them accordingly. No adjustments have been made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration.

Here are the total pay and benefits for the employees at the 25th, 50th and 75th percentiles and the salary component of total pay and benefits for these employees.

Year	Method	25th percentile	50th percentile	75th percentile
2021	Salary	23,351	32,777	43,751
	Total pay and benefits	30,951	43,048	57,174

### Workforce Engagement

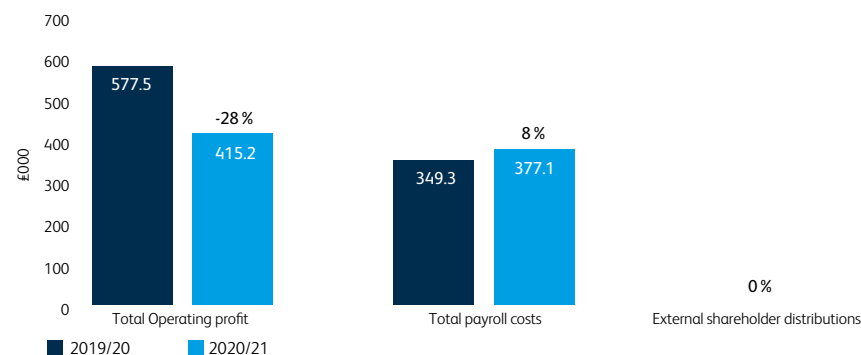
In line with the Corporate Governance Code, the Board appointed Ian Pearson in 2019/20 as the Non-Executive Director Workforce Engagement Lead responsible for engagement with the workforce. Ian, together with other Non-Executive Directors, has continued to listen and talk to the wider workforce at all levels across the business. This feedback from the frontline, on a range of subjects, including the remuneration policy and how this impacts our culture, informs Board decision-making.

We also engage with our employees by delivering a personalised total reward statement each year showing the total value of earnings over the year including salary, employer pension contributions, plus details of the benefits, such as annual leave as well as the wide range of discretionary benefits.

The Remuneration Committee invites the HR Director to present proposals for the annual salary review for managers and employees (including the Executive Team) each year. The Committee takes into account remuneration arrangements for the wider employee population when approving the salary increases and incentive payments for the Executive Directors. The Committee also reviews incentives across the company to ensure alignment with purpose, values and culture. In 2020/21, there were no base salary increases for manager levels, and non-managerial employees received an average of 2.4% increase.

### Relative importance of spend on pay

Here is the change in total operating profit, external shareholder distributions and overall spend on pay for 2020/21.



Shareholder dividends are those made to external shareholders of the Kemble Water Holdings Limited group in respect of the relevant financial year. The Directors believe that this is the most relevant measure to use as a comparison. No distributions were made to external shareholders relating to 2020/21 (2019/20: £nil).

### Consideration of the views of other stakeholders

Thames Water is a private organisation, with external shareholder representation on the Board of Directors and its committees (including the Remuneration Committee). This governance structure ensures that the Committee's decision-making is subject to the direct input of shareholder representatives and can take into account the views of other shareholders as part of the normal course of business. The Committee reviews executive remuneration at Thames Water in the context of developments in the wider remuneration governance landscape, including trends in generally-accepted best practice, the views of the wider investment community and their representative bodies, as well as those of our regulator, Ofwat.

We also engage throughout the year with other stakeholders, such as the CCG, non-governmental organisations (NGOs) and community groups, on what's important to them, and these help to form our views when determining the incentive plan performance targets each year.

## Implementation of our Remuneration policy in 2021/22

The Committee has reviewed current base pay arrangements and agreed that there would be no change to base pay for Executive Directors and Non-Executive Director fees (see page 95). The Committee and the Executive team have agreed that there will be no change to base pay for managerial roles during 2021/22 and we are proposing a modest inflationary increase for front line employees.

### Remuneration for Alastair Cochran

We welcome the arrival of our new Chief Financial Officer, Alastair Cochran over the coming months. A summary of Alastair's remuneration from appointment (expected to be 1 September 2021) is set out below:

#### Element of remuneration

<b>Base salary</b>	£450,000 per annum
<b>Pension</b>	A contribution of 12% of salary (in line with the wider employee population)
<b>Benefits</b>	Car allowance, private medical insurance and life assurance
<b>Annual Management Bonus</b>	For 2021/22, a maximum opportunity of 120% of salary
<b>LTIP</b>	For the 2020/23 and 2021/24 cycles, a maximum opportunity of 200% of salary

In addition, and consistent with the provisions of our Remuneration Policy, the Committee agreed to replace inflight incentive awards that were forfeited by Alastair on him joining Thames Water. Details of this buyout award will be finalised in due course, and disclosed in next year's Annual Report.

### Annual Management Bonus 2021/22

In 2021/22, the Annual Management Bonus scheme will operate in a similar way to the previous year with a continued focus on customer service and customer delivery. Reducing customer complaints is one of our KPIs and key to improving customer service performance.

Details of the 2020/21 Annual Management Bonus measures, including the targets for Executive Directors, are below. The on-target bonus opportunity for Executive Directors will be 60% of the maximum opportunity. The maximum opportunity for 2020/21 for Executive Directors will be 120% of salary. In all cases total incentive opportunity remains below the cap in the remuneration policy.

Bonus Element	Objective Measure	Element as % of Total Bonus Opportunity	Threshold	Target	Stretch
Safe People	Safety – Lost Time Incidents Rate	10%	5%	10%	20%
	Culture – Employee Engagement Index		75%	77%	79%
Customer Service	Reduce Customer Complaints	25%	20%	25%	30%
	Reduction in Customer Contacts (calls, emails, letters)		20%	25%	30%
Strategic programmes (fix the Basics/ Turnaround Plan)	Stakeholder Engagement and Transparency	5%	3.00	3.10	3.20
	Delivery of turnaround plan milestones	5%	70%	80%	100%
Customer & Environmental Delivery	Supply Interruptions (SI>3)	10%	10 mins 28 mins	9 mins 26 secs	8 mins 26 secs
	Blockages	7.5%	75,000	72,500	68,000
	Flooding Incidents	7.5%	1,145	1,025	941
Financial	Cash Collection % – Current Year	30%	86.7%	88.2%	89.2%
	Opex Spend		£1,175m	£1,160m	£1,150m
	Gross OPEX Efficiency (in year)		£62m	£72m	£82m
	Capex Efficiency		TBA	TBA	TBA
<b>Total</b>		<b>100%</b>			

### Long Term Incentive Plan (LTIP) 2021/24

The LTIP 2021/24 will operate in a similar way to the previous year with a continued focus on delivering critical elements of our stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customer, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollutions.

The incentive recommended by the Committee and approved by the Board is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. All Executive Directors including the CEO (as well as other selected Executives and Senior Managers) are eligible to participate in the scheme. For the 2021/24 cycle, the ontarget pay out for the Executive Directors will be 100% of salary, with a maximum pay out of 200% of salary for delivery of stretch targets.



## Implementation of our Remuneration policy in 2021/22 continued

Bonus Element	Objective Measure	Element as % of Total Bonus Opportunity	Threshold	Target	Stretch	Multiplier
Integrated Performance Assessment	Return on Regulated Earnings (RORE) (3 yr average)	50%	2.04%	2.65%	3.89%	Fixing the Basics/ Turnaround Plan RORE Outcome adjusted +/- 50%
Additional Customer Elements	C-MEX Leakage (3 yr average MI/d)	12.5%	15th	14th	13th	Final outcome = Adjusted RORE +
Additional Environmental Elements	Water Quality Compliance Pollutions (Cat 1 to 3) Incidents & Incidents/10k km	12.5% 12.5%	2.48 245 22.4 per 10,000 km	1.98 235 21.5 per 10,000 km	1.48 214 19.5 per 10,000 km	Customer + Environment Capped at 100% of maximum incentive
<b>Total</b>		<b>100%</b>				

The application of a “multiplier” for the Integrated Performance Assessment element was included in the LTIP 2020/23 and will be included in the LTIP 2021/24. This will have the effect of adjusting any outturn under this element by up to plus or minus 50% change depending on an assessment of Thames Water’s performance against delivery of the defined turnaround plan. This plan looks at three main components (i) Fix the Basics, (ii) Raise the Bar, (iii) Shape the Future. More information on the turnaround plan can be found in Sarah’s statement on page 4. The customer and environmental elements are unaffected by this multiplier and the overall payment will be capped at 100% of maximum incentive.

The multiplier is intended to ensure that participants focus on (i) delivering Integrated Performance Assessment outcomes (ii) achievement of critical transformational changes through the turnaround plan and (iii) out-performing stretching customer and environment targets. The qualitative assessment of the multiplier will be at the Committee’s discretion, based on the achievement of outcomes associated with the Turnaround plan.

### Non-Executive Directors annual fees (audited)

The fees for the Chairman and Non-Executive Directors were reviewed in March 2021 and remained at their current level. Here are the Non-Executive Director Fees effective from 1 July 2020:

	Total annual fees 01/07/2021	Total annual fees 01/07/2020	Percentage increase
Non-Executive Chairman*	£325,000	£325,000	0%
Independent NED/NED (non-committee member)	£50,000	£50,000	0%
Independent NED/NED (committee member)	£60,000	£60,000	0%
Chair of the Customer Service Committee/Remuneration Committee/Health, Safety & Environment/Regulatory Strategy Committee/Workforce Engagement Lead Director	£70,000	£70,000	0%
Chair of the Audit, Risk and Reporting Committee	£75,000	£75,000	0%

\* The Non-Executive Chairman’s annual fee reverted to £325,000 following the arrival of the new Chief Executive Officer in September 2020.

## Remuneration Committee

### Members and attendance

The Remuneration Committee (Committee) is chaired by Jill Shedden and consists of a mix of independent Non-Executive Directors and Non-Executive Directors. The attendance of the members of the Committee during the year is shown on page 87.

### The role of the Committee

The role of the Committee is to make recommendations to the Board regarding the remuneration strategy and framework to make sure that the Executive Directors and senior management, including the Executive Team, are appropriately rewarded for their contribution to the Thames Water’s performance. The Committee applies good corporate governance by taking into account regulatory requirements, the UK Corporate Governance Code and any corporate governance principles issued by our regulator, Ofwat.

The Committee is responsible for setting remuneration policy and practices that are designed to support strategy and promote the long-term success of Thames Water whilst following the below principles:

- Clarity – remuneration arrangements are transparent and promote effective engagement with stakeholders and Thames Water colleagues
- Simplicity – remuneration structures are uncomplicated with easy to understand rationale and operation
- Risk – reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans are identified and mitigated
- Predictability – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy
- Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of Thames Water is clear and that outcomes do not reward poor performance
- Alignment to culture – incentive schemes drive behaviours consistent with Thames Water’s purpose, values and strategy.
- The Committee’s activities cover a range of subjects including short term incentives, long term incentives, pay and succession planning.

### Support to the Committee

To ensure that Thames Water’s remuneration policy and practice is in line with best practice, the Committee has appointed independent, external remuneration advisers, Mercer-Kepler. This appointment took place in 2019 following a selection process. Mercer-Kepler attend meetings of the Committee by invitation. The HR Director and the Head of Reward and Pensions also attend Committee meetings to provide advice and respond to specific questions. Such attendances specifically exclude any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

Fees for advice provided by Mercer-Kepler to the Committee during the year were in the region of £47,000 including VAT on the basis on time and materials. The Committee is satisfied that the advice they received from external advisers is objective and independent.

The Remuneration Committee report was approved by the Board on 5 July 2021, and signed on its behalf by:

**Jill Shedden**  
Chair, Remuneration Committee

## Appendix 1: Summary of Executive Directors' remuneration policy

### Remuneration Framework

The overarching remuneration framework is designed to offer an appropriate mix of fixed and variable pay elements which, as a total remuneration package, attract, retain and motivate talented senior leaders to deliver great outcomes for our customers, shareholders and other stakeholders. At the same time, the package is designed to ensure a balance between appropriate risk taking and careful stewardship.

The core underlying principles for remuneration at Thames Water are outlined below:

- Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees
- The policy should link remuneration to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture

- Promote demonstrable links between reward for Executive Directors and performance for customers and shareholders, as well as performance against the Company's environmental targets
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account an individual's contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives.

The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases and remuneration arrangements for the Executive Directors.

### Fixed remuneration

The table below breaks down the policy that applies to Executive Directors:

Element of remuneration	Operation	Maximum opportunity	Performance conditions
<b>Base salary</b> <b>Purpose and link to strategy</b> Attracting and retaining Executive Directors of the calibre required to deliver our strategy. Base salary reflects the scope and responsibilities of the role and the skills and experience of the individual.	Base salaries reflect the scope and responsibilities of the role and the skills and experience of the individual as well as the external market. Base salaries are paid in cash.  Base salaries are reviewed annually by the Committee, considering individual performance, the external market and internal and external economic factors. Changes are usually effective from 1 July.	There is no maximum salary increase. Although annual salary increases will not normally exceed average increases for the wider workforce, the Committee retains the flexibility to award larger increases in certain circumstances including, but not limited to: <ul style="list-style-type: none"> <li>• where role scope has changed;</li> <li>• as part of salary progression for newly appointed Executive Directors, where the salary level is set below the market reference salary at the time of appointment, with the intention of bringing the salary level in line with the market as the individual gains the relevant experience; and</li> <li>• where market conditions indicate a level of under-competitiveness in the context of an Executive Director's performance and/or contribution.</li> </ul>	None
<b>Benefits</b> <b>Purpose and link to strategy</b> Supporting health and wellbeing to enable the Executive Director to focus on delivering performance for shareholders and other key stakeholders and to provide a competitive package of benefits that is aligned with market practice.	The Company provides a range of market competitive benefits to Executive Directors that is aligned with that offered to our managers more widely, including (but not limited to) a car allowance, private medical insurance, and other insurance benefits such as group income protection, life assurance and where appropriate relocation and housing costs.  The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it can support the objective of attracting and retaining personnel to deliver our strategy.	There is no set maximum. Benefits will be provided at a rate commensurate with the market and the level that is offered to employees.  The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically in line with benefits of other employees at least every three years.	None

## Appendix 1: Summary of Executive Directors' remuneration policy continued

Element of remuneration	Operation	Maximum opportunity	Performance conditions
<b>Pension allowance</b> <b>Purpose and link to strategy</b> Attracting and retaining high calibre Executive Directors through the provision of cost-effective saving benefits for retirement, aligned to the workforce.	Participation in our defined contribution pension scheme, or cash payments in lieu of pension contributions, payable in monthly instalments during the year, directly to the individual or into the pension scheme.	The company contribution to the defined contribution pension scheme and/or cash allowance will be up to a maximum of 12% of base salary, in line with the level of contribution offered to the wider workforce.	None

### Variable remuneration (in addition to "Fixed remuneration" elements above)

The total remuneration package is designed to ensure that a significant portion of the maximum opportunity for any Executive Director is at risk if key performance targets are not met. The design of the short-term and long-term incentives mean that the majority of an Executive Director's total remuneration is dependent upon performance and delivered over a three- to five-year period.

The aggregate maximum incentive opportunity that shall be eligible to be awarded in any year to an Executive Director from the Annual Management Bonus and any longer-term incentive shall not exceed 320% of salary (whereby 120% is the maximum opportunity for the Annual Management Bonus and 200% is the maximum opportunity for long term incentive plan (LTIP) awards). However, to reflect the nature of the Company's strategy and/or the evolution of its performance horizon over each Asset Management Plan period, the relative split of this aggregate incentive opportunity between the Annual Management Bonus and any longer-term incentive may vary from year to year.

## Appendix 1: Summary of Executive Directors' remuneration policy continued

Element of remuneration	Operation	Maximum opportunity	Performance conditions
<b>Annual Management Bonus</b> <b>Purpose and link to strategy</b> To motivate and incentivise the Executive Directors to achieve the Company's key annual financial, customer and operational priorities, providing a direct link between annual performance and reward.	<p>Bonuses are based on customer service, customer and environmental delivery, business culture, safety and financial performance, over a performance period of one financial year and are paid in cash.</p> <p>The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework.</p> <p>Targets are set to deliver stretching performance for customers and other stakeholders, considering: the operating environment and priorities; customer, shareholder and regulatory expectations; and the business plan for the year ahead.</p> <p>Other than in exceptional circumstances (e.g. a turnaround situation) bonus payments above target (50% of maximum) will only be paid out for performance above business plan.</p> <p>Clawback provisions apply for a period of two years after any payment is made, in the event of financial misstatement, error in calculation, or gross misconduct.</p>	<p>The maximum annual bonus opportunity shall be agreed by the Committee at the start of each year, subject to the aggregate incentive award opportunity limit set out above this table (i.e. taking into account the opportunity awarded under any longer-term incentive plan).</p> <p>The on-target opportunity shall be no more than 50% of the maximum opportunity. The pay-out for meeting the threshold performance level set by the Committee shall normally not be more than 25% of the maximum award opportunity. The maximum opportunity is 120% of salary.</p> <p><b>Committee Discretion</b>            Any payment remains subject to the absolute discretion of the Board to reduce it in whole or in part. If overall performance is not satisfactory, the award for any year may be reduced or forfeited, at the absolute discretion of the Committee and Board.</p> <p>In exceptional circumstances, the Committee retains the discretion to:</p> <ul style="list-style-type: none"> <li>• Change the performance measures and targets and the weighting attached to them part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings or targets are no longer appropriate; and</li> <li>• Make downward or upward adjustments to the amount of bonus resulting from the application of the performance conditions, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.</li> </ul>	<p>The annual weighting of the bonus measures may vary depending on the key priorities of the business for the year ahead.</p> <p>Details of the measures for the 2021/22 Annual Management Bonus plan are on page 94.</p>



## Appendix 1: Summary of Executive Directors' remuneration policy continued

Element of remuneration	Operation	Maximum opportunity	Performance conditions
<p><b>Longer-term Incentive (e.g. LTIP)</b>  <b>Purpose and link to strategy</b></p> <p>Incentive schemes with performance periods longer than one-year, incentivising performance that is aligned to the business strategy over the longer term and the creation of stakeholder value. These schemes act as a tool to retain and incentivise executives to deliver the long-term business strategy.</p>	<p>Executive Directors are eligible to participate in the LTIP. This is a non-contractual, discretionary scheme.</p> <p>The Committee considers annually whether it will make an award under the LTIP, the performance period for which will normally be three financial years other than in exceptional circumstances.</p> <p>The award will normally vest three years after the date of grant subject to the achievement of the performance conditions and will be paid in cash. The Committee may recommend, and the Board may approve, alternative arrangements (e.g. with a shorter or longer performance and/or vesting horizon) where a three year LTIP is not viewed as appropriate in the context of the Company's strategy and/or regulatory framework.</p> <p>Clawback provisions apply for a period of two years after any payment is made, in the event of financial misstatement, error in the calculation or gross misconduct.</p> <p>For awards granted from 1 April 2020 onwards, a withholding period may apply to vested awards for an additional period of up to two years following the end of the performance period. The structure of any withholding period will be communicated to participants at the time of grant and detailed in the Annual Report on Remuneration. Vested but withheld payments are normally not subject to forfeiture if an individual leaves Thames Water during the withholding period.</p>	<p>The on target and maximum annual potential opportunities shall be agreed by the Committee at the start of each year, subject to the aggregate incentive award opportunity limit set out above this table (i.e. taking into account the award opportunity under the Annual Management Bonus).</p> <p>The on-target opportunity shall be no more than 50% of the maximum opportunity; the pay-out for meeting the threshold performance level set by the Committee shall normally not be more than 25% of the maximum award opportunity. The maximum opportunity is 200% of salary.</p> <p><b>Committee Discretion</b></p> <p>Any payment remains subject to the absolute discretion of the Board to reduce it in whole or in part. If overall performance is not satisfactory, the award for any year may be reduced or forfeited, at the absolute discretion of the Committee and Board.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> <li>• Change the performance measures and targets and the weighting attached to the performance measures and targets part way through the performance period if there is a significant and material event which causes the Committee to believe the original measures, weightings or targets are no longer appropriate; and</li> <li>• Make downward or upward adjustments to the level of incentive pay-out resulting from the application of the performance conditions, if the Committee believes that the outcome is not a fair and accurate reflection of business performance; and</li> <li>• Reduce (in part or in whole) or cancel vested but withheld payments during the withholding period.</li> </ul>	<p>The performance measures, weightings and targets will be determined and approved by the Committee at the start of each cycle, taking into account shareholder, customer and regulatory expectations.</p> <p>Details of the measures of the 2021/24 LTIP are on page 95.</p>

## Appendix 1: Summary of Executive Directors' remuneration policy continued

### Chairman and Non-Executive Directors

The policy for the Chairman's fee is determined by the Remuneration Committee (without the Chairman present). The remuneration policy for other Non-Executive Directors is determined by the Chairman and Executive Directors in conjunction with the Committee.

Element of remuneration	Operation	Maximum opportunity	Performance conditions
<b>Fee</b> <b>Purpose and link to strategy</b> To recruit and retain Non-Executive Directors of a suitable calibre with a broad range of relevant experience and skills to oversee the performance of the Company and the implementation of our strategy	<p>Annual fees are paid in cash throughout the year and are reviewed every three years (but not necessarily increased). The fees for the Non-Executive Directors and Chairman are set considering the time commitment of the role and market rates in companies of a similar scale and complexity and requiring a similar time commitment. Any fee changes are normally effective from 1 July.</p> <p>Additional allowances are made available to Non-Executive Directors where appropriate, such as chairing or being a member of a Committee. This is to reflect any additional time commitment or duties.</p> <p>In the event of hiring a new Non-Executive Director, the Committee will align the fee structure with the Remuneration Policy in force at that time.</p>	<p>This policy does not set a fee limit.</p> <p>Details of the current fee levels for the Chairman and Non-Executive Directors are set out on page 95.</p>	None
<b>Other items</b>	<p>Non-Executive Directors are not eligible to receive further benefits, do not participate in any performance related arrangements and do not participate in the Thames Water pension plans.</p> <p>All reasonable travel and other expenses incurred by Non-Executive Directors when performing their duties are considered to be business expenses and are reimbursed together with any tax payable.</p>	—	None

## Appendix 1: Summary of Executive Directors' remuneration policy continued

### Notes to Policy Tables

#### Setting pay levels and principles

A basic principle of this policy is to offer remuneration commensurate with packages provided by other companies of similar size and complexity, taking into account an individual's contribution and experience. To fulfil this principle, we benchmark all remuneration elements (including basic salary, benefits, pension, short-term and long-term incentives) periodically against a basket of comparator groups, including:

- Other water and sewerage companies (WASCs)
- FTSE-listed companies ranked 50 to 100 (excluding Financial Services)
- A bespoke group of companies of similar size and complexity.

#### Clawback and Withholding provisions

Clawback provisions apply to the Executive Directors' incentive arrangements. The Committee has discretion to reclaim or claw back some (or all) of the incentive awards paid to individuals for up to two years following payment with respect to the Annual Management Bonus and LTIP. Circumstances in which the Committee may apply clawback include, but are not limited to, a material misstatement, any error in the calculation of an award or an error in the underlying results that leads to an overpayment of any bonus or incentive payment, or material misconduct.

To enhance the long-term alignment between customers, stakeholders and Executive Directors' interests, LTIP awards granted after 1 April 2020 may be required to be withheld for an additional period of up to two years following the end of the performance period. During the vesting and withholding periods, the Committee shall have the discretionary powers to adjust the value of the awards or cancel the awards in certain circumstances ('malus').

#### Remuneration Committee discretion

All elements within the policy are subject to the discretion of the Committee. In relation to incentives, the Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretion available to the Committee covers aspects such as:

- The timing of the grant and vesting of awards
- Performance criteria and targets
- Determining the size of the award
- Determining the outcome of an award
- The treatment of leavers
- Retrospective adjustment of awards, and
- In exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so.

All assessments of performance are ultimately subject to the Committee's judgement. Where any discretion is exercised, the fact and the rationale will normally be disclosed in the relevant Annual Report on Remuneration.

### Approach to remuneration on recruitment

#### Executive Directors

The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment.

The remuneration package offered will be in line with the market and will be no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements, and be subject to the same constraints, as those for existing Executive Directors (as set out on page 96 – 99 of this report).

Element	Policy and Operation
<b>Base salary</b>	Salaries set by the Committee taking into consideration factors including the current pay for other Executive Directors, the experience, skill and current pay level of the individual and the external market.
<b>Benefits</b>	The Committee will offer a benefits package in line with our benefits policy for Executive Directors.
<b>Pension</b>	Maximum contribution in line with our policy.
<b>Incentive opportunity</b>	The aggregate maximum incentive opportunity that shall be eligible to be awarded in any year i.e. across the Annual Management Bonus and LTIP shall not exceed 320% of salary (i.e. 120% of salary for Annual Management Bonus and 200% of salary for LTIP).
<b>Annual Management Bonus</b>	On-target and maximum bonus potential set in line with the Company's policy for existing Executive Directors. The on-target bonus opportunity shall be 50% of the maximum opportunity. Bonus will be prorated to the number of working days worked during the plan year, typically with a minimum threshold of three months service in line with scheme rules.
<b>Longer-Term Incentive Plan (LTIP)</b>	On-target and maximum award opportunities set in line with Company policy for existing Executive Directors. If the individual joins the Company during the LTIP performance period, or alternative longer-term scheme approved by the Board, the individual may have the opportunity to participate in the next LTIP / alternative scheme, normally in April of each year. At the Committee's absolute discretion, the individual may also have the opportunity to participate in the current LTIP / alternative scheme.
<b>Buy-out awards for forfeited remuneration</b>	<p>At the discretion of the Committee, additional payments may be made to a new Executive Director, to replace forfeited remuneration opportunities and/or awards when leaving a previous employer.</p> <p>In determining the structure and level of any 'buyout' award, the Committee will take account of relevant factors including any performance conditions attaching to forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The Committee will typically seek to make buy-out awards on a comparable basis to those that have been forfeited.</p> <p>In exceptional circumstances, the Committee may grant a buy-out award under a structure not included in the policy but that is consistent with the principles set out above.</p>
<b>Internal Promotion</b>	In the case of an internal appointment, any pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted.
<b>Relocation</b>	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation.

## Appendix 1: Summary of Executive Directors' remuneration policy continued

### Policy on payments for loss of office and on change of control

The table sets out the key features of the service contracts and payment in the event of loss of office for Executive Directors, or on a change of control. In addition, the Committee retains the discretion to settle any other amount reasonably due to the Executive Director, for example to meet legal fees incurred by the Executive Director in connection with the termination of employment.

Element	Policy and Operation
<b>Notice periods in Executive Director contracts</b>	12 months from the Company, 6 months from the Executive Director.  Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice or placed on "garden leave" at the discretion of the Company.
<b>Termination payments</b>	Any payment as compensation for loss of office will be made at the complete discretion of the Board on recommendation from the Committee.  If the Company wishes to terminate an Executive Director's contract, other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it is required to give either 12 months' notice or make a payment in lieu of base salary only.  If the reason for dismissal is redundancy, the Executive Director would be entitled to a statutory redundancy payment.
<b>Annual Management Bonus</b>	In accordance with the scheme rules of the Annual Management Bonus plan, an Executive Director is eligible to a bonus payment subject to being employed by the Company on the 'Payment Date'.  An individual will normally not be eligible for any bonus payment for the plan year if they leave the employment of the Company or have been dismissed prior to the Payment Date unless for a Good Leaver reason (below).  <b>Good Leaver* Reason</b> Performance conditions will be measured at the normal bonus measurement date. Bonus will normally be pro-rated for the period of service during the financial year.  Leavers who have left through compulsory redundancy having completed the full bonus year remain eligible for a payment even if they are not employed on the Payment Date.  Payments are made on normal Payment Date and are based on actual performance.  <b>Other reason</b> If the individual is subject to formal disciplinary or capability procedures then eligibility for an incentive payment will be postponed pending the conclusion of any such procedure.  <b>Change of control</b> Normal policy is to pro-rate the bonus for time and performance to date of change of control. In circumstances where there is an appropriate business case, the Committee may use discretion to determine that the award shall not be pro-rated for time. Use of any discretion will be explained to stakeholders.

Element	Policy and Operation
<b>Longer-Term Incentive Plan (e.g. LTIP, Transformation Incentive)</b>	An Executive Director is eligible to a payment from the LTIP (or an alternative longer term incentive) in accordance with the scheme rules of the plan.  <b>Good Leaver* Reason</b> Performance conditions will be measured at the award measurement date. An LTIP or alternative award will normally be pro-rated for the period of service during the performance period.  If the individual leaves after the award has vested but before any payment in respect of that award, then the relevant payment will continue to be made in the normal way.  Payments are made on the normal payment date (taking into account any withholding periods that apply to awards made after 2020) and are based on actual performance.  <b>Other reason</b> Lapse of any unvested LTIP or alternative awards. Not eligible for any payment for the plan year if the individual leaves the employment of the Company or has been dismissed prior to the payment date.  If the individual is subject to a formal disciplinary procedure or has been subject to the Company's capability procedure, then eligibility for a bonus payment will be postponed pending the conclusion of any such investigation and any subsequent disciplinary hearing or capability meeting.  <b>Change of control</b> Unvested incentive awards will normally be pro-rated for time and take into account performance to date of change of control. In circumstances where there is an appropriate business case, the Committee may use discretion to determine that the award shall not be pro-rated for time. Use of any discretion will be explained to stakeholders.

\* Good leavers are defined (as per the scheme rules) as an individual whose employment is terminated by the Company because of 'special circumstances' such as ill-health, injury or disability, redundancy or whose employment terminates automatically by reason of their death. The Committee also retains an overall discretion to determine that an individual is a good leaver.

### External Directorship appointments

Executive Directors may accept external appointments with consent. Consideration is given to the appropriateness of the external appointment and whether it may affect an Executive Director's ability to perform their role. The Chairman must approve any external appointments. Fees may be retained by the Executive Director for services relating to external appointments.



## Appendix 1: Summary of Executive Directors' remuneration policy continued

### Non-Executive Directors

#### Non-Executive Directors' service agreements

The Chairman and Independent Non-Executive Directors have an agreement for service for an initial three-year period which can be terminated by either party with no notice period. Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract and are appointed and terminated without notice by the shareholders of the Company in line with the Shareholder Agreement.

The dates of the service contracts for the Non-Executive Directors are set out below.

	Initial Contract Start Date	Expiry Date of Contract
<b>Executive Chairman:</b>		
Ian Marchant	01/12/2017	30/11/2021
<b>Independent Non-Executive Directors:</b>		
Alistair Buchanan	01/07/2018	03/07/2020
Nick Land	01/02/2017	31/01/2023
Catherine Lynn	28/11/2018	27/11/2021
Hannah Nixon	14/01/2021	13/01/2024
Ian Pearson	01/09/2014	31/08/2023
Jill Shedden	01/10/2018	30/09/2021
David Waboso	01/02/2019	31/01/2022
<b>Non-Executive Directors:</b>		
Paul Donovan	01/07/2019	*
Michael McNicholas	01/07/2019	*
John Morea	28/01/2019	*
Greg Pestrak	15/11/2017	*

#### Note

\* Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract

Details of resignations are on page 68 of the Corporate Governance Report.

## Directors' report

The Directors present their Annual Report and Sustainability Report and the audited consolidated financial statements for the year ended 31 March 2021. Thames Water Utilities Limited (the "Company") is incorporated and domiciled in the United Kingdom and a wholly owned subsidiary of Thames Water Utilities Holdings Ltd. Its ultimate parent is Kemble Water Holdings Ltd, a company registered in the United Kingdom and owned by institutional investors. The financial statements are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes disclosures required under the Companies Act 2006 and related provisions.

The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 11 – 13. The Strategic Report also includes additional details on some of the disclosures listed here. More generally, the Strategic Report includes: our business model; our strategic ambitions, key performance indicators and performance against them; our people strategy and workforce engagement programme; our approach to climate change, the environment, local communities and other sustainability issues; how we engage with stakeholders; an analysis of our principal risks and uncertainties and our approach to managing risk; a financial review and long-term viability statement; and a statement setting out how the Directors have complied with the requirements of Section 172 of the Companies Act 2006. The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of these risks and their management or mitigation can be found on pages 41 – 48.

The Company is required under its licence to conduct its business as if it were a public limited company, and as a result the Annual Report and Sustainability Report has been drafted, where possible, to the standards and requirements of a Company with shares listed on the London Stock Exchange. The Directors have provided an extended Strategic Report and a full Corporate Governance Report, which includes comprehensive Remuneration Committee and Audit, Risk and Reporting Committee reports. Some of the information required to be disclosed in the Directors' Report can be found in those other sections, which are incorporated into this report by reference and where highlighted.

### Directors

Details about the current Directors of the Company, including their dates of appointment and their biographical details, including other Directorships they hold, can be found on pages 65 – 68. Details of any significant other interests and potential conflicts are provided on page 76. Details of the Directors' remuneration, service contracts and any interests in the shares of the Company are included within the Remuneration Committee report on pages 87 – 103.

The following Board changes took place during the year and up to the date of signing the financial statements:

- Alistair Buchanan resigned as a Non-Executive Director on 3 July 2020
- Hannah Nixon was appointed as a Non-Executive Director on 14 January 2021
- Sarah Bentley was appointed as Chief Executive Officer on 1 September 2020 (at which point Ian Marchant stood down from the joint role of Executive Chairman).

The Company may, by ordinary resolution, appoint any person who is willing to act as a Director, and may by ordinary resolution remove any Director from office. All Directors will be subject to annual re-election at the Company's AGM in July. The appointment and removal of Directors, as a matter reserved to our ultimate shareholders, requires the approval of the Kemble Water Holdings Ltd Board.

### Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies, which remain in force at the date of this report. The Company maintains a comprehensive insurance programme, renewed annually, which includes Directors' and Officers' Liability cover.

### Share capital

As at 30 June 2021, the Company's issued share capital was 29,050,000 ordinary shares of £1 each amounting to £29,050,000, all with equal voting rights and all owned by Thames Water Utilities Holdings Ltd. There were no movements in the Company's share capital during the year. Under the Company's Articles of Association, subject to the provisions of the Companies Act, the Directors have the authority to allot any unissued shares. Subject to the provisions of the Act, the Company may enter into any contract for the purchase of all or any of its own shares.

Further details of the Company's share capital can be found on page 184, while details of the Company's ultimate shareholders can be found on page 64.

### Dividends

The Company's current dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short-term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer-term ability to finance the Company's business
- An assessment is made of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- The financial performance that underpins the opportunity to pay the dividend is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat's 5% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards de-gearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

Following the PR19 Final Determinations, Ofwat proposed a base dividend yield of up to 4% as a reasonable level for companies performing in line with their determination for the 2020-25 regulatory period. Our current dividend policy, as above, refers to a (net) yield of 5% and we are in the process of reviewing the policy in recognition of Ofwat's updated guidance. For reference, the dividend of £32.9 million paid in 2020/21 (2019/20: £56.5 million) was equivalent to yield of 0.6% based on a notional capital structure (60% debt and 40% equity) and, as such, was significantly below Ofwat's guidance level.

## Directors' report continued

In applying the dividend policy in 2020/21, the Directors recognised the mixed performance picture in relation to performance commitments, balanced against the organisation's maintenance of essential services through the uncertainty posed by Covid-19. Having considered all of the criteria of the dividend policy, the Directors agreed a dividend of £32.9 million in 2020/21 (2019/20: £56.5 million). These dividends have been used solely to service the debt obligations and working capital requirements of other companies within the wider Kemble Water Group. Whilst operational performance has been below customer expectations, the Directors recognise the importance of servicing such debt which enables these companies to raise incremental debt outside the regulatory ring-fence. The Directors also took into account the cash injection of £80m (2019/20: £249.8 million) by shareholders into TWUL during the year which meant that, even with dividend payment, TWUL benefited from a net cash inflow in 2020/21 of £47.1 million. For completeness, no external distributions were made by any group companies to our ultimate shareholders during the financial year (2019/20: nil).

### Political donations

The Company has an agreed policy to not make any political donations. No political donations were made during the year (2019/20: £nil).

### Material financial instruments

Financial risk management and information on financial instruments is covered in note 18.

### Significant post-year end events

There have been no significant events between the year end and the date when the financial statements were approved by the Board.

### Future developments

The development of the business is set out in the Strategic Report.

### Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business.

The development and application of new techniques and technology is an important part of the Company's activities. The Company is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management. In addition, we carry out research and development in-house, including solutions to improve the resilience of our water supplies, developing insight into the deterioration of critical assets, novel approaches to tackle leakage and pollutions from our water and wastewater networks respectively, and wastewater treatment processes to allow us to meet increasingly stringent regulatory requirements. We have identified a number of opportunities to scale our research and development activities with the support of funding from Ofwat's innovation competitions. We participated in three successful bids in the first round of the competition.

Expenditure on research and development totalled £4.3 million for the year (2019/20: £3.8 million). In addition, the Company collected £6.9 million from customers as a contribution to Ofwat's innovation fund, which was established to help build up the water industry's innovation capacity.

### Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

### Branches

The Company does not have any branches outside of the UK.

### Recruitment, employment and training of disabled people

We are proud to be the first water company to be awarded Disability Confident Leader status, which we achieved in July 2019. This is a testament to our approach to attracting and retaining people with disabilities and long-term health conditions. We provide an automatic interview for people with disabilities who meet the essential criteria, and utilise alternative formats and reasonable adjustments at every stage, such as the use of British Sign Language interpreters.

Throughout 2020/21 we have continued to raise awareness, educate, improve accessibility and nurture a culture of inclusion. This has included adaptation to deliver training virtually, using auto captions, voice overs and alternative formats. We have additionally updated our access to work standards to make the process more seamless for employees.

As a result, we have achieved a 16% increase in employee engagement among those with disabilities or long-term health conditions, and 77% of people with a disability or long-term health condition state that we are an inclusive equal opportunity employer.

### Employee engagement

Over 80% of employees took part in our annual survey (2019/20: 84%) with an overall engagement score of 75% (2019/20: 64%). This demonstrates that our employees are willing to express how they are feeling about working at Thames – both the good aspects and what we can do to improve. Employees commented favourably on health and safety, diversity and inclusion and work/ life balance as well as the fact that they are proud to work for Thames Water.

We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year.

Ian Pearson continues to act as designated Non-Executive Director for workforce engagement – to take accountability for ensuring that workforce issues are appropriately considered by the Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities. This year, Ian held 11 virtual employee engagement sessions across the business, providing employees with informal opportunities to meet with and be listened to by Board members. You can read more information on our workforce engagement programme on page 19.

Our Executive team reviews feedback from a variety of sources including our 'Hear For You' survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as internal Yammer communications and local feedback channels. Further details on our overall people strategy can be found in the Strategic Report on page 14.

### Relationships with suppliers, customers and other business partners

For further information about our broader stakeholder engagement programme, please see pages 36 – 37.

The Company's Section 172 Statement on pages 38 – 40, and the Board engagement table on page 77 contain details of how Directors specifically have taken into account and engaged with the needs of suppliers, customers and business partners.

## Directors' report continued

### Going concern

The Directors believe, after due and careful enquiry, that the Group has sufficient resources to meet its present obligations as they fall due and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2020/21 financial statements. In forming this assessment, the Directors have considered the following information.

The Group's liquidity position, covenant compliance and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant financial resources in the form of cash and committed bank facilities. Furthermore during the pandemic, the Group has continued to efficiently access capital markets. The potential impact of Covid-19 on the Group's financial performance has been assessed with a particular focus on operational cashflows and capital expenditure.

Various scenarios, including a severe but plausible scenario, have been assessed, all of which show the Group having significant liquidity headroom and compliant with covenants for a period of at least 12 months from the signing of these financial statements.

- The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 – 60. The financial position and performance of the Company are outlined in the CFO's Statement on pages 51 – 57 of the Strategic Report
- Day-to-day working capital requirements are funded by the business cash flows and by utilising the revolving credit facility, as needed
- At 31 March 2021, the Company had £496.6 million of cash and cash equivalents available as well as access to a £1.65 billion revolving credit facility, from which £214.3 million was drawn in March 2021 and repaid in April 2021. As at the date of this report, £525.0 million has been drawn from the facility. In addition, the Company has access to an undrawn £550 million 364-day facility, which is available in limited circumstances
- The Company is in compliance with its financial covenant requirements as at 31 March 2021
- The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities and covenant restrictions for at least 12 months from the date of this report.

### Operational Greenhouse Gas Emissions and Energy Management

Our net operational emissions fell from 290.5 kTCO<sub>2</sub>e in 2019/20 to 268.2 kTCO<sub>2</sub>e in 2020/21, a reduction of 22.3 kTCO<sub>2</sub>e or 8%, when compared using a like-for-like methodology. Our total energy consumption fell from 1,679 GWh in 2019/20 to 1,618 GWh.

We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department for Environment, Food and Rural Affairs (Defra).

Emissions of greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO<sub>2</sub>e").

For 2020/21 the Water Industry updated its carbon accounting methodology and Thames Water updated its reporting approach. Using the newer methodology in 2019/20 would have resulted in higher reported operational emissions last year: 290.5 kTCO<sub>2</sub>e rather than our previously reported 257.9 kTCO<sub>2</sub>e.

### Key Trends

In 2020/21 we made significant progress reducing our greenhouse gas emissions and improving our energy performance:

- We have achieved a reduction in our gross operational emissions of 7% since last year, based on a like-for-like methodology
- We reduced our use of fossil fuels from 37.2 kTCO<sub>2</sub>e to 29.9kTCO<sub>2</sub>e, a reduction of 20%
- We reduced our total energy consumption by 61GWh, from 1,679 GWh to 1,618 GWh
- Our total electricity consumption reduced by 40 GWh from 1,305 GWh to 1,265 GWh
- We generated 23% of our electricity needs from on-site renewables
- Covid lockdown restrictions impacted our renewable generation from sludge and resulted in a reduction of 12 GWh to 301 GWh.
- At the same time, we have increased our renewable heat generation by 15 GWh to 159 GWh
- Together with our other renewables (wind and solar photovoltaics) we have increased our energy generation by 3GWh.

Where we're not able to produce our own renewable electricity, we continue to source Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity through contracts with our suppliers.

### Our Carbon Target

We have made a commitment to reduce our net carbon emissions from our operations to zero by 2030 and to then become net negative. We have already reduced our emissions by 68% compared to our 1990 baseline level, a 577.6 kTCO<sub>2</sub>e absolute reduction.

A taskforce has been created to work towards our target of being a net negative carbon business. Some of the key aims as part of this target include maximising the energy and resource recovery from our sewage sludge, the electrification of our fleet of vehicles, and the increased efficiency of our assets.



## Directors' report continued

### Emissions

During 2020/21, we reduced our gross operational emissions by 20.9 kTCO<sub>2</sub>e to 275 kTCO<sub>2</sub>e, including 7.4 kTCO<sub>2</sub>e through reduced consumption of fossil fuels (decarbonisation) and 11.2 kTCO<sub>2</sub>e from reductions to our Wastewater and Sludge Process and Fugitive emissions.

Our net operational emissions reduced by 22.3 kTCO<sub>2</sub>e to 268.2 kTCO<sub>2</sub>e, a fall of 8%. We have achieved numerous successes, realising emissions reductions through a combination of actions including:

- A 97% reduction in our emissions from fossil fuel use in combined heat and power ("CHP") engines, saving 1.8 kTCO<sub>2</sub>e – the equivalent of 5,000 flights from London to New York
- Our CHP engines have also exported more renewable electricity when we did not need it ourselves, which has generated an additional 1.3 kTCO<sub>2</sub>e carbon offset
- A 5% reduction in fossil fuel use in outsourced activities, saving 1.7kTCO<sub>2</sub>e
- Covid restrictions have also impacted the business, and we have seen a sharp 64% decrease, or 1.4 kTCO<sub>2</sub>e reduction, in emissions from business travel on public transport and private vehicles used for Company business
- As a result of the decrease in the amount of sludge being received around London – caused largely by the impact of Covid-19 on working locations, usual residence and tourism – we focused on stabilising our digestion processes and switched off our Sludge Powered Generator at Beckton (which is a less efficient process), resulting in a 0.6 kTCO<sub>2</sub>e reduction in fossil fuel usage.

We have also reduced the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat, and our emissions intensity.

Water:	18.8 kgCO <sub>2</sub> e per Ml	down 1.6 kgCO <sub>2</sub> e per Ml
Wastewater:	121.4 kgCO <sub>2</sub> e per Ml	down 12.1 kgCO <sub>2</sub> e per Ml

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions)
- Scope 2 (Indirect energy use emissions)
- Scope 3 (Emissions from outsourced services and business travel)
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

	FY2021 kTCO <sub>2</sub> e	FYT2020 KTCO <sub>2</sub> e (like for like methodology)
Scope 1	225.0	242.7
Scope 2*	–	–
Scope 3	50.1	53.4
<b>Gross</b>	<b>275.1</b>	<b>296.1</b>
Net-offs	(6.9)	(5.6)
<b>Net</b>	<b>268.2</b>	<b>290.5</b>

\* Scope 2 – Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity purchased.

### Energy

Supported by our ISO50001-certified Energy Management System, we have delivered energy efficiency improvements across both Water and Wastewater business units. We have reduced the net electricity intensity for each megalitre of water and wastewater we supply and treat.

Water:	523 kWh/Ml	down 0.4%
Wastewater:	249 kWh/Ml	down 2%

This was achieved through a series of actions including efficiencies and generation increases at several sites, notable examples being:

- At Maple Lodge STW, in April 2020 (despite Covid) we commissioned two brand-new CHP engines replacing the four very old, smaller and less efficient dual-fuel engines. This has enabled us to generate 6.8 GWh more renewable electricity, cutting fossil fuel use by 6.9 GWh and our carbon emissions by over 1.8 kTCO<sub>2</sub>e in the last year.
- At Crossness STW, we have reconfigured the sludge treatment process to produce more of the steam we need from renewables. Steam is used to heat and help break down sludge, creating sewage gas during the digestion process. Sewage gas is then re-used in the THP boilers to produce heat and in the CHP engines to produce heat and electricity. This has helped us reduce our fossil fuel use at process level by 49% and save over 3.6 kTCO<sub>2</sub>e carbon emissions.
- At Turnford Borehole, we have installed a new electrical system – Variable Speed Drive (VSD) – on the pump. VSD allows better control of pump flowrate, allowing site to cope with a dynamic demand more efficiently. The delivery of this investment saved approximately 320 MWh per year, which equates to the annual consumption of nearly 100 homes.

## Directors' report continued

### Corporate Governance

The Company follows the requirements of the UK Corporate Governance Code and the Ofwat Board Leadership, Transparency and Governance Principles, as outlined across this Corporate Governance Report, from page 61. Details of the Company's internal control and risk management systems can be found in the Strategic Report on pages 41 – 48 and in the Audit, Risk and Reporting Committee report on pages 81 – 83.

### AGM

The Company's Annual General Meeting will be held on 8 July 2021.

### Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The Group and Company have also prepared financial statements in accordance with and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Appropriate risk management and internal control systems have been in place for the year under review and up to the date of approval of the Annual Report and Sustainability Report and the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in 'Governance' confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group and loss of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

### Disclosure of information to the auditors

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

The Directors' Report was approved by the Board of Directors on 5 July 2021 and signed by order of the Board by:

**David Hughes**

Company Secretary

Thames Water Utilities Limited

Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB



**Financial statements**

Independent auditors' report	110
Consolidated income statement	118
Consolidated statement of other comprehensive income	118
Consolidated statement of financial position	119
Consolidated statement of changes in equity	120
Consolidated statement of cash flows	120
Accounting policies	121
Notes to the consolidated statements	135
Company income statement	166
Company statement of other comprehensive income	166
Company statement of financial position	167
Company statement of changes in equity	168
Company statement of cash flows	168
Notes to the company statements	169

## Independent auditors' report to the members of Thames Water Utilities Limited



### Report on the audit of the financial statements

#### Opinion

In our opinion, Thames Water Utilities Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2021 and of the group's and company's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Sustainability Report 2020/21 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2021; the consolidated and company income statements, the consolidated and company statements of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting Committee.

### Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the accounting policies to the financial statements, the group and company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group and company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 3 of the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

### Our audit approach

#### Overview

##### Audit scope

- Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. The group consists of two legal entities, Thames Water Utilities Limited and Thames Water Utilities Finance Plc, which are both reporting units. Both of the group's reporting components were subject to full scope audits for group purposes.

##### Key audit matters

- Valuation of financial derivatives (group and parent)
- Provision for bad and doubtful debts (group and parent)
- Valuation of retirement benefit obligation (group and parent)
- Classification of costs between capital and operating expenditure (group and parent)
- Impact of COVID-19 (group and parent)

##### Materiality

- Overall group materiality: £30.0 million (2020: £30.0 million) based on 0.15% of total assets.
- Overall company materiality: £28.5 million (2020: £28.5 million) based on 0.14% of total assets.
- Performance materiality: £22.5 million (group) and £21.4 million (company).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

## Independent auditors' report to the members of Thames Water Utilities Limited continued

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of financial derivatives (group and parent)</b></p> <p>The group derivative position as at 31 March 2021 was an asset of £163m (2020: £374m) and a liability of £1,470m (2020: £1,061m). The net derivative fair value as at 31 March 2021 was a liability of £1,307m (2020: £687m).</p> <p>The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities.</p> <p>Refer to page 82 of the Audit, Risk and Reporting Committee report and note 18 of the financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held.</li> <li>• Engaging with our valuations team who have performed independent testing of the pre-credit risk adjusted valuations for a sample of the derivative population.</li> <li>• Performing procedures to assess the validity of assumptions and calculations management have made in performing the credit risk component of fair value.</li> <li>• Performing an analysis of the directional movement in the derivative position relative to movements in inflation, exchange rates and interest rates.</li> <li>• Testing management controls in operation to reconcile the derivative valuations to those provided by the external counterparties.</li> </ul> <p>Overall, we consider that the valuation methodology and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.</p>
<p><b>Provision for bad and doubtful debts (group and parent)</b></p> <p>The recoverability of customer debts is always a key issue for water companies. The company uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £146m (2020: £188m).</p> <p>Management makes key assumptions based on historical trends relating to non-payment of invoices including comparisons of the relative age of the individual balance and consideration of the actual write-off history.</p> <p>These historical trends are used as a basis to assess expected credit losses in the future. These assumptions are then used in a complex model to compute the provision for bad and doubtful debt, which is sensitive to changes in these assumptions.</p> <p>The provision includes an additional overlay in the current year, consistent with prior year, to reflect the potential impact of the COVID-19 pandemic, which involves a high degree of estimation uncertainty. Management have also considered plausible downside scenarios in assessing the impact of COVID-19 on the receivable balance.</p> <p>Refer to page 82 of the Audit, Risk and Reporting Committee report and note 14 of the financial statements.</p>	<p>We evaluated the model used to calculate the provision and confirmed its consistency with prior years and the appropriateness of the model in line with requirements of IFRS 9.</p> <p>We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year.</p> <p>We re-performed the calculations used in the model and ensured accuracy of these calculations.</p> <p>We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to ensure appropriateness of the aging classifications used in the model.</p> <p>We assessed the various downside scenarios considered by management on account of COVID-19 and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of COVID-19 on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed sensitivity analysis on the downside scenarios considered by management. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on the outcome of management's assessment.</p> <p>We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for bad and doubtful debts and the impact of COVID-19 on trade receivables.</p> <p>Overall, we consider that the provision and disclosure for bad and doubtful debts is reasonable as at 31 March 2021.</p>



## Independent auditors' report to the members of Thames Water Utilities Limited continued

### Key audit matter

#### Valuation of retirement benefit obligation (group and parent)

Valuation of total scheme liabilities £2,721m (2020: £2,516m).

The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability.

The pension liability and disclosures are also an area of interest to key stakeholders; this is especially so in the current year in light of the COVID-19 crisis and the new triennial valuations completed.

Refer to page 82 of the Audit, Risk and Reporting Committee report and note 22 of the financial statements.

#### Classification of costs between capital and operating expenditure (group and parent)

Additions to Assets under construction (AUC) during the period amounted to £1,021bn (2020: £1,105bn). Within this is £220m (2020: £183m) of own works capitalised and £70m (2020: £94m) of borrowing costs incurred with the remainder being external costs.

There is a high degree of judgement applied when allocating costs to operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria.

Refer to notes 3 and 10 of the financial statements.

### How our audit addressed the key audit matter

We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities.

We benchmarked the various assumptions used (e.g. discount, inflation rates and mortality assumptions) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end.

The last formal triennial valuation took place as at 31st March 2019 and this has been used in the calculation of the defined benefit obligation although the actuary has refined their calculation for information received from the scheme actuary. This information comes in the form of the underlying cashflows from the triennial valuation. In order to get comfortable with this approach and conclude that the accounting liabilities are reasonable, we have performed an independent roll forward from the valuation results to the accounting results and were able to agree to within materiality levels.

We assessed the impact on COVID-19 on the scheme assets to ensure that the scheme assets were able to be valued accurately at the balance sheet date based on current valuations. The impact of COVID-19 on the financial assumptions has been included in the bond yields and inflation curves used as they are based on market conditions at the reporting date so include the impact of the pandemic.

We note the TWPS closed to future accrual during the year. We have assessed the actuary's treatment of the closure and have been able to conclude it as reasonable.

Overall, we concur that the methodology and assumptions used by management at 31 March 2021 are reasonable.

We have tested the controls regarding the assessment by management of whether a project is either operating or capital in nature.

For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements.

We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately.

We tested the borrowing costs calculation and the qualifying projects involved.

Our procedures over own works capitalised included:

- Testing the control process over assessing the level of spend incurred by each cost centre that should be capitalised.
- Obtaining management's assessments of what spend by cost centre should be capitalised and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias.
- Performing sample testing at a cost centre level and challenged management as to the nature of these costs and whether they meet the capitalisation criteria.

Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2021 and estimates used in calculating relevant costs to be capitalised to be appropriate.

## Independent auditors' report to the members of Thames Water Utilities Limited continued

### Key audit matter

#### Impact of COVID-19 (group and parent)

The COVID-19 pandemic, and measures taken by the government in order to contain COVID-19 has impacted all companies. Relative to companies in other industries the impact to the Group and Company whilst significant, has not resulted in a shut down of operations as the company continued to fulfil its primary responsibility to provide water and waste water services (aided by its employees being deemed essential workers) throughout the year.

It has also not made direct use of any COVID-19 relief schemes.

COVID-19 has had an impact on the group's cash flows (cash collections from household customers having a significant impact) specifically in relation to variances in consumption levels compared to pre pandemic levels with increased demand from householders as its customers worked from home, and decreased demand in its Non-household business as offices and retailers closed or operated at reduced capacity for much of the financial year.

The pandemic has also seen increased pressure on customers' ability to pay their bills and operational cost changes as the company responded to geographical changes in demand, with increased pressure on water treatment sites outside of London as demand patterns changed.

The specific areas of the financial statements where we have assessed the impact of COVID-19 are as below:

- The Going concern basis of preparation
- Recoverability of Trade Receivables (household customers being the main contributors)
- Metered Sales Accrual

Refer to page 82 of the Audit, Risk and Reporting Committee report

### How our audit addressed the key audit matter

We have considered the impact of COVID-19 on various areas of the Annual report and performed procedures to address the risk around the impact of COVID-19. We have set out our responses to the risk in respective areas of the financial statements as below:

**Going concern** – We have understood how management have factored in the potential impact of COVID-19 on future cash flows and the potential impact of this on covenant compliance. The impact of COVID-19 on the Group has been felt during the financial year (resulting in a reduction in cash collections from household customers and a fall in consumption from non-household customers which has not been fully offset by increased household consumption).

It is expected that with lockdown restrictions being relaxed and eventually lifted over the going concern period, that the future impact of COVID-19 on the Group and Company will be less severe in the next year.

However, as part of our work on going concern we have considered the assumptions that management have made in respect of their base and severe but plausible downside scenarios and assessed these to be reasonable.

Further we have performed our own stress test on going concern by taking the current year actuals and only factoring in those less judgemental positive cash flow movements and the additional cash outflows management have budgeted for and noted that there is reasonable headroom in that model to allow the Group to stay compliant with its covenants and to meet its liabilities as they fall due.

Further details on our work on going concern is set out below.

**Recoverability of trade receivables** – Refer to Key Audit Matter "Provision for bad and doubtful debts" above.

**Metered Sales Accrual** – We have understood management's methodology of computing the accrual for both household and non-household income streams.

The impact of COVID-19 has warranted an additional overlay on top of the base accrual, as a result of the higher estimation uncertainty caused by the pandemic. We have substantively tested the additional overlay to test for management bias and indicators of fraud.

We have performed look back procedures for household customers on the overall accrual balance to assess management's ability to forecast the estimate accurately.

We have challenged management's overlay for non-household customers by comparing to the post year end actual meter reads and calculating backwards to the accrual recorded at 31 March 2021. Further, we tested the accuracy of the estimate along with the relevant disclosures provided in the financial statements.

Based on the procedures performed we deemed the accrual to be reasonable.

In addition, we have considered the impact of COVID-19 and specifically the increased level of remote working, on the Group's internal control environment, including fraud risk, business process control activities, IT general controls and cyber risk.

We performed all of our standard walkthrough procedures via video conference.

Based on the inquiries performed and the results of our audit procedures, we did not identify any evidence of a significant deterioration of the control environment.

Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.

## Independent auditors' report to the members of Thames Water Utilities Limited continued

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Both legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes; Thames Water Utilities Limited due to holding the significant proportion of the group's total assets and all its trade and Thames Water Utilities Finance Plc due to holding a significant amount of the group's external debt.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
<b>Overall materiality</b>	£30.0 million (2020: £30.0 million).	£28.5 million (2020: £28.5 million).
<b>How we determined it</b>	0.15% of total assets	0.14% of total assets
<b>Rationale for benchmark applied</b>	Total assets has been determined to be the appropriate benchmark for both significant components of the group (see company rationale), therefore group materiality is also based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.15% of total group assets was deemed to be most appropriate.	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company and generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Thames Water Utilities Limited is a trading entity, given its revenue and profits to a certain extent are regulated by Ofwat, we assess that the key focus is on the infrastructure and therefore the asset base. For PIE entities a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.14% of total company assets was deemed to be most appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £25.5 million and £28.5 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £22.5 million for the group financial statements and £21.4 million for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit, Risk and Reporting Committee that we would report to them misstatements identified during our audit above £3.0 million (group audit) (2020: £3.0 million) and £2.9 million (company audit) (2020: £2.9 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

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

- Testing the mathematical integrity of the cash flow forecasts and the models and reconciling these to Board approved budgets.
- Understanding the key assumptions management have applied in developing their base case and downside scenarios. These can be split as those that are more judgemental in nature and those that are less judgemental. For those less judgemental assumptions such as revenue growth, we verified this to published tariffs for FY22 in compliance with Ofwat's policies and where assumptions were made such as in respect of non-repeating costs we verified that this was a reasonable assumption, for example the one off pension deficit repayment which we expect to cover deficit payments for the whole of AMP7. For those more judgemental assumptions we understood the basis on which management had made these assumptions.
- Developing our own stress test scenario based on taking the FY21 operating cashflow and adjusting for those positive cashflow movements we considered to be less judgemental and factoring in the costs management had assessed in their base case scenario. This showed that there was reasonable headroom on the PMICR covenant before a breach would occur. We note that were costs as per the downside applied then there would still be reasonable headroom over the Event of Default level on the PMICR covenant.
- Obtaining covenant compliance certificates and verifying the mathematical accuracy and testing inputs back to either the year end financial numbers or for forecasted information to the Board approved budget.
- Verifying liquidity forecasts to the Board approved budget and testing that contractual debt principal and interest payments had been appropriately included within the forecasts. We considered the headroom of expected cash outflows in the going concern period against available liquidity, identifying a reasonable level of expenditure to allow for unexpected spend.
- Performing a comparison of budget versus actual for the year ended 31 March 2021 and understanding where variances had arisen. Through this testing we obtained reasonable assurance over management's ability to forecast accurately.

## Independent auditors' report to the members of Thames Water Utilities Limited continued

- Obtaining the latest credit ratings for the TWUL group and verifying that the group maintained an investment grade rating.
- Obtaining and understanding the terms of the financing agreements, particularly in the context of financial covenants and ensured these had been appropriately considered in assessing available borrowing and facilities over the going concern period.
- Assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

### Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section of the Annual Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

## Independent auditors' report to the members of Thames Water Utilities Limited continued

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit, Risk and Reporting Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations, Listing rules, Pension legislation and Tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year, specifically

journals to increase revenue, to reclassify costs from the income statement to Property Plant and Equipment or to conceal the misappropriation of cash. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and inquiries of management, internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments. In particular in relation to the Key Audit Matters as set out in our report along with provisions and contingent liabilities as detailed in notes 20 and 24 respectively. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where available along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.



## Independent auditors' report to the members of Thames Water Utilities Limited continued

### Other required reporting

#### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit, Risk and Reporting Committee, we were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2019 to 31 March 2021.

### Other voluntary reporting

#### Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Katharine Finn (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading

5 July 2021

## Consolidated income statement

For the year ended 31 March

	Note	2021			2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Revenue	2	2,032.9	73.8	2,106.7	2,108.5	64.3	2,172.8
Operating expenses excluding impairment losses on financial and contract assets <sup>1</sup>	3	(1,703.0)	–	(1,703.0)	(1,626.9)	–	(1,626.9)
Impairment losses on financial and contract assets	3, 14	(36.5)	(0.2)	(36.7)	(40.6)	(0.2)	(40.8)
<b>Total operating expenses</b>		<b>(1,739.5)</b>	<b>(0.2)</b>	<b>(1,739.7)</b>	<b>(1,667.5)</b>	<b>(0.2)</b>	<b>(1,667.7)</b>
Other operating income	2	121.8	–	121.8	72.4	–	72.4
<b>Operating profit</b>		<b>415.2</b>	<b>73.6</b>	<b>488.8</b>	<b>513.4</b>	<b>64.1</b>	<b>577.5</b>
Finance income	5	187.7	–	187.7	90.1	–	90.1
Finance expense	5	(395.8)	–	(395.8)	(424.6)	–	(424.6)
Net (losses)/gains on financial instruments	6	(522.2)	–	(522.2)	190.8	–	190.8
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(315.1)</b>	<b>73.6</b>	<b>(241.5)</b>	<b>369.7</b>	<b>64.1</b>	<b>433.8</b>
Tax credit/(charge) on (loss)/profit on ordinary activities	7	57.0	(14.0)	43.0	(183.1)	(6.1)	(189.2)
<b>(Loss)/profit for the year</b>		<b>(258.1)</b>	<b>59.6</b>	<b>(198.5)</b>	<b>186.6</b>	<b>58.0</b>	<b>244.6</b>

1 Underlying operating expenses for the year ended 31 March 2021 includes £16.3 million (31 March 2020: £27.7 million) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 3.

The Group activities above are derived from continuing activities.

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.

## Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	2021			2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>(Loss)/profit for the year</b>		<b>(258.1)</b>	<b>59.6</b>	<b>(198.5)</b>	186.6	58.0	244.6
<b>Other comprehensive income</b>							
<i>Will not be reclassified to the income statement:</i>							
Net actuarial (loss)/gain on pension schemes	22	(195.0)	–	(195.0)	168.4	–	168.4
Deferred tax credit/(charge) on net actuarial (loss)/gain including impact of deferred tax rate change in prior year	19	43.1	–	43.1	(29.7)	–	(29.7)
<i>May be reclassified to the income statement:</i>							
Loss on cash flow hedge		–	–	–	(4.1)	–	(4.1)
Cash flow hedge transferred to income statement	18	37.5	–	37.5	34.9	–	34.9
Deferred tax charge on cash flow hedge gain including impact of deferred tax rate change in prior year	19	(7.1)	–	(7.1)	(3.0)	–	(3.0)
<b>Other comprehensive (expense)/income for the year</b>		<b>(121.5)</b>	<b>–</b>	<b>(121.5)</b>	166.5	–	166.5
<b>Total comprehensive (expense)/income for the year</b>		<b>(379.6)</b>	<b>59.6</b>	<b>(320.0)</b>	353.1	58.0	411.1

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.

## Consolidated statement of financial position

As at

		31 March 2021			31 March 2020		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Non-current assets</b>							
Intangible assets	9	276.3	–	276.3	273.4	–	273.4
Property, plant and equipment	10	16,352.3	–	16,352.3	15,862.8	–	15,862.8
Right-of-use assets	11	41.6	–	41.6	52.3	–	52.3
Derivative financial assets	18	151.1	–	151.1	374.3	–	374.3
Intercompany loans receivable	12	1,693.4	–	1,693.4	1,752.2	–	1,752.2
Other receivables	14	50.7	228.9	279.6	70.7	159.0	229.7
Pension asset	22	57.9	–	57.9	94.5	–	94.5
		18,623.3	228.9	18,852.2	18,480.2	159.0	18,639.2
<b>Current assets</b>							
Inventories	13	14.9	–	14.9	13.6	–	13.6
Intercompany loans receivable	12	3.7	–	3.7	11.8	–	11.8
Contract assets	14	239.5	5.8	245.3	234.9	1.5	236.4
Trade and other receivables	14	366.8	12.8	379.6	357.7	11.6	369.3
Derivative financial assets	18	12.3	–	12.3	–	–	–
Short-term investments	18	–	–	–	300.0	–	300.0
Cash and cash equivalents	15	490.9	3.6	494.5	755.8	2.6	758.4
		1,128.1	22.2	1,150.3	1,673.8	15.7	1,689.5
<b>Current liabilities</b>							
Contract liabilities	16	(121.9)	(2.1)	(124.0)	(123.8)	(0.3)	(124.1)
Trade and other payables	16	(602.7)	(31.4)	(634.1)	(660.1)	(16.4)	(676.5)
Borrowings	17	(1,124.9)	–	(1,124.9)	(1,797.7)	–	(1,797.7)
Lease liabilities	11	(7.5)	–	(7.5)	(7.9)	–	(7.9)
Derivative financial liabilities	18	–	–	–	(15.0)	–	(15.0)
		(1,857.0)	(33.5)	(1,890.5)	(2,604.5)	(16.7)	(2,621.2)
<b>Net current liabilities</b>		(728.9)	(11.3)	(740.2)	(930.7)	(1.0)	(931.7)
<b>Non-current liabilities</b>							
Contract liabilities	16	(757.3)	–	(757.3)	(707.3)	–	(707.3)
Borrowings	17	(11,643.3)	–	(11,643.3)	(11,327.9)	–	(11,327.9)
Lease liabilities	11	(52.9)	–	(52.9)	(62.4)	–	(62.4)
Derivative financial liabilities	18	(1,469.9)	–	(1,469.9)	(1,045.9)	–	(1,045.9)
Deferred tax	19	(973.2)	–	(973.2)	(1,063.1)	–	(1,063.1)
Provisions for liabilities and charges	20	(143.7)	–	(143.7)	(144.3)	–	(144.3)
Pension deficit	22	(277.1)	–	(277.1)	(209.1)	–	(209.1)
		(15,317.4)	–	(15,317.4)	(14,560.0)	–	(14,560.0)
<b>Net assets</b>		2,577.0	217.6	2,794.6	2,989.5	158.0	3,147.5

		31 March 2021			31 March 2020		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Equity</b>							
Called up share capital	21	29.0	–	29.0	29.0	–	29.0
Share premium	21	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	21	(59.7)	–	(59.7)	(90.1)	–	(90.1)
Revaluation reserve	21	903.1	–	903.1	934.3	–	934.3
Retained earnings	21	1,604.6	217.6	1,822.2	2,016.3	158.0	2,174.3
<b>Total equity</b>		<b>2,577.0</b>	<b>217.6</b>	<b>2,794.6</b>	<b>2,989.5</b>	<b>158.0</b>	<b>3,147.5</b>

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.

The consolidated financial statements (which include the accompanying accounting policies and notes) for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 5 July 2021 and signed on its behalf by:



**Brandon Rennet**  
Chief Financial Officer

## Consolidated statement of changes in equity

For the year ended 31 March

	Note	Called up share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
<b>1 April 2019</b>		29.0	100.0	(117.9)	989.3	1,792.5	<b>2,792.9</b>
Profit for the year		–	–	–	–	244.6	<b>244.6</b>
Loss on cash flow hedge		–	–	(4.1)	–	–	<b>(4.1)</b>
Cash flow hedges transferred to income statement	18	–	–	34.9	–	–	<b>34.9</b>
Deferred tax charge on cash flow hedge gain including impact of deferred tax rate change	19	–	–	(3.0)	–	–	<b>(3.0)</b>
Net actuarial gain on pension scheme	22	–	–	–	–	168.4	<b>168.4</b>
Deferred tax charge on net actuarial gain including impact of deferred tax rate change	19	–	–	–	–	(29.7)	<b>(29.7)</b>
<b>Total comprehensive income</b>		–	–	27.8	–	383.3	<b>411.1</b>
Transfer of depreciation <sup>1</sup>		–	–	–	(38.4)	38.4	<b>–</b>
Deferred tax on depreciation transfer <sup>1</sup>		–	–	–	(16.6)	16.6	<b>–</b>
Dividends paid	8	–	–	–	–	(56.5)	<b>(56.5)</b>
<b>31 March 2020</b>		29.0	100.0	(90.1)	934.3	2,174.3	<b>3,147.5</b>
Loss for the year		–	–	–	–	(198.5)	<b>(198.5)</b>
Cash flow hedge transferred to income statement	18	–	–	37.5	–	–	<b>37.5</b>
Deferred tax charge on cash flow hedge gain	19	–	–	(7.1)	–	–	<b>(7.1)</b>
Net actuarial loss on pension scheme	22	–	–	–	–	(195.0)	<b>(195.0)</b>
Deferred tax credit on net actuarial loss	19	–	–	–	–	43.1	<b>43.1</b>
<b>Total comprehensive income</b>		–	–	30.4	–	(350.4)	<b>(320.0)</b>
Transfer of depreciation <sup>1</sup>		–	–	–	(38.4)	38.4	<b>–</b>
Deferred tax on depreciation transfer <sup>1</sup>		–	–	–	7.2	(7.2)	<b>–</b>
Dividends paid	8	–	–	–	–	(32.9)	<b>(32.9)</b>
<b>31 March 2021</b>		29.0	100.0	(59.7)	903.1	1,822.2	<b>2,794.6</b>

1 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax (including the impact of the deferred tax rate change in the prior year) on the fair value uplift on assets.

## Consolidated statement of cash flows

For the year ended 31 March

	Note	2021			2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Net cash generated by operating activities<sup>1</sup></b>	27	<b>931.2</b>	<b>1.0</b>	<b>932.2</b>	1,131.1	(5.0)	1,126.1
<b>Investing activities:</b>							
Proceeds from/(increases in) short-term investments		300.0	–	300.0	(300.0)	–	(300.0)
Purchase of property, plant and equipment		(1,050.2)	–	(1,050.2)	(1,137.9)	–	(1,137.9)
Purchase of intangible assets		(54.8)	–	(54.8)	(86.1)	–	(86.1)
Proceeds from sale of property, plant and equipment		10.6	–	10.6	–	–	–
Interest received		199.9	–	199.9	88.8	–	88.8
Repayment of loans by parent company		58.8	–	58.8	222.5	–	222.5
<b>Net cash used in investing activities</b>		<b>(535.7)</b>	<b>–</b>	<b>(535.7)</b>	(1,212.7)	–	(1,212.7)
<b>Financing activities:</b>							
New loans raised		1,574.4	–	1,574.4	3,141.8	–	3,141.8
Repayment of borrowings		(1,846.1)	–	(1,846.1)	(1,967.1)	–	(1,967.1)
Repayment of lease principal		(11.4)	–	(11.4)	(11.0)	–	(11.0)
Derivative accretion settlement <sup>2</sup>		(15.3)	–	(15.3)	(123.2)	–	(123.2)
Interest paid		(321.3)	–	(321.3)	(291.8)	–	(291.8)
Fees paid		(7.8)	–	(7.8)	(9.2)	–	(9.2)
Dividends paid		(32.9)	–	(32.9)	(56.5)	–	(56.5)
<b>Net cash generated by financing activities</b>		<b>(660.4)</b>	<b>–</b>	<b>(660.4)</b>	683.0	–	683.0
Net (decrease)/increase in cash and cash equivalents		(264.9)	1.0	(263.9)	601.4	(5.0)	596.4
Net cash and cash equivalents at beginning of period		755.8	2.6	758.4	154.4	7.6	162.0
<b>Net cash and cash equivalents at end of period</b>		<b>490.9</b>	<b>3.6</b>	<b>494.5</b>	755.8	2.6	758.4

1 Net cash generated by operating activities for the year ended 31 March 2021 includes £69.7 million (31 March 2020: nil) of payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying net cash generated by operating activities would be £1,000.9 million for the year ended 31 March 2021 (31 March 2020: £1,131.1 million).

2 Derivative accretion settlement includes £15.3 million (2020: £123.2 million) relating to index-linked swaps where accretion is payable periodically.

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to the arrangement with BTL and therefore our underlying amounts are disclosed separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.

## Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

### General information

Thames Water Utilities Limited (“the Company”) is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Company’s principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers in London, the Thames Valley and surrounding area in accordance with its licence of appointment. The Company is also an intermediate holding company within the Kemble Water Holdings Limited Group of companies (“the Kemble Water Holdings Group”).

As at 31 March 2021, the Group includes the Company and Thames Water Utilities Finance Plc (“TWUF”) as its sole subsidiary.

### Statement of compliance with International Financial Reporting Standards

The policies applied in these consolidated financial statements for the year ended 31 March 2021 are based on the IFRS, International Accounting Standards (“IAS”) and International Financial Reporting Interpretations Committee (“IFRS IC”) interpretations issued and effective and ratified by the EU as of 5 July 2021, the date that the Board of Directors approved these financial statements. The Company only financial statements are also prepared under EU-IFRS.

### Basis of Preparation

The consolidated and Company only financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies using IFRS and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

### Going concern

The consolidated financial statements for the year ended 31 March 2021, set out on pages 118–120, 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 the Disclosure and Transparency Rules (“DTR”) issued by the Financial Conduct Authority.

In assessing the appropriateness of the going concern basis, the Directors have considered the following factors.

The Group’s liquidity position, covenant compliance and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant financial resources in the form of cash and committed bank facilities. Furthermore, during the pandemic, the Group has continued to efficiently access capital markets. The potential impact of Covid-19 on the Group’s financial performance has been assessed with a particular focus on operational cashflows and capital expenditure.

Various scenarios, including a severe but plausible scenario, have been assessed, all of which show the Group having significant liquidity headroom and compliant with covenants for a period of at least 12 months from the signing of these financial statements.

Based on the above, the Board is satisfied that the Group has adequate resources, for a period of at least 12 months from the date of approval of the consolidated financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

### Basis of Consolidation

The Group’s consolidated financial statements consolidate the financial statements of the Company and its sole subsidiary. A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns.

Refer to the ‘General information’ section above for information on the Group.

### Bazalgette Tunnel Limited (“BTL”) arrangement

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and disclosed our underlying performance separately, as required by some of our financial covenants.

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the ‘pay when paid’ principle.

Accounting standards require the Group to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable. This non-appointed revenue, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group’s underlying performance in the financial statements. As a result of this arrangement, a prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.

As part of the construction of the Thames Tideway Tunnel, buildings are acquired by the Group and will be recognised within Land and Buildings within Property, Plant and Equipment. These will be disposed of in future financial periods once construction is completed.



## Accounting policies continued

### Revenue recognition

The core principle of IFRS 15 “Revenue from Contracts with Customers” requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. The Company has a variety of customers including, household customers (Directly billed or Indirectly billed by other Water Only Companies (“WOCS”) and non-household customers (retailers and NAVs “New appointments and Variations”).

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable at the time of billing based on historical experience is excluded from revenue, as it does not fall within the IFRS 15 criteria, to ensure that revenue is recorded at the amount which the Company expects to receive for providing its services to customers.

The Company considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions. For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the performance obligation is satisfied. When the Company identifies the occupants, the bill is sent out in the customer’s name if known or if not in the name of the occupier. If the Company has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled, and the property is classified as empty.

Revenue includes amounts that the Company billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the previous BTL arrangement section.

Refer to page 131 for significant accounting estimates and judgements concerning revenue recognition.

### Other operating income

The Company considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. The service connections charge levied includes the cost of excavating, connecting and reinstating (if needed) the new supply, including the installation of a stop valve, boundary box and external water meter as well as any associated pipework between the connection and the boundary box. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Deferred service connections income is recorded within contract liabilities (deferred income). Typically amounts received will be fully recognised within a year following receipt.

Requisitions & Diversions income is recognised over time in other operating income using the input method by estimating complete satisfaction of the performance obligation and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions and diversions income is recorded within contract liabilities (deferred income). These income streams encompass a wide variety of schemes, from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

Contributions received for infrastructure charges (which meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure) are initially held within contract liabilities (deferred income). The Company considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Company to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Company recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

### Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

### Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the consolidated income statement.

### Contract assets

Contract assets are presented in the statement of financial position when the Group’s right to consideration is met in advance of billing. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the “Trade and other receivables (excluding prepayments)” section for more information.

### Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

## Accounting policies continued

### Net gains/(losses) on financial instruments

The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net losses/gains on financial instruments. The following are also recognised in the income statement as net losses/gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/(losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 128 for more details.

### Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the consolidated statement of other comprehensive income.

### Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome. As at 31 March 2021, there are no uncertain tax positions (2020: none).

### Intangible assets

Separately acquired intangible assets, and internally generated intangible assets once commissioned, are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5-10

Assets in development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

### Property, plant and equipment

Property, Plant and Equipment ("PP&E") is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Within Land and Buildings are assets acquired in relation to the Thames Tideway Tunnel project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed in line with the agreement with Ofwat.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

## Accounting policies continued

### Property, plant and equipment continued

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value on a straight-line basis over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows:

	Years
<b>Network assets:</b>	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
<b>Non-network assets:</b>	
<b>Land and buildings:</b>	
Buildings	15-60
Operational structures	30-100
<b>Plant and equipment:</b>	
Other operational assets	7-40
Fixtures & fittings	5-7
Vehicles	4-5
Computers	3-5
Fixed and mobile plant	4-60

### BTL arrangement

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at fair value, being the BTL prepayment plus the present value of the future minimum contract payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

### Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

### Investment in subsidiary undertaking

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company Income Statement only. An impairment review is performed on an annual basis.

### Non-derivative financial instruments

#### Trade and other receivables (excluding prepayments)

Trade receivables are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. Other receivables such as loans or insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. Write-offs are recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

### Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable where those assets may be subject to significant increase in credit risk for example due to the impact of Covid-19. The Group's assessment for calculating expected credit losses is explained below. In addition, Management has considered the continued impact of Covid-19, and has increased the provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case.

## Accounting policies continued

### Expected credit losses continued

#### (i) Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on performance in the year. The amount that remains will be uncollectable and therefore needs to be covered by a bad debt provision. Debt that is older than 5 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors; for instance, debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses. Refer to page 131 for explanations of judgement applied.

#### Directly Billed Write-Off Policy

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

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

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

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

#### (ii) WOCs

A provision is also made against debts held by Water Only Companies (WOCs) who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we provide for the debt with a rate calculated using the bad debt provision applied by the WOCs in their most recent statutory accounts, as a percentage of their billed and unbilled debts. We consider current performance and any information available to create the provision we then make management judgements in respect of future credit losses, in accordance with the requirements of IFRS 9.

#### (iii) BTL

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

#### (iv) Non-Household

The Group has assessed the risk of credit losses for non-household customers to be low and therefore no bad debt provision has been made. The Group has assessed specific debts held in respect of non-household customers which are subject to query by those customers, and made a revenue loss provision on those debts within accrued income based on historical collections experience.

### Intercompany loans receivable

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

For loans repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. The Group has considered the recoverability of the intercompany receivables as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany receivables, the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

### Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

## Accounting policies continued

### Cash and cash equivalents

Cash and cash equivalents are held at either amortised cost or fair value through profit or loss and include cash on hand, deposits held at call with financial institutions, money market funds, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Included within cash and cash equivalents are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

### Short-term investments

Short-term investments are held at amortised cost and include term deposits which are not readily convertible into cash.

### Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest-bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. In case of exchange or modification of interest-bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

### Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV").

### Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use.

### Retirement and other employment benefits

#### Defined benefit schemes

The Group operates two, independently administered, defined benefit pension schemes, both of which are closed to new employees. One of these schemes, Thames Water Pension Scheme ("TWPS"), was closed to future accrual as of 31 March 2021. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit)/surplus.

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of other comprehensive income in the period in which they arise.

#### Defined contribution schemes

The Group operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS") managed through Aon MasterTrust from October 2020. Prior to that, DCSPS was managed through Standard Life Assurance Limited. From 1 April 2011 the DCSPS is the only scheme to which new employees of the Group are eligible. The assets of the DCSPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

#### Long-term incentive plans ("LTIP") and bonus

##### LTIP

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company's performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Company's performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.



## Accounting policies continued

### Long-term incentive plans ("LTIP") and bonus continued

LTIP 2021/24 is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customer, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollutions. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

LTIP 2019/20 is a three-year LTIP scheme with a performance period from 1 April 2019 to 31 March 2022. The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan and 80% of the targets are focused on delivery of key customer outcomes including the delivery of leakage and environmental targets. This management incentive was accrued during the period based on management's assessment of performance against the targets set. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

### LTIP impacting previous period only

The transformation incentive was based on performance over a 2-year period from 1 April 2018 to 31 March 2020. The targets were focused on critical customer, environmental, operational and regulatory outcomes. The transformation incentive was accrued during the prior period based on management's assessment of performance against the targets set. This incentive entitled the eligible senior management to an amount of up to 100% of their salary following the end of the performance period.

### Bonus

Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set and approved by the Remuneration Committee.

Share in Your Success 2020 was introduced in the 2017/18 financial year. The scheme's performance period ran from April 2017 to March 2020 and was open to all non-manager grade employees. The scheme entitled eligible employees to earn an amount of up to 5% of their salary following the end of the performance period. All payments related to this scheme were made in the prior period.

### Provisions for liabilities and charges

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. The timing for the insurance claims is uncertain and therefore both the liability and receivable have been recognised as non-current.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material.

### Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2020 to 31 March 2025 is known as AMP7, and the prior period 1 April 2015 to 31 March 2020 was known as AMP6.

The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

Outcome delivery incentives ("ODIs") introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

The majority of our AMP7 performance commitments (PCs) have financial ODIs, and are subject to either an in-period or an end-of-AMP revenue adjustment. For PCs with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For PCs with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

### Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 18.

### Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

## Accounting policies continued

### Derivative financial instruments designated as hedging instruments

The group uses derivative financial instruments, such as forward starting interest rate swaps to hedge its interest rate risks. At the inception of each hedge relationship the Group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The economic relationship between the hedge item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The Group uses the hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

### Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments.

### Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently and in all circumstances an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

### Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 17. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee and the amount can be reliably measured.

### Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency and the amount can be reliably measured, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### IFRS 16: Leases

#### Recognition of Right of use assets and lease liabilities

IFRS 16 Leases sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. Under the provisions of IFRS 16, most leases are recognised in the statement of financial position as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 Property, Plant and Equipment and the liability increased for the accretion of interest and reduced by lease payments.

At the transition date from IAS 17 Leases in the previous period (1 April 2019) the following practical expedients permitted by the standard were applied:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application and using hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- contracts of low value (£5,000 as determined by the Group) were not considered as leases; and
- the Group was not required to reassess whether a contract is, or contains, a lease at the date of initial application (1 April 2019). The Group therefore only applied IFRS 16 principles to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application, and all subsequent leases entered into or modifications made after the initial application date.

## Accounting policies continued

### IFRS 16: Leases continued

#### Recognition of leases

##### As a lessee

The Group's leasing activities consist of rentals payable for office properties and other land and buildings. Other rentals are short term or of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

#### Right-of-use asset

Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

#### Lease liability

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate "IBR". The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the income statement within 'finance expenses' so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option

will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature and the Group has the ability to mutually agree changes to the arrangement with the lessor.

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2%.

#### Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### As a lessor

The Group has one material lease for which it is a lessor, which relates to the acquisition of a long leasehold of an office building, Camelford House. The primary purpose of acquiring the building was to provide access to a construction site as part of the construction of the Thames Tideway Tunnel. It is incidental to our business that the Group is acting as a lessor with income received. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

#### Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be unusual by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals and provisions in relation to contractual settlements associated with significant disputes and claims.

Exceptional items recognised in the consolidated and Company only financial statements relate to transformation expenditure incurred from restructuring the business. This commenced in the previous financial year and concluded in the current financial year. These costs significantly changed how the Company operates and therefore are considered to be exceptional in nature and outside the ordinary course of business. The Group has additionally made a pension deficit repair payment of £69.7 million covering the financial periods from 2021/22 to 2024/25. This has been treated as an exceptional cash flow in the current year since this deficit repayment over the remaining AMP period is unusual by scale and of such significant that it would be beneficial to users of the financial statements to be disclosed separately in order to ensure our reporting cash flow movement reflects our ordinary business.

The Directors consider that any individual gain or loss on disposal of greater than £30.0 million would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances. These will be explained in the notes of the accounts on a case-by-case basis where relevant.

## Accounting policies continued

### New accounting policies and financial reporting changes

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

### Future standards and amendments

#### IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as the London Interbank Offer Rate ("LIBOR") and other interbank offered rates ("IBORs") has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes in some of the various jurisdictions affected, although the UK FCA has announced the timetable for the cessation of all LIBORs.

We cannot rely on GBP LIBOR being published after the end of 2021 and the industry-led Working Group on Sterling Risk-Free Reference Rates is supporting the transition from GBP LIBOR to SONIA (Sterling Overnight Index Average). There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

Industry working groups have published documentation regarding methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Group has established a project to oversee the GBP LIBOR transition plan. This transition project will include changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Group currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps, both for external and intercompany contracts, which it plans to implement prior to the end of 2021.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2021, the Group had no designated hedge relationship and hedge accounting was not applied.

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for financial years beginning on or after 1 January 2021 and addresses issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark. We have not early adopted the standard for the current year.

### IAS 12 – Income Taxes

Amendments have been proposed by the IASB to clarify how companies account for deferred tax on leases and decommissioning obligations. This is not effective until 2023. We are considering the implications of these amendments.

### Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Company, and to enhance the comparability of information between reporting periods.

### Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 9 and 10 respectively) and capital accruals.

### Net debt

Net debt is presented in note 18 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the whole business securitisation covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 18.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt. Refer to page 129 for more information.

### Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Company needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

### Gearing

Gearing is the percentage of the Company's covenant net debt to RCV and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

### Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

### Credit rating

The Company must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

## Accounting policies continued

### Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement.

As required by some of our financial covenants, we disclose our underlying performance separately.

### Bazalgette Tunnel Limited ("BTL")

BTL represents the financial performance of the Group from the arrangement with BTL. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance. Refer to page 121 for more information on the BTL arrangement.

### EBIT

Earnings before interest and taxation ("EBIT") is a key performance metric used by management. As the Company has significant capital investment it is necessary that amounts relating to depreciation and amortisation are included in this metric. However, as interest expense and income and gains/losses on financial instruments are largely driven by external factors management deem it most appropriate to use EBIT as a key performance metric. EBIT has been reconciled to statutory profit before tax in note 1 Segmental Analysis.

### Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group 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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2021 are contained in the sections below:

#### Revenue recognition

##### Accounting judgement – revenue recognition

##### Water and wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in revenue for the current year of £49.9 million (2020: £33.1 million), with a corresponding decrease in receivables as shown in note 14.

When the criteria for revenue recognition for a transaction are not met, recognition of the revenue is delayed until collectability is reasonably certain. Payments received in advance of entitlement are recorded within contract liabilities. Advance payments received from unmeasured customers for the year ended 31 March 2021 was £75.4 million (2020: £78.2 million).

### Connections, requisitions and diversions

Management considers these types of income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer or other third party.

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and the Group will have a present right to payment for work performed to date.

The charges are standalone and are not reflective of the ongoing obligation to supply the occupants of the newly connected properties. Supply to the occupants is charged on a standalone basis. This supports the decision not to defer connections/requisitions charges beyond completion of the service to the developer.

### Infrastructure charges

Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

### Accounting judgement and estimation – provision for expected credit losses

As part of our future consideration, management has considered the impact of Covid-19 on customers' ability to pay their water and wastewater bills and has increased the provision by £9.0 million (2020: £15.2 million) across directly billed customers and WOCs. No adjustment has been made for non-household customers as management have assessed the future cash flows and the risk of non-payment was considered to be not material. The accounting treatment of revenue has also been unchanged by Covid-19 since it has not impacted how the performance obligations are measured.

For Directly billed customers the judgement was based on an average of three scenarios:

- Higher write-offs as a result of uncollected debt due to Covid-19 from 2020/21 billing being carried into the following year, which had an impact of £8.5 million on the provision;
- As above, but with the added expectation that reduced collections work in 2020/21 should therefore attribute a higher level of collectability to this debt in the following year since this contained debt of customers who have the ability to pay but have not been engaged with through collections activity yet, albeit not to the level expected in the year of billing. Therefore, this had an impact of £6.3 million on the provision; and
- Ongoing challenges causing collection rates to be worse than expected by 2%, which had an impact of £8.0 million on the provision.



## Accounting policies continued

### Revenue recognition continued

The average impact of these scenarios was £7.6 million.

For WOCs the judgement was based on an average of two scenarios:

- The budgeted Covid-19 percentage impact proposed for 2021/22 by the WOCs to their cash collection forecasts, applied to debt in proportion to the overall bad debt provision rate, which had an impact of £1.0 million on the provision; and
- The Covid-19 percentage impact used by the WOCs in 2020/21 and applied to all debt, which had an impact of £1.8 million on the provision.

The average impact of these scenarios was £1.4 million.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2021 was £146.3 million (2020: £187.8 million). The decrease was due to write offs in the year, primarily related to legacy debt, and a reduction in the total household provision due to an improvement in prior year debt collection rates following successful execution of our debt transformation programme.

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers is based on cash collection rates; for the WOCs it is the information from their statutory accounts in relation to the level of bad debt provision held for billed and unbilled debtors. The sensitivity analysis is summarised below:

#### Directly Billed

Scenario	£m	Outcome
Current year cash collection rates increase by 1%	(3.3)	Reduction in charge
Current year cash collection rates reduce by 1%	3.3	Increase in charge

#### WOCs

Scenario	£m	Outcome
Reduction in WOC provision rates by 1%	(0.9)	Reduction in charge
Increase in WOC provision rates by 1%	0.9	Increase in charge

#### Non-Household customers

Queries relating to de-registration of properties are provided for in full. We performed sensitivity analysis on the revenue loss provision based on the % of payments made on all remaining queries from the non-household market, held at year end.

Scenario	£m	Outcome
Increase in payment % by 10%	0.3	Increase in charge
Decrease in payment % by 10%	(0.3)	Reduction in charge

### Property, plant and equipment and intangible assets

#### Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective,

### Property, plant and equipment and intangible assets

#### Accounting judgement – capitalisation of costs

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Management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangibles assets for the year ended 31 March 2021, net of commissioning, were £69.7 million (2020: £97.6 million).

#### Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELS") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods. The total depreciation charge for the year ended 31 March 2021 was £559.3 million (2020: £547.6 million) and the total amortisation charge for the year was £51.9 million (2020: £32.8 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome for the year ended 31 March 2021
5 year increase in average remaining useful life	75.0	Decrease in total depreciation and amortisation charge in the year
5 year decrease in average remaining useful life	99.8	Increase in total depreciation and amortisation charge in the year

## Accounting policies continued

### Provisions for other liabilities and charges

#### Accounting judgement – recognition of other provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are related to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 20, total £45.1 million as at the year ended 31 March 2021 (2020: £30.7 million).

#### Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2021 totalled £143.7 million (2020: £144.3 million). There is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided.

### Retirement benefit obligations

#### Accounting judgement – IFRIC 14 ‘IAS 19 ‘The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’

The Trust Deed for the Thames Water Mirror Image Scheme (“TWMIPS”) provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Group considers that under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

#### Accounting estimate – actuarial assumptions

The Group operates two defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2019, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2019, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. The pension liability and net cost recognised under IAS 19 Employee Benefits are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and together represent a key source of estimation uncertainty. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- inflation.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the two schemes as at 31 March 2021 was £219.2 million (2020: £114.6 million), which includes a pension deficit of £277.1 million (2020: £209.1 million) for the TWPS scheme, offset by a pension surplus of £57.9 million (2020: £94.5 million) for the TWMIPS scheme. Refer to note 22 for more information on the key assumptions and sensitivities of the pension schemes.

### Derivative financial assets and liabilities

#### Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate 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 Group'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. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate. In case where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level 2. The net total of derivative financial assets and liabilities as at 31 March 2021 was a liability of £1,306.5 million (31 March 2020 a liability of: £686.6 million). Refer to note 18 on pages 149-156 for more information on the key assumptions and sensitivities of the financial instruments.

## Accounting policies continued

### Derivative financial assets and liabilities continued

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change in the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During the prior year, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2021, £35.3 million (31 March 2020: £37.3 million) remained capitalised and £2.0 million had been recognised in the income statement (31 March 2020: £0.7 million). See note 18 to the consolidated financial statements "Financial Instruments" for more information.

### Judgement that relates to Bazalgette Tunnel Limited ("BTL")

#### Accounting judgement – principal vs. agent

BTL is the independent licenced utility company appointed to construct the Thames Tideway Tunnel. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the Company's licence). Judgement has been exercised in assessing whether the Group is acting as principal or agent in its relationship with BTL.

Under IFRS 15 an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself, or to arrange for them to be provided by another party. The Group is deemed to have primary responsibility for providing the 'end to end' services relating to the disposal of waste from its wastewater customers from collection, transportation (through the existing infrastructure and the Thames Tideway Tunnel) to the processing in the Group's sewage treatment plants. The Group continues to charge its wastewater customers for the end-to-end waste management service and the BTL element will not be separately reflected in customer bills.

Additionally, the Group, as the sole future user of the Tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the Tunnel). These risks include reputational risks. Management therefore consider the Group is operating as principal in the relationship with BTL.

## Notes to the consolidated financial statements

### 1. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker (“CODM”) of the Group.

In line with the Group’s structure ‘One Thames’, all operational and support functions providing a safe and reliable water and wastewater service to customers are included in a single business unit, enabling an end-to-end view of customer journeys and integrated resource management.

From 1 April 2017, our customer profile changed following the sale of our non-household retail business to Castle Water Limited. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer. There is now a far smaller number of non-household customers, being retailers rather than the end user and we have one customer (Castle Water Limited) that accounts for more than 10% of our total revenue.

Revenue is further disaggregated into the different products and services, as detailed in note 2.

The Group is subject to economic regulation by Ofwat and operates under a licence to provide water and wastewater services within a defined geographical region, being London, the Thames Valley and the surrounding area, therefore management considers the UK to be the geographical location of business.

### Segmental performance

A segmental analysis of the management revenue and EBIT figures has been presented with a reconciliation to statutory revenue and profit before tax below:

Year ended 31 March	2021 £m	2020 £m
Management revenue	2,082.5	2,141.3
Net operating expenses before depreciation and amortisation	(1,161.6)	(1,099.8)
Depreciation of property, plant and equipment	(551.9)	(545.9)
Amortisation of intangible assets	(49.9)	(31.5)
Other operating income/(loss)	11.5	(0.4)
<b>Management Earnings before Interest and Tax (EBIT)</b>	<b>330.6</b>	<b>463.7</b>

### Revenue– Management to statutory reconciliation

The business segment’s revenue is reconciled to the Group’s statutory revenue below:

Year ended 31 March	2021 £m	2020 £m
Management revenue	2,082.5	2,141.3
Household BTL revenue	63.6	52.2
Non-household BTL revenue	10.5	12.1
Statutory reclassification of bad debt from operational expenditure <sup>1</sup>	(49.9)	(32.8)
<b>Total statutory revenue</b>	<b>2,106.7</b>	<b>2,172.8</b>

1 This relates to amounts billed that are not probable of being recovered and therefore excluded from IFRS 15 revenue. In the current year, £49.6 million relates to management revenue and £0.3 million relates to BTL revenue.

The business segment’s EBIT is reconciled to the Group’s statutory operating profit and (loss)/profit before tax below:

Year ended 31 March	2021 £m	2020 £m
<b>Management EBIT</b>	<b>330.6</b>	<b>463.7</b>
IFRS 16 adjustment <sup>1</sup>	6.1	3.5
Statutory recognition of other operating income <sup>2</sup>	57.9	59.4
Statutory reclassification of pension costs	17.7	18.7
Statutory depreciation and write off adjustments <sup>3</sup>	(9.9)	(6.5)
Household BTL revenue <sup>4</sup>	63.6	52.2
Non-household BTL revenue <sup>4</sup>	10.5	12.1
Other statutory adjustments <sup>5</sup>	12.3	(25.6)
<b>Total statutory operating profit before finance income/expenses</b>	<b>488.8</b>	<b>577.5</b>
Finance income	187.7	90.1
Finance expense	(395.8)	(424.6)
Net (losses)/gains on financial instruments	(522.2)	190.8
<b>Total statutory (loss)/profit before tax</b>	<b>(241.5)</b>	<b>433.8</b>

1 The management numbers do not recognise any balances associated with IFRS 16 and all leases are recognised in the management numbers as an expense when incurred.

2 Requisitions and diversion charges, service connection charges, amortisation of deferred income recognised on adoption of assets at nil cost and the release from deferred income of infrastructure charges are recognised in other operating income for statutory purposes (as disclosed in note 2) but are offset against capital expenditure for management purposes. Elements of other income are also excluded for management purposes.

3 Depreciation of adopted fair value assets, borrowing costs and write-offs recognised for statutory purposes only.

4 The portion of BTL revenue related to our household and non-household customers.

5 These amounts relate to insurance, provisions and other statutory only adjustments not included in management numbers.

## Notes to the consolidated financial statements continued

### 2. Revenue

Year ended 31 March	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Gross revenue	2,082.5	74.1	2,156.6	2,141.3	64.6	2,205.9
Charge for bad and doubtful debts	(49.6)	(0.3)	(49.9)	(32.8)	(0.3)	(33.1)
<b>Total</b>	<b>2,032.9</b>	<b>73.8</b>	<b>2,106.7</b>	<b>2,108.5</b>	<b>64.3</b>	<b>2,172.8</b>

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. The Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected it is paid over to BTL under the 'pay when paid' principle. The revenue on this arrangement has been disclosed separately to the Group's underlying performance in the table above, which is consistent with our financial covenants. The primary reason for the increase in BTL revenue is driven by the phasing of construction works.

We have presented a further disaggregation of our revenue below:

Gross revenue for the year ended 31 March	2021 £m	2020 £m
<i>Household market:</i>		
Water services	726.1	678.7
Wastewater services	871.5	855.6
Retail services	140.6	171.7
<b>Total gross revenue from household market</b>	<b>1,738.2</b>	<b>1,706.0</b>
<i>Non-household market:</i>		
Water services	152.2	199.2
Wastewater services	147.0	190.7
Retail services	1.4	1.1
<b>Total gross revenue from non-household market</b>	<b>300.6</b>	<b>391.0</b>
Gross revenue from principal services <sup>1</sup>	2,038.8	2,097.0
Other appointed revenue <sup>2</sup>	20.3	23.5
<b>Total appointed revenue</b>	<b>2,059.1</b>	<b>2,120.5</b>
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel) <sup>3</sup>	23.4	20.8
<b>Total gross underlying revenue</b>	<b>2,082.5</b>	<b>2,141.3</b>
Amounts billed for the Thames Tideway Tunnel	74.1	64.6
<b>Total gross revenue</b>	<b>2,156.6</b>	<b>2,205.9</b>

All revenue is derived from activities based in the UK.

- Gross revenue from principal services relates to appointed revenue which is revenue generated from the regulated activities of the Company as defined in Condition A of its licence of appointment. These are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.
- Other appointed revenue is revenue generated from appointed activities but is not governed by the price control. These activities mainly include bulk supplies.
- Non-appointed revenue is revenue generated from non-appointed activities. These activities include third-party discharges to sewage treatment works and other commercial activities including developer services, property searches and cess treatment (treatment of waste from private receptacles not linked to the network).

### Other operating income

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Year ended 31 March	2021 £m	2020 £m
Power income <sup>1</sup>	10.9	12.1
Requisitions and diversions charges	27.0	29.4
Service connections charges	18.2	18.9
Amortisation of deferred income recognised on adoption of assets at nil cost	3.7	3.1
Release from deferred income – infrastructure charges	5.3	5.1
Rental income <sup>2</sup>	30.0	3.3
Gain/(loss) on sale of property, plant and equipment	8.4	(4.1)
Other income <sup>3</sup>	18.3	4.6
<b>Total</b>	<b>121.8</b>	<b>72.4</b>

- Power income comprises income from the sale of internally generated electricity.
- In the current year we recognise £27.7 million of rental income relating to previous years which was previously held on the Balance Sheet. The rental income relates to a property purchased for the delivery of the Thames Tideway Tunnel. This building was acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed.
- Other income includes £14.6 million relating to excess payments received from customers in the past and recognised during the current year. In the prior year, £5.1 million is recognised in impairment losses on financial and contract assets. See note 3 'Operating expenses' for further detail.



## Notes to the consolidated financial statements continued

### 2. Revenue continued

#### 2.1 Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

As at 31 March	Note	2021 £m	2020 £m
<b>Contract assets</b>			
<i>Current:</i>			
Accrued revenue for services provided to metered customers		176.7	173.5
Accrued income for other activities <sup>1</sup>		68.6	62.9
Total current contract assets	14	245.3	236.4
<b>Total contract assets</b>		245.3	236.4
<b>Contract liabilities</b>			
<i>Non-current:</i>			
Deferred revenue from infrastructure charges		517.3	511.9
Deferred revenue from other activities <sup>2</sup>		240.0	195.4
Total non-current contract liabilities	16	757.3	707.3
<i>Current:</i>			
Advance payments received from unmeasured customers		75.4	78.2
Deferred revenue from infrastructure charges		5.3	5.3
Deferred revenue from other activities <sup>2</sup>		43.3	40.6
Total current contract liabilities	16	124.0	124.1
<b>Total contract liabilities</b>		881.3	831.4

1 Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 121).

2 Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

#### 2.2 Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities. No amounts were recognised in the current financial year that relate to performance obligations satisfied, or partially satisfied, in previous periods.

Year ended 31 March	Note	2021 £m	2020 £m
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period:</i>			
Advance payments received from unmeasured customers	16	78.2	75.6
Deferred revenue from infrastructure charges	16	5.3	5.1
Deferred revenue from other activities	16	40.6	33.3
<b>Total</b>		124.1	114.0

#### 2.3 Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

Year ended 31 March	2021 £m	2020 Restated <sup>1</sup> £m
<i>Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:</i>		
Service connections	6.0	7.4
Requisitions and diversions <sup>1</sup>	206.6	175.6
Infrastructure charges	522.8	517.1
Other	4.3	3.6
<b>Total</b>	739.7	703.7

1 The prior year restatement is to disclose future income we are contracted to receive related to diversions, which was not disclosed in the previous financial year. The amount previously stated was £16.4m which has been restated to £175.6m as at 31 March 2020. The restated amount of £175.6 million includes £7.7million for High Speed 2, which relates to the relocation of assets to allow for the ongoing construction of this rail project. In the current year the amount relating to High Speed 2 is £41.0 million.

The Group considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Company considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate.

## Notes to the consolidated financial statements continued

### 3. Operating expenses

Year ended 31 March	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Wages and salaries	302.7	–	302.7	277.4	–	277.4
Social security costs	33.3	–	33.3	30.7	–	30.7
Pension costs – defined benefit schemes	24.4	–	24.4	26.8	–	26.8
Pension costs – defined contribution schemes	15.2	–	15.2	13.1	–	13.1
Apprenticeship levy	1.5	–	1.5	1.3	–	1.3
<b>Total employee costs</b>	<b>377.1</b>	<b>–</b>	<b>377.1</b>	<b>349.3</b>	<b>–</b>	<b>349.3</b>
Power	132.0	–	132.0	129.0	–	129.0
Carbon reduction commitment	–	–	–	(1.1)	–	(1.1)
Raw materials and consumables	53.0	–	53.0	53.9	–	53.9
Rates <sup>1</sup>	121.5	–	121.5	98.2	–	98.2
Research and development expenditure	11.2	–	11.2	3.8	–	3.8
Insurance	40.2	–	40.2	39.8	–	39.8
Legal and professional fees	40.3	–	40.3	26.5	–	26.5
Other operating costs <sup>2</sup>	512.0	–	512.0	494.2	–	494.2
Own work capitalised	(219.8)	–	(219.8)	(183.0)	–	(183.0)
<b>Net operating expenses before depreciation and amortisation</b>	<b>1,067.5</b>	<b>–</b>	<b>1,067.5</b>	<b>1,010.6</b>	<b>–</b>	<b>1,010.6</b>
Depreciation of property, plant and equipment	559.3	–	559.3	547.6	–	547.6
Depreciation of right-of-use assets	8.0	–	8.0	8.2	–	8.2
Amortisation of intangible assets	51.9	–	51.9	32.8	–	32.8
<b>Net operating expenses excluding exceptional items</b>	<b>1,686.7</b>	<b>–</b>	<b>1,686.7</b>	<b>1,599.2</b>	<b>–</b>	<b>1,599.2</b>
<i>Exceptional costs:</i> <sup>3</sup>						
Company reorganisation – severance	0.1	–	0.1	12.2	–	12.2
Associated programme management costs	16.2	–	16.2	15.5	–	15.5
<b>Operating expenses excluding impairment losses on financial and contract assets</b>	<b>1,703.0</b>	<b>–</b>	<b>1,703.0</b>	<b>1,626.9</b>	<b>–</b>	<b>1,626.9</b>
Impairment losses on financial and contract assets <sup>4</sup>	36.5	0.2	36.7	40.6	0.2	40.8
<b>Total operating expenses</b>	<b>1,739.5</b>	<b>0.2</b>	<b>1,739.7</b>	<b>1,667.5</b>	<b>0.2</b>	<b>1,667.7</b>

1 Rates expense in the current period include £nil rebates (2020: £23.0 million relating to reassessment of the business rates expense in the period 2005-2015).

2 Other operating costs primarily relate to costs for contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditure under IAS 16: Property, plant and equipment.

3 Exceptional costs of £16.3 million (2020: £27.7 million) relate to transformation expenditure incurred as a result of the significant restructuring of the business that commenced in the previous financial year and continued into this financial year. These costs are considered to be exceptional in nature with significant expenditure incurred that is not in the ordinary course of business. The restructuring of the business involved significant changes in the way that the Company operates and therefore this transformation expenditure is deemed exceptional by nature. The tax impact of exceptional items is an increase in the tax credit in the income statement of £3.1 million (2020: £5.3 million) applying the 19% corporation tax rate.

4 Impairment loss for the prior year is net of £5.1 million relating to excess payments received from customers in the past and recognised during the year. In the current year, £14.6 million is recognised in other income. See note 2 'Revenue' for further detail.

#### Auditors' remuneration

Amounts payable to the Group's auditors are shown below in respect of the following services to the Group:

	2021 £'000	2020 £'000
<i>Fees payable to the Group's auditors:</i>		
Fees payable for the audit of the Group and Company financial statements	1,319.6	1,086.0
Fees payable for the audit of the subsidiary financial statements	94.0	108.0
<i>Fees payable to the Group's auditors for other services:</i>		
Audit related assurance services	753.8	819.0
Other assurance services	206.5	83.0
<b>Total aggregate remuneration</b>	<b>2,373.9</b>	<b>2,096.0</b>

Fees payable for the audit of the Group's financial statements in the current financial year exclude £3,000 (2020: £10,000) for out of pocket expenses incurred for delivery of the audit.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements for Ofwat.

## Notes to the consolidated financial statements continued

### 4. Employees and Directors

#### Employees

All Company employees are based in the United Kingdom. No employees are employed by TWUF.

The average number of persons employed on a permanent basis by the Company (including Executive Directors) during the year, analysed by category, was as follows:

	2021 Number	2020 Number
Operations	3,420	3,313
Customer experience	1,452	1,456
Support services	1,139	1,099
Digital, strategy and transformation	379	300
Delivery office	135	128
<b>Total persons employed by the Company</b>	<b>6,525</b>	<b>6,296</b>

#### Directors' emoluments

The Directors' emoluments were as follows:

	2021 £'000	2020 £'000
Salary and fees	1,951.0	1,660.0
Pension and pension allowances	159.0	106.0
Bonus	510.0	703.0
Payment on loss of office	–	2,362.0
Other benefits	481.0	15.0
<b>Total aggregate emoluments</b>	<b>3,101.0</b>	<b>4,846.0</b>

Included in the table above, is £1.5 million (2020: £3.6 million) for the Executive Directors for their services to the Company. In addition, the Executive Directors received total remuneration of £0.5 million (2020: £1.2 million) for their services to other companies within the Kemble Water Holdings Group.

In the current and preceding financial years no amounts were accruing to any Directors under the Company's defined benefit scheme in respect of services to the Company. The Company contributed cash of £119,000 (2020: £106,000) as a pension supplement for two Directors (2020: two Directors). In the current and preceding years the Company made no contributions into the Company's defined contribution pension scheme in relation to the Directors.

Other benefits includes medical benefits, car allowances and other incentives.

Amounts disclosed in respect of the long-term incentive plan ("LTIP") are those where all performance and service conditions have been met. Detailed disclosures of items of remuneration, including those accruing under LTIPs can be found within the Remuneration Committee Report on pages 87–103. Refer to note 28 for disclosure on Key management personnel.

During the previous period, there was an additional £2 million paid in respect of loss of office. This additional £2 million cost will not be passed onto customers but funded through earnings generated from the non-appointed business. In order to preserve the Company's gearing ratio, £2 million cash was received from Thames Water Limited, via the Company's immediate parent company, Thames Water Utilities Holdings Limited.

#### Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Company during the year were £921,351 (2020: £2,229,562). In addition, emoluments of £307,117 (2020: £743,187) were paid to the highest paid Director for services to other companies within the Kemble Water Holdings Group.

### 5. Finance income and expense

During the year ended 31 March 2021, the Group recognised finance income of £187.7 million (2020: £90.1 million) relating mainly to interest on swaps, intercompany loans and interest on bank deposits.

#### Finance income

	2021 £m	2020 £m
<b>Year ended 31 March</b>		
Interest income on bank deposits	1.2	2.0
Interest income on intercompany loans receivable	13.1	22.0
Interest income on swaps	171.8	65.2
Other finance income on swaps	0.9	0.2
Other interest income	0.7	0.7
<b>Total finance income</b>	<b>187.7</b>	<b>90.1</b>

## Notes to the consolidated financial statements continued

### 5. Finance income and expense

#### Finance expense

The Group also recognised finance expenses of £395.8 million (2020: £424.6 million) relating mainly to interest and accretion on loans and other borrowings, leases and defined benefit pension obligations.

Year ended 31 March	Note	2021 £m	2020 £m
<i>Interest in relation to bank and other loans:</i>			
Interest expense		(409.0)	(407.7)
RPI accretion on loans		(50.2)	(105.1)
<i>Interest in relation to defined benefit obligation:</i>			
Net interest expense on defined benefit obligation	22	(1.9)	(6.2)
<i>Interest in relation to leases:</i>			
Leases	11	(3.4)	(3.7)
<i>Fees:</i>			
Finance (fees)/credit <sup>1</sup>		(1.0)	0.5
<b>Gross finance expense</b>		<b>(465.5)</b>	<b>(522.2)</b>
Capitalised borrowing costs		69.7	97.6
<b>Total finance expense</b>		<b>(395.8)</b>	<b>(424.6)</b>

1 For the prior year ended 31 March 2020, fees of £0.3 million and a credit of £0.8 million related to a reversal of fee accrual was disclosed separately, on the table above a net amount of £0.5 million has been disclosed.

### 6. Net (losses)/gains on financial instruments

The reconciliation to net (losses)/gains on financial instruments has been provided below:

Year ended 31 March	2021 £m	2020 £m
Net exchange gains/(losses) on foreign currency borrowings	145.7	(52.1)
Net (loss)/gain arising on swaps where hedge accounting is not applied <sup>1</sup>	(630.4)	277.8
Loss on cash flow hedge transferred from equity <sup>2</sup>	(37.5)	(34.9)
<b>Total</b>	<b>(522.2)</b>	<b>190.8</b>

1 In the current period the net loss arising on swaps where hedge accounting is not applied primarily reflects higher RPI expectations and an appreciation of GBP against USD and EUR. This excludes interest which is disclosed in note 5 Finance income and expense.

2 Refer to note 18 Financial Instruments on page 154 for more information on the loss on cash flow hedge transferred from equity.

### 7. Tax credit/(charge) on (loss)/profit on ordinary activities

	2021			2020		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<i>Current tax:</i>						
Amounts (receivable)/payable in respect of group relief	(3.1)	14.0	10.9	2.9	6.1	9.0
<b>Current tax subtotal</b>	<b>(3.1)</b>	<b>14.0</b>	<b>10.9</b>	2.9	6.1	9.0
<i>Deferred tax:</i>						
Origination and reversal of timing differences	(54.9)	–	(54.9)	68.2	–	68.2
Adjustment in respect of corporation tax rate change	–	–	–	111.2	–	111.2
Adjustment in respect of prior periods	1.0	–	1.0	0.8	–	0.8
<b>Deferred tax subtotal</b>	<b>(53.9)</b>	<b>–</b>	<b>(53.9)</b>	180.2	–	180.2
<b>Tax (credit)/charge on (loss)/profit on ordinary activities</b>	<b>(57.0)</b>	<b>14.0</b>	<b>(43.0)</b>	183.1	6.1	189.2

## Notes to the consolidated financial statements continued

### 7. Tax credit/(charge) on (loss)/profit on ordinary activities continued

The tax credit for the year ended 31 March 2021 is lower (2020: higher charge) than the standard rate of corporation tax in the UK. The differences are explained below:

Year ended 31 March	2021				2020			
	Underlying £m	BTL £m	Total £m	Effective tax rate %	Underlying £m	BTL £m	Total £m	Effective tax rate %
(Loss)/profit on ordinary activities before taxation	(315.1)	73.6	(241.5)		369.7	64.1	433.8	
Tax at 19% (2020: 19%)	(59.9)	14.0	(45.9)	19.0%	70.2	12.2	82.4	19.0%
Effects of:								
<i>Recurring items</i>								
Depreciation on assets that do not qualify for tax relief	4.4	–	4.4		4.3	–	4.3	
Disallowable expenditure <sup>1</sup>	2.6	–	2.6		0.6	–	0.6	
Non-taxable income <sup>2</sup>	(4.5)	–	(4.5)		(4.4)	–	(4.4)	
Property disposals	(0.8)	–	(0.8)		0.1	–	0.1	
Group relief paid for at lower than statutory rate	–	–	–		0.3	(6.1)	(5.8)	
Tax as adjusted for recurring items	(58.2)	14.0	(44.2)	18.3%	71.1	6.1	77.2	17.8%
<i>Non-recurring items</i>								
Impact of deferred tax rate change <sup>3</sup>	0.2	–	0.2		111.2	–	111.2	
Adjustments to tax charge in respect of prior periods – deferred tax	1.0	–	1.0		0.8	–	0.8	
<b>Total tax (credit)/charge</b>	<b>(57.0)</b>	<b>14.0</b>	<b>(43.0)</b>	<b>17.8%</b>	<b>183.1</b>	<b>6.1</b>	<b>189.2</b>	<b>43.6%</b>

1 Disallowable expenditure primarily relates to fines included in operating expenses.

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

3 The deferred tax rate changed in the prior year from 17% to 19%. A one-off charge of £111.2 million arose in that year on the restatement of deferred tax balances to 19%.

The Group is not currently in a tax paying position with HMRC (although it does pay for group relief), primarily due to capital allowances on capital expenditure, tax deductions for borrowing costs and group relief which has arisen on interest expenses in holding companies. The differences between (loss)/profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below.

Year ended 31 March	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	(315.1)	73.6	(241.5)	369.7	64.1	433.8
Tax at 19% (2020: 19%)	(59.9)	14.0	(45.9)	70.2	12.2	82.4
Effects of:						
Depreciation on assets that do not qualify for relief	4.4	–	4.4	4.3	–	4.3
Disallowable expenditure	2.6	–	2.6	0.6	–	0.6
Non-taxable income	(4.5)	–	(4.5)	(4.4)	–	(4.4)
Property disposals	(0.8)	–	(0.8)	0.1	–	0.1
Capital allowances for the year higher than depreciation	(12.7)	–	(12.7)	(3.3)	–	(3.3)
Capitalised borrowing costs allowable for tax <sup>4</sup>	(13.3)	–	(13.3)	(18.5)	–	(18.5)
Taxable profit on IFRS 16 and other restatements	–	–	–	5.5	–	5.5
Profits on financial derivatives <sup>5</sup>	89.9	–	89.9	(48.8)	–	(48.8)
Pension cost charge lower than pension contributions <sup>6</sup>	(17.1)	–	(17.1)	(1.9)	–	(1.9)
Other short term timing differences	8.3	–	8.3	(1.2)	–	(1.2)
Group relief not paid at standard rate	–	–	–	0.3	(6.1)	(5.8)
<b>Current tax (credit)/charge for the year</b>	<b>(3.1)</b>	<b>14.0</b>	<b>10.9</b>	<b>2.9</b>	<b>6.1</b>	<b>9.0</b>

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

5 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.

6 The Group made higher pension contributions in the year as a result of the additional pension deficit repair payment, which will receive tax relief. The Group reduced its claim for capital allowances accordingly so that current tax was not affected; as a result, no tax amounts have been booked to OCI in respect of the pension deficit repair payment.

### Uncertain tax positions

At 31 March 2021 the total value of uncertain corporation tax positions was £nil (2020: £nil), reflecting the agreement of tax computations with HMRC up to and including 31 March 2018.



## Notes to the consolidated financial statements continued

### 7. Tax credit/(charge) on (loss)/profit on ordinary activities continued

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

Year ended 31 March	2021 £m	2020 £m
<i>Deferred tax:</i>		
Tax credit/(charge) on net actuarial loss/(gain) in year	43.1	(37.4)
Impact of deferred tax rate change in prior year on net actuarial (gains)/losses	–	7.7
	43.1	(29.7)
<i>Deferred tax:</i>		
Tax charge on cash flow hedges in year	(7.1)	(5.2)
Impact of deferred tax rate change in prior year on cash flow hedges	–	2.2
	(7.1)	(3.0)
<b>Total credited/(charged) directly to other comprehensive income</b>	<b>36.0</b>	<b>(32.7)</b>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change for the Group, had it been substantively enacted by the balance sheet date, would be to increase the net deferred tax liability by £293.6m, comprising an increase of £372.4m in the liability for accelerated depreciation, less a £78.8m increase in the assets for pensions, derivatives and other timing differences. The tax expense for the period would increase by £330.6m and the credit to reserves would increase by £37.0m.

### 8. Dividends

During the year ended 31 March 2021, the Company paid total dividends of £32.9 million (2020: £56.5 million) to its immediate parent Thames Water Utilities Holdings Limited.

The dividend paid during the year ended 31 March 2021 was used to fund interest obligations and activities of other companies within the Kemble Water Holdings Group and was distributed as follows:

Year ended 31 March	2021 £m	2020 £m
<i>Distribution to external shareholders:</i>		
External dividend distributions	–	–
Kemble Water Eurobond Plc debt service costs	–	–
	–	–
<i>Distributions not distributed to external shareholders:</i>		
Kemble Water Finance Limited debt service costs	31.5	54.0
Distribution to Thames Water Limited	1.4	2.5
	32.9	56.5
<b>Total</b>	<b>32.9</b>	<b>56.5</b>

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2020: £nil).

Dividends paid to Kemble Water Finance Limited (“KWF”) were used to enable it to continue to meet its debt service obligations for external debt and external debt of a subsidiary of KWF, Thames Water (Kemble) Finance Plc, which have been on lent to KWF via intercompany loans debt. Dividends paid to Thames Water Limited were used to fund activities of the company.

External shareholders above is referring to shareholders of Kemble Water Holdings Limited (“Kemble”).

Further information on dividend payments can be found in Our Financial Review on page 51.

## Notes to the consolidated financial statements continued

### 9. Intangible assets

	Software £m	Assets in development £m	Total £m
<b>Cost:</b>			
At 1 April 2019	240.9	154.4	<b>395.3</b>
Additions	–	86.7	<b>86.7</b>
Write-offs	(4.1)	–	<b>(4.1)</b>
Transfers between categories	222.5	(214.3)	<b>8.2</b>
Disposals	(0.6)	–	<b>(0.6)</b>
At 31 March 2020	458.7	26.8	<b>485.5</b>
Additions	–	54.8	<b>54.8</b>
Transfers between categories	35.9	(35.9)	<b>–</b>
Disposals	(89.0)	–	<b>(89.0)</b>
<b>At 31 March 2021</b>	<b>405.6</b>	<b>45.7</b>	<b>451.3</b>
<b>Accumulated amortisation:</b>			
At 1 April 2019	(177.5)	–	<b>(177.5)</b>
Amortisation charge	(32.8)	–	<b>(32.8)</b>
Transfers between categories	(2.2)	–	<b>(2.2)</b>
Disposals	0.4	–	<b>0.4</b>
At 31 March 2020	(212.1)	–	<b>(212.1)</b>
Amortisation charge	(51.9)	–	<b>(51.9)</b>
Disposals	89.0	–	<b>89.0</b>
<b>At 31 March 2021</b>	<b>(175.0)</b>	<b>–</b>	<b>(175.0)</b>
<b>Net book value:</b>			
<b>At 31 March 2021</b>	<b>230.6</b>	<b>45.7</b>	<b>276.3</b>
At 31 March 2020	246.6	26.8	<b>273.4</b>

Additions in the previous financial year relate to IT projects undertaken including the implementation of new customer relationship management and billing (“CRMB”) system and a new meter data management system. No borrowing costs were capitalised during the year (31 March 2020: £3.4 million). The write offs are included under operating expenses in the income statement. The effective rate of borrowing costs for the year for 2020 was 4.55%.

During the previous financial year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangible assets. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

During the current financial year we disposed of £89.0 million of assets. These wholly relate to assets with a nil NBV on our fixed asset register and were removed as they are now obsolete.

The gross carrying amount of intangible assets that was fully depreciated at 31 March 2021 amounted to £60.9 million (31 March 2020: £141.4 million).

### 10. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network Assets £m	Assets under construction £m	Total £m
<b>Cost:</b>					
At 1 April 2019	3,599.7	7,690.0	7,363.8	2,627.9	<b>21,281.4</b>
Additions	–	0.4	30.9	1,105.0	<b>1,136.3</b>
Transfers between categories	62.3	379.8	428.5	(878.8)	<b>(8.2)</b>
Write offs	–	(5.1)	–	(0.7)	<b>(5.8)</b>
Disposals	(2.0)	(8.1)	(0.1)	–	<b>(10.2)</b>
At 31 March 2020	3,660.0	8,057.0	7,823.1	2,853.4	<b>22,393.5</b>
Additions	–	0.2	28.6	1,021.4	<b>1,050.2</b>
Transfers between categories	125.1	482.9	548.1	(1,156.1)	<b>–</b>
Disposals	–	(184.5)	–	–	<b>(184.5)</b>
<b>At 31 March 2021</b>	<b>3,785.1</b>	<b>8,355.6</b>	<b>8,399.8</b>	<b>2,718.7</b>	<b>23,259.2</b>
<b>Accumulated depreciation:</b>					
At 1 April 2019	(989.9)	(4,374.4)	(627.7)	–	<b>(5,992.0)</b>
Depreciation charge	(52.0)	(357.2)	(138.4)	–	<b>(547.6)</b>
Transfers between categories	–	2.2	–	–	<b>2.2</b>
Disposals	0.5	6.2	–	–	<b>6.7</b>
At 31 March 2020	(1,041.4)	(4,723.2)	(766.1)	–	<b>(6,530.7)</b>
Depreciation charge	(56.8)	(365.2)	(137.3)	–	<b>(559.3)</b>
Disposals	–	183.1	–	–	<b>183.1</b>
<b>At 31 March 2021</b>	<b>(1,098.2)</b>	<b>(4,905.3)</b>	<b>(903.4)</b>	<b>–</b>	<b>(6,906.9)</b>
<b>Net book value:</b>					
<b>At 31 March 2021</b>	<b>2,686.9</b>	<b>3,450.3</b>	<b>7,496.4</b>	<b>2,718.7</b>	<b>16,352.3</b>
At 31 March 2020	2,618.6	3,333.8	7,057.0	2,853.4	<b>15,862.8</b>

£69.7 million of borrowing costs were capitalised in the period (2020: £94.2 million). The effective annual capitalisation rate for borrowing costs was 3.3% (2020: 4.55%).

In the prior year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangibles. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2021 amounted to £2,557.9 million (31 March 2020: £2,485.1 million).

## Notes to the consolidated financial statements continued

### 10. Property, plant and equipment continued

Land and Buildings include purchases made in relation to the Thames Tideway Tunnel project; an element of which will not be capitalised when the asset is brought into use. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed. Land and Buildings includes a balance relating to the lease of a property leased in connection with the construction of the Thames Tideway Tunnel. This lease meets the definition of an Investment Property and is therefore accounted for under the cost method of IAS 40 with a carrying value of £113.1m. The fair value of this property at 31 March 2021 and 31 March 2020 is assessed by the Company to be materially the same as its carrying value. The rental income earned by the Company in relation to this property in the year ended 31 March 2021 is £5.8 million (31 March 2020: £5.7 million).

During the current financial year we disposed of £184.5 million of property, plant and equipment assets. £181.4 million relate to assets with a nil NBV on our fixed asset register and were removed since being obsolete. We have also had business-as-usual disposals of £3.1 million relating to fleet and property as they are now obsolete.

### 11. Leases

#### (i) Amounts recognised in the statement of financial position

##### Right-of-use assets

As at	31 March 2021 £m	31 March 2020 £m
Land and buildings	41.6	52.3
<b>Total</b>	<b>41.6</b>	<b>52.3</b>

Additions to right-of-use assets during the year ended 31 March 2021 were £0.7 million (31 March 2020: £6.3 million).

##### Lease liabilities

As at	31 March 2021 £m	31 March 2020 £m
Current	(7.5)	(7.9)
Non-current	(52.9)	(62.4)
<b>Total</b>	<b>(60.4)</b>	<b>(70.3)</b>

#### (ii) Amounts recognised in the income statement

For the year ended	31 March 2021 £m	31 March 2020 £m
Depreciation charge of right-of-use assets	8.0	8.2
Interest expense included in finance costs	3.4	3.7
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	6.6	5.0
<b>Total</b>	<b>18.0</b>	<b>16.9</b>

The total cash outflow for leases during the year ended 31 March 2021 was £10.9 million (31 March 2020: £11.0 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

### 12. Intercompany loans receivable

The carrying amounts of the Group's intercompany loans receivable are considered to be approximate to their fair values. The fair values and carrying values of the Group's intercompany loans receivable are set out in the tables below.

	2021		2020	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>As at 31 March</b>				
<i>Amounts owed by group undertakings:</i>				
Thames Water Utilities Holdings Limited	1,693.4	1,693.4	1,752.2	1,752.2
<i>Interest receivable on amounts owed by group undertakings:</i>				
Thames Water Utilities Holdings Limited	3.7	3.7	11.8	11.8
<b>Total</b>	<b>1,697.1</b>	<b>1,697.1</b>	<b>1,764.0</b>	<b>1,764.0</b>
Disclosed within non-current assets	1,693.4	1,693.4	1,752.2	1,752.2
Disclosed within current assets	3.7	3.7	11.8	11.8

The above intercompany loan is unsecured. These balances have not been included within the Group's net debt and covenant calculations.

The intercompany loan receivable from TWUHL is repayable on demand. Interest on the loan is charged at LIBOR plus 0.35% margin (2020: LIBOR plus 0.35% margin). Paragraph B5.5.38 of IFRS 9 states that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. As the loan is repayable on demand, the expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. The Group has considered the recoverability of the intercompany loans receivable as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany loans receivable and the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

On 29 September 2020, the Kemble Water Holdings Group performed an exercise to reduce the intercompany loan that exists between the Company and its immediate holding company Thames Water Utilities Holdings Limited ("TWUHL"). The paydown has led to a reduction in the intercompany loan and interest receivable by £80.0 million with a corresponding increase in cash, of which £58.8 million is in respect of the principal loan receivable and £21.2 million in respect of interest loan receivable that was due. During 2021, the Company earned £13.1 million of interest income related to the intercompany loan. £3.7 million of interest remained outstanding from TWUHL at 31 March 2021 (2020: £11.8 million).

The terms of the intercompany loan may be impacted by the GBP LIBOR transition plan. Refer to IBOR reform section on page 130 for more information.

## Notes to the consolidated financial statements continued

### 13. Inventories

	2021 £m	2020 £m
<b>As at 31 March</b>		
Raw materials and consumables	14.9	13.6
<b>Total</b>	<b>14.9</b>	<b>13.6</b>

### 14. Trade and other receivables

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>As at 31 March</b>						
<i>Non-current:</i>						
Prepayments	–	228.9	228.9	–	159.0	159.0
Amounts owed by group undertakings	–	–	–	0.3	–	0.3
Insurance claims receivable	44.9	–	44.9	64.4	–	64.4
Other receivables	5.8	–	5.8	6.0	–	6.0
	50.7	228.9	279.6	70.7	159.0	229.7
<i>Current:</i>						
Gross trade receivables	441.2	15.2	456.4	475.5	13.5	489.0
Less expected credit losses provision	(143.1)	(3.2)	(146.3)	(185.1)	(2.7)	(187.8)
<b>Net trade receivables</b>	<b>298.1</b>	<b>12.0</b>	<b>310.1</b>	<b>290.4</b>	<b>10.8</b>	<b>301.2</b>
Amounts owed by group undertakings	0.7	–	0.7	–	–	–
Prepayments	38.4	–	38.4	31.8	–	31.8
Other receivables	29.6	0.8	30.4	35.5	0.8	36.3
	366.8	12.8	379.6	357.7	11.6	369.3
<i>Current:</i>						
Contract assets	239.5	5.8	245.3	234.9	1.5	236.4
	606.3	18.6	624.9	592.6	13.1	605.7
<b>Total</b>	<b>657.0</b>	<b>247.5</b>	<b>904.5</b>	<b>663.3</b>	<b>172.1</b>	<b>835.4</b>

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertainties in the economy as a result of Covid-19.

Non-current prepayments at 31 March 2021 includes £228.9 million (2020: £159.0 million) of prepayment relating to the Bazalgette Tunnel Limited (“BTL”) arrangement. The prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.

Contract assets at 31 March 2021 includes £176.7 million (2020: £173.5 million) of services provided to metered customers. Included within this amount is £7.1 million of bad debt (31 March 2020: £5.9 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

### Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2021 £m	2020 £m
At 1 April	(187.8)	(176.6)
Charge for bad and doubtful debts – charged against revenue <sup>1</sup>	(41.0)	(33.1)
Charge for bad and doubtful debts – included within operating expenses	(36.7)	(40.8)
Excess credits recognised during the year	–	(5.1)
Amounts written off (utilised)	119.2	67.8
<b>Total at 31 March</b>	<b>(146.3)</b>	<b>(187.8)</b>

<sup>1</sup> included within this is a £8.9 million reduction in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The decrease of the provision in the current financial year is credited to gross revenue. The remaining amount relates to the £49.9m charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

	2021 £m	2020 £m
<b>As at 31 March</b>		
Up to 365 days	318.3	273.9
1 – 2 years	73.0	78.5
2 – 3 years	33.6	94.4
More than 3 years	31.5	42.2
<b>Total</b>	<b>456.4</b>	<b>489.0</b>

The ageing of gross BTL receivables is as follows:

	2021 £m	2020 £m
<b>As at 31 March</b>		
Up to 365 days	11.4	8.3
1 – 2 years	2.6	2.4
2 – 3 years	1.2	2.8
<b>Total</b>	<b>15.2</b>	<b>13.5</b>

BTL receivables relates to the amount of receivables collected from other parties and passed on to BTL.

## Notes to the consolidated financial statements continued

### 14. Trade and other receivables continued

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

As at 31 March	2021 £m	2020 £m
Up to 365 days	74.5	82.1
1 – 2 years	29.5	32.4
2 – 3 years	15.4	44.4
More than 3 years	26.9	28.9
<b>Total</b>	<b>146.3</b>	<b>187.8</b>

Ageing of impaired BTL receivables is as follows:

As at 31 March	2021 £m	2020 £m
Up to 365 days	2.0	1.4
1 – 2 years	0.8	0.6
2 – 3 years	0.4	0.7
<b>Total</b>	<b>3.2</b>	<b>2.7</b>

### 15. Cash and cash equivalents

	2021			2020		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	2.4	–	2.4	4.1	–	4.1
Money market funds	488.5	3.6	492.1	751.7	2.6	754.3
<b>Total</b>	<b>490.9</b>	<b>3.6</b>	<b>494.5</b>	<b>755.8</b>	<b>2.6</b>	<b>758.4</b>

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

### 16. Trade and other payables

	2021			2020		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Non-current:</b>						
Contract liabilities	757.3	–	757.3	707.3	–	707.3
<b>Current:</b>						
Trade payables – operating	232.1	–	232.1	262.7	–	262.7
Other taxation and social security	8.3	–	8.3	7.2	–	7.2
Amounts (receivable)/payable in respect of group relief	(1.0)	20.1	19.1	2.1	6.1	8.2
Accruals	290.6	–	290.6	305.1	–	305.1
Amounts owed to Bazalgette Tunnel Limited	–	11.3	11.3	–	10.3	10.3
Other payables	72.7	–	72.7	83.0	–	83.0
	602.7	31.4	634.1	660.1	16.4	676.5
<b>Current:</b>						
Contract liabilities	121.9	2.1	124.0	123.8	0.3	124.1
	724.6	33.5	758.1	783.9	16.7	800.6
<b>Total</b>	<b>1,481.9</b>	<b>33.5</b>	<b>1,515.4</b>	<b>1,491.2</b>	<b>16.7</b>	<b>1,507.9</b>

Current contract liabilities at 31 March 2021 includes £75.4 million (2020: £78.2 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2021 includes £522.7 million (2020: £511.9 million) of deferred infrastructure charges, £227.8 million of deferred income for nil cost “adopted” assets (2020: £179.7 million) with the remaining amount relating to payments received in advance for compensation for operating costs.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.



## Notes to the consolidated financial statements continued

### 17. Borrowings

	2021 £m	2020 £m
<b>As at 31 March</b>		
Secured bank loans and private placements	3,504.2	4,652.5
Bonds	9,087.4	8,301.6
Amounts owed to group undertakings	5.5	5.5
	12,597.1	12,959.6
Interest payable on borrowings	171.1	166.0
<b>Total</b>	<b>12,768.2</b>	<b>13,125.6</b>
Disclosed within non-current liabilities	11,643.3	11,327.9
Disclosed within current liabilities	1,124.9	1,797.7
<b>Total</b>	<b>12,768.2</b>	<b>13,125.6</b>

Secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiary, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

#### Breakdown of secured bank loans and private placements

	2021 £m	2020 £m
<b>As at 31 March</b>		
<b>THAMES WATER UTILITIES LIMITED</b>		
£75.0m 1.350% index-linked loan due 2021 <sup>(e), (h)</sup>	92.9	91.6
£215.0m 0.460% index-linked loan due 2023 <sup>(a), (h)</sup>	258.4	254.8
£215.0m 0.380% index-linked loan due 2032 <sup>(a), (b), (h)</sup>	195.0	209.5
£100.0m 3.261% index-linked loan due 2043 <sup>(a), (d), (h)</sup>	135.0	133.1
£100.0m 0.790% index-linked loan due 2025 <sup>(a), (e), (h)</sup>	114.4	112.8
£125.0m 0.598% index-linked loan due 2026 <sup>(a), (e), (h)</sup>	142.3	140.4
£70.0m Class B 3.867% fixed rate loan due 2026 <sup>(a)</sup>	70.0	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 <sup>(a)</sup>	50.0	50.0
£20.0m Class B floating rate loan due 2026 <sup>(a)</sup>	20.0	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 <sup>(a)</sup>	38.6	38.5
\$55.0m 3.380% private placement due 2023 <sup>(a), (f)</sup>	39.9	44.2
\$285.0m 3.570% private placement due 2025 <sup>(a), (f)</sup>	206.5	229.0
£216.0m 2.450% private placement due 2028 <sup>(a)</sup>	215.5	215.4
£210.0m 2.550% private placement due 2030 <sup>(a)</sup>	209.4	209.3
£40.0m 2.620% private placement due 2033 <sup>(a)</sup>	39.8	39.8
£150.0m floating rate loan due 2024 <sup>(a)</sup>	149.7	149.7
£125.0m floating rate loan due 2024 <sup>(a)</sup>	124.6	124.4

	2021 £m	2020 £m
<b>As at 31 March</b>		
£50.0m floating rate loan due 2022 <sup>(a)</sup>	49.9	49.9
£63.1m floating rate loan due 2027 <sup>(a)</sup>	62.9	62.9
£63.1m floating rate loan due 2029 <sup>(a)</sup>	62.9	62.9
£63.1m floating rate loan due 2031 <sup>(a)</sup>	62.8	62.8
<b>THAMES WATER UTILITIES FINANCE PLC</b>		
£600.0m 1.029% floating rate loan due 2020 <sup>(c), (i)</sup>	–	600.0
£300.0m 1.029% floating rate loan due 2020 <sup>(c), (i)</sup>	–	300.0
£300.0m 1.001% floating rate loan due 2020 <sup>(c), (i)</sup>	–	300.0
£214.3m 1.082% Class B floating rate loan due 2020 <sup>(c)</sup>	–	214.3
£214.3m 0.968% Class B floating rate loan due 2021 <sup>(c), (g)</sup>	214.3	–
£150.0m 1.713% Class B floating rate loan due 2023 <sup>(i)</sup>	150.0	150.0
£150.0m 1.708% Class B floating rate loan due 2023 <sup>(i)</sup>	150.0	–
\$106.0m 4.070% private placement due 2026 <sup>(a), (f)</sup>	76.8	85.1
\$131.0m 4.270% private placement 2029 <sup>(a), (f)</sup>	94.7	105.1
€50.0m 2.100% private placement due 2030 <sup>(a), (f)</sup>	42.4	44.1
\$150.0m 3.870% private placement due 2022 <sup>(f)</sup>	108.9	120.7
\$200.0m 4.020% private placement 2024 <sup>(f)</sup>	145.2	161.0
\$250.0m 4.220% private placement due 2027 <sup>(f)</sup>	181.4	201.2
<b>Total secured bank loans and private placements</b>	<b>3,504.2</b>	<b>4,652.5</b>

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.

(b) This debt amortises in equal tranches from 2017 onwards.

(c) The interest margins of these loans are based on (i) a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's; and (ii) the Group's GRESB score.

(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.

(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.

(f) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.

(g) In March 2021, the £214.3 million Class B revolving credit facility was fully drawn. In April 2021, the £214.3 million Class B drawdown was repaid.

(h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

(i) These loans represent drawdowns from the £1,432.1 million Class A revolving credit facility. As at 31 March 2021, £nil was drawn (2020: £1,200.0 million).

(j) The interest margins of these loans are based on a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.

## Notes to the consolidated financial statements continued

### 17. Borrowings continued

#### Breakdown of bonds

As at 31 March	2021 £m	2020 £m
<b>THAMES WATER UTILITIES FINANCE PLC</b>		
£200.0m 5.050% fixed rate due 2020 <sup>(c)</sup>	–	200.0
£225.0m 6.590% fixed rate due 2021	225.0	225.0
£175.0m 3.375% index-linked due 2021 <sup>(b), (d)</sup>	295.2	290.4
£330.0m 6.750% fixed rate due 2028 <sup>(b)</sup>	327.9	327.7
£200.0m 6.500% fixed rate due 2032 <sup>(b), (c)</sup>	198.0	197.9
£600.0m 5.125% fixed rate due 2037 <sup>(b), (c)</sup>	596.7	596.6
£300.0m 1.680% index-linked due 2053 <sup>(b), (d)</sup>	454.7	447.4
£300.0m 1.681% index-linked due 2055 <sup>(b), (d)</sup>	454.7	447.4
€113.0m 2.300% CPI index-linked bond due 2022 <sup>(a), (c)</sup>	104.7	108.0
£300.0m 5.750% Class B Fixed rate bond due 2030 <sup>(b), (e)</sup>	298.9	298.5
£300.0m 4.375% fixed rate bond due 2034 <sup>(b)</sup>	296.1	295.9
¥20.0bn 3.280% fixed rate bond due 2038 <sup>(a), (b), (c)</sup>	131.2	149.4
£50.0m 3.853% index-linked bond due 2040 <sup>(g)</sup>	67.5	66.6
£500.0m 5.500% fixed rate bond due 2041 <sup>(b)</sup>	490.3	490.0
£50.0m 1.980% index-linked bond due 2042 <sup>(d)</sup>	71.3	70.4
£55.0m 2.091% index-linked bond due 2042 <sup>(b), (d)</sup>	75.8	74.7
£40.0m 1.974% index-linked bond due 2045 <sup>(b), (d)</sup>	45.2	46.3
£300.0m 4.625% fixed rate bond due 2046 <sup>(b)</sup>	293.5	293.4
£100.0m 1.846% index-linked bond due 2047 <sup>(d)</sup>	142.5	140.9
£200.0m 1.819% index-linked bond due 2049 <sup>(b), (d)</sup>	284.7	281.3
£200.0m 1.771% index-linked bond due 2057 <sup>(b), (d)</sup>	284.6	281.3
£350.0m 1.760% index-linked due 2062 <sup>(b), (d)</sup>	498.1	492.1
£500.0m 4.000% fixed rate due 2025 <sup>(b)</sup>	497.1	496.5
£40.0m 0.750% index-linked loan due 2034 <sup>(b), (d)</sup>	45.3	44.7
£45.0m 0.721% index-linked loan due 2027 <sup>(b), (d)</sup>	50.9	50.2
£300.0m 3.500% fixed rate loan due 2028 <sup>(b)</sup>	297.3	297.0
£400.0m 7.738% fixed rate bond due 2058 <sup>(b)</sup>	418.7	419.3
£250.0m 1.875% fixed rate bond due 2024 <sup>(b)</sup>	248.9	248.5
£250.0m 2.625% fixed rate bond due 2032 <sup>(b)</sup>	247.7	247.6
£300.0m 2.375% Class B fixed rate bond due 2023 <sup>(b)</sup>	299.3	299.1
£250.0m 2.875% Class B fixed rate bond due 2027 <sup>(b)</sup>	247.6	247.3
CAD 250.0m 2.875% fixed rate bond due 2024 <sup>(a), (b)</sup>	143.2	141.1
£350.0m 2.375% fixed rate bond due 2040 <sup>(b)</sup>	345.9	–
£40.0m 2.442% fixed rate bond due 2050 <sup>(b)</sup>	39.9	–

As at 31 March	2021 £m	2020 £m
£84.7m 0.875% fixed rate bond due 2023 <sup>(b)</sup>	84.6	–
€500.0m 0.190% fixed rate bond due 2023 <sup>(a), (b)</sup>	424.6	–
\$57.0m 2.060% fixed rate bond due 2030 <sup>(a), (b)</sup>	41.3	–
\$40.0m 1.604% fixed rate bond due 2027 <sup>(a), (b)</sup>	29.1	–
Fees <sup>(f)</sup>	(10.6)	(10.9)
<b>Total bonds</b>	<b>9,087.4</b>	<b>8,301.6</b>

All bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.

(b) These bonds are shown net of issuance costs.

(c) The Group has entered into swap agreements that convert this debt into GBP (£) RPI-linked debt.

(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").

(e) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.

(f) These fees have been shown within bonds to reflect that they relate to RPI-linked debt issued in 2007.

(g) This is a Limited Price Index ("LPI") bond. Accretion is calculated using an adjusted UK Retail Price Index.

As at 31 March	2021 £m	2020 £m
<b>Amounts Owed to Group Undertakings</b>		
<b>THAMES WATER LIMITED</b>		
£0.3m floating rate loan due 2043	0.3	0.3
<b>THAMES WATER UTILITIES HOLDINGS LIMITED</b>		
£5.2m floating rate loan due 2043	5.2	5.2
<b>Total owed to group undertakings</b>	<b>5.5</b>	<b>5.5</b>

## Notes to the consolidated financial statements continued

### 18. Financial instruments

#### Categories of financial instruments

The carrying values of the financial assets and liabilities of the Group are as follows:

#### Financial assets:

As at 31 March	2021 £m	2020 Restated <sup>1,2</sup> £m
<i>Fair value through profit or loss</i>		
Cross currency swaps	63.5	177.2
Interest rate swaps	16.2	87.7
Index-linked swaps	83.7	109.4
Cash and cash equivalents – money market funds	492.1	754.3
	655.5	1,128.6
<i>Amortised cost</i>		
Intercompany loans receivable	1,697.1	1,764.0
Other receivables (excluding prepayments) <sup>1</sup>	50.7	70.7
Trade and other receivables (excluding prepayments) <sup>1</sup>	341.2	337.5
Short-term investments	–	300.0
Cash and cash equivalents – cash at bank and in hand	2.4	4.1
	2,091.4	2,476.3
<b>Total</b>	<b>2,746.9</b>	<b>3,604.9</b>

1 The comparative amounts have been restated to reclassify amounts between 'Other receivables' and 'Trade and other receivables' consistent with how these balances are presented in note 14. Trade and other receivables.

2 The comparative amounts have been restated to reclassify cash and cash equivalents – money market funds from the amortised cost section to the fair value through profit or loss section.

#### Financial liabilities:

As at 31 March	2021 £m	2020 £m
<i>Fair value through profit or loss</i>		
Cross currency swaps	(113.6)	(51.3)
Interest rate swaps	(166.6)	(252.1)
Index-linked swaps	(1,189.7)	(757.5)
	(1,469.9)	(1,060.9)
<i>Amortised cost</i>		
Trade and other payables (excluding other taxation and social security)	(625.8)	(669.3)
Borrowings	(12,768.2)	(13,125.6)
Lease liabilities	(60.4)	(70.3)
	(13,454.4)	(13,865.2)
<b>Total</b>	<b>(14,924.3)</b>	<b>(14,926.1)</b>

#### Fair value measurements

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 between informed and willing parties, other than in a forced or liquidation sale at the measurement date. 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 Group's inputs to valuation techniques are level two – 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 values of interest rate and index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level two. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2021:

	Level 2 <sup>1</sup>	
As at 31 March	2021 £m	2020 £m
<i>Financial assets – derivative financial instruments</i>		
Cross currency swaps	63.5	177.2
Interest rate swaps	16.2	87.7
Index-linked swaps	83.7	109.4
	163.4	374.3
<i>Financial liabilities – derivative financial instruments</i>		
Cross currency swaps	(113.6)	(51.3)
Interest rate swaps	(166.6)	(252.1)
Index-linked swaps	(1,189.7)	(757.5)
	(1,469.9)	(1,060.9)
<b>Net total</b>	<b>(1,306.5)</b>	<b>(686.6)</b>

1 The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates and inflation rates and discounted at a rate that reflects the credit risk of the Group and counterparties, currency cash flows are then translated at spot rate.

## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

During the year, £37.5 million (31 March 2020: £34.9 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 120. The amount recycled of £37.5 million consisted of a £37.2 million loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and for which the related debt has been issued and a £0.3 million loss due to ineffectiveness on the swaps that were restructured during the prior year. No fair value movement was recognised on the cash flow hedge reserve for the year ended 31 March 2021 (31 March 2020: loss of £4.1 million).

In November 2019, the maturity date of three index linked swaps, with a total notional value of £400.0 million, were extended. These swaps are measured at fair value through the income statement. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2021, £35.3 million (31 March 2020: £37.3 million) remained capitalised and £2.0 million had been recognised in the income statement (31 March 2020: £0.7 million).

#### Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Group's financial assets and financial liabilities are set out in the tables below.

#### Financial assets:

As at 31 March	2021		2020 Restated <sup>1</sup>	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Non-current</b>				
Intercompany loans receivable <sup>2</sup>	1,693.4	1,693.4	1,752.2	1,752.2
Derivative financial instruments				
Cross currency swaps	51.2	51.2	177.2	177.2
Interest rate swaps	16.2	16.2	87.7	87.7
Index-linked swaps	83.7	83.7	109.4	109.4
Other receivables (excluding prepayments) <sup>1</sup>	50.7	50.7	70.7	70.7
	1,895.2	1,895.2	2,197.2	2,197.2
<b>Current</b>				
Cash and cash equivalents	494.5	494.5	758.4	758.4
Short-term investments	–	–	300.0	300.0
Intercompany loans receivable <sup>2</sup>	3.7	3.7	11.8	11.8
Trade and other receivables (excluding prepayments) <sup>1</sup>	341.2	341.2	337.5	337.5
Derivative financial instruments				
Cross currency swaps	12.3	12.3	–	–
	851.7	851.7	1,407.7	1,407.7
<b>Total</b>	<b>2,746.9</b>	<b>2,746.9</b>	<b>3,604.9</b>	<b>3,604.9</b>

<sup>1</sup> The comparative amounts have been restated to exclude prepayments.

<sup>2</sup> Intercompany loans receivable includes a floating rate loan and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

#### Financial liabilities:

As at 31 March	2021		2020 Restated <sup>1</sup>	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Non-current</b>				
Borrowings				
Secured bank loans and private placements	(3,072.0)	(3,433.5)	(3,222.1)	(3,462.7)
Bonds	(8,565.8)	(11,679.9)	(8,100.3)	(10,226.8)
Amounts owed to group undertakings	(5.5)	(5.5)	(5.5)	(5.5)
Derivative financial instruments				
Cross currency swaps	(113.6)	(113.6)	(51.3)	(51.3)
Interest rate swaps	(166.6)	(166.6)	(252.1)	(252.1)
Index-linked swaps	(1,189.7)	(1,189.7)	(742.5)	(742.5)
	(13,113.2)	(16,588.8)	(12,373.8)	(14,740.9)
<b>Current</b>				
Borrowings				
Secured bank loans and private placements	(432.2)	(438.6)	(1,430.4)	(1,436.5)
Bonds	(521.6)	(507.7)	(201.3)	(200.4)
Interest payable	(171.1)	(171.1)	(166.0)	(166.0)
Derivative financial instruments				
Index-linked swaps	–	–	(15.0)	(15.0)
Trade and other payables (excluding other taxation and social security) <sup>1</sup>	(625.8)	(625.8)	(669.3)	(669.3)
	(1,750.7)	(1,743.2)	(2,482.0)	(2,487.2)
<b>Total</b>	<b>(14,863.9)</b>	<b>(18,332.0)</b>	<b>(14,855.8)</b>	<b>(17,228.1)</b>

<sup>1</sup> The comparative amounts have been restated to include Trade and other payables (excluding other taxation and social security).

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds (level 1 inputs to valuation technique), for private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Group's credit spread.

The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity, discounted using a risk-free rate plus the Group's credit spread. Amounts owed by group undertakings includes a floating rate loan and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

#### Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (Thames Water Utilities Finance plc (TWUF) and TWUHL) guarantee the funding activity of the Company, and the Company and TWUHL guarantee the funding activity of TWUF, which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Group consists of net debt and equity as follows:

As at 31 March	2021 £m	2020 £m
Secured bank loans and private placements	(3,504.2)	(4,652.5)
Bonds	(9,087.4)	(8,301.6)
Lease liability	(60.4)	(70.3)
Amounts owed to group undertakings	(5.5)	(5.5)
Interest payable on borrowings	(171.1)	(166.0)
	(12,828.6)	(13,195.9)
Short-term investments	–	300.0
Cash and cash equivalents	494.5	758.4
Net debt (statutory basis)	(12,334.1)	(12,137.5)
<i>Reconciliation to net debt (covenant basis)</i>		
Interest payable on borrowings	171.1	166.0
Amounts owed to group undertakings	5.5	5.5
Unamortised debt issuance costs and discount	(72.9)	(72.5)
Relevant derivative financial liabilities (Accretion and FX)	(293.3)	(110.6)
Unamortised IFRS 9 transition adjustment	24.5	25.1
Cash (not relevant)/relevant for covenant	2.1	–
Net debt (covenant basis)	(12,497.1)	(12,124.0)
Equity attributable to owners of the Group	2,794.6	3,147.5

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment; includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rates on cross currency swaps held in the Group and cash to be added for covenants. Amounts owed to group undertakings include loans from immediate parent Thames Water Utilities Holdings Limited £5.2 million (2020: £5.2 million) and from the parent of the immediate parent Thames Water Limited £0.3 million (2020: £0.3 million) as these are not related to external debt.

#### Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.



## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

As at 31 March	2021			2020		
	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m
<b>Opening balance</b>	<b>(13,125.6)</b>	<b>(686.6)</b>	<b>(70.3)</b>	(11,781.8)	(1,100.1)	(72.5)
Non-current	(11,327.9)	(671.6)	(62.4)	(10,657.7)	(1,061.5)	(65.1)
Current	(1,797.7)	(15.0)	(7.9)	(1,124.1)	(38.6)	(7.4)
<b>Cash flows</b>						
New loans raised	(1,574.4)	–	–	(3,141.8)	–	–
Repayment of borrowings	1,846.1	–	–	1,967.1	–	–
Repayment of lease principal	–	–	11.4	–	–	11.0
Derivative accretion settlement <sup>1</sup>	–	15.3	–	–	123.2	–
Interest paid <sup>2</sup>	390.7	–	–	389.2	–	–
Interest received <sup>3</sup>	–	(176.6)	–	–	(48.7)	–
	662.4	(161.3)	11.4	(785.5)	74.5	11.0
<b>Non-cash changes</b>						
Interest accrued/Fees amortised	(401.3)	171.8	–	(401.8)	65.2	–
Foreign exchange movement	145.8	–	–	(52.1)	–	–
Indexation	(50.2)	–	–	(105.1)	–	–
Unamortised IFRS 9 transition adjustment	0.7	–	–	0.7	–	–
Fair value changes	–	(630.4)	–	–	273.8	–
Lease additions	–	–	1.9	–	–	(5.1)
Interest accrued for IFRS 16 leases	–	–	(3.4)	–	–	(3.7)
	(305.0)	(458.6)	(1.5)	(558.3)	339.0	(8.8)
<b>Closing balance</b>	<b>(12,768.2)</b>	<b>(1,306.5)</b>	<b>(60.4)</b>	(13,125.6)	(686.6)	(70.3)
Non-current	(11,643.3)	(1,318.8)	(52.9)	(11,327.9)	(671.6)	(62.4)
Current	(1,124.9)	12.3	(7.5)	(1,797.7)	(15.0)	(7.9)

- 1 Derivative accretion settlement of £15.3 million (2020: £123.2 million) relates to index-linked swaps where accretion is payable periodically.
- 2 Interest paid of £390.7 million (2020: £389.2 million) includes £69.7 million of capitalised borrowing costs (2020: £97.6 million) and excludes £0.3 million of bank charges (2020: £0.2 million).
- 3 Interest received of £176.6 million (2020: £48.7 million) excludes £21.2 million of interest received on an intercompany loan with holding company Thames Water Utilities Holdings Limited (2020: £37.5 million), £1.4 million interest received on bank deposits (2020: £1.9 million) and £0.7 million other interest income (2020: £0.7 million).

### Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

#### (a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk.

As at 31 March 2021:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
– £ Sterling	4,950.9	303.5	7,611.6	12,866.0

As at 31 March 2020:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
– £ Sterling	4,050.5	1,753.2	7,241.4	13,045.1

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

As at 31 March	Weighted average interest rate	Weighted average period until maturity	
	2021 %	2020 %	2021 Years
Fixed	4.1	5.3	11.0
Index-linked	2.5	3.6	17.5

#### (i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 154.

## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2021. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	2021 +1% £m	2021 -1% £m	2020 +1% £m	2020 -1% £m
Profit	408.6	(482.6)	298.7	(349.0)
Equity	408.6	(482.6)	298.7	(349.0)

#### (ii) Exchange rate sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2021. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2021 +10% £m	2021 -10% £m	2020 +10% £m	2020 -10% £m
Profit	(22.2)	(3.9)	(28.4)	24.5
Equity	(22.2)	(3.9)	(28.4)	24.5

#### (iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates on financial instruments at 31 March 2021. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2021 +1% £m	2021 -1% £m	2020 +1% £m	2020 -1% £m
Profit	(881.3)	768.0	(740.1)	699.1
Equity	(881.3)	768.0	(740.1)	699.1

### (b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, its loan to its immediate parent entity Thames Water Utilities Holdings Limited, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. For household customers, due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 14. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2021, no collateral was held (2020: nil).

The following table summarises amounts held on cash at bank and in hand, money market funds and short-term investments by credit rating of counterparties.

As at 31 March	2021 £m	2020 £m
AAA	492.1	754.3
A+	–	150.0
A	2.4	154.1
<b>Total</b>	<b>494.5</b>	<b>1,058.4</b>

## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2021 £m	2020 £m
AA-	15.6	93.4
A+	139.2	228.2
A	8.6	43.3
A-	–	9.4
<b>Total</b>	<b>163.4</b>	<b>374.3</b>

#### (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings are disclosed in note 17.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2021 £m	2020 £m
Within one year	953.8	1,631.7
Between one and two years	212.2	745.1
Between two and three years	1,928.2	219.6
Between three and four years	606.3	1,130.4
Between four and five years	835.6	774.8
After more than five years	8,061.0	8,458.0
<b>Total</b>	<b>12,597.1</b>	<b>12,959.6</b>

#### (i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March	2021 £m	2020 Restated <sup>1</sup> £m
Within one year	1,999.0	2,710.1
Between one and two years	610.1	1,160.6
Between two and three years	2,342.7	601.7
Between three and four years	979.7	1,532.9
Between four and five years	1,208.4	1,139.5
After more than five years	18,839.9	17,844.0
<b>Total</b>	<b>25,979.8</b>	<b>24,988.8</b>

1 The comparative amounts have been restated to include lease liabilities.

#### (ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March	2021 £m	2020 £m
Within one year	135.1	168.0
Between one and two years	58.5	150.1
Between two and three years	(45.3)	77.8
Between three and four years	(124.4)	(13.8)
Between four and five years	59.2	(86.1)
After more than five years	(1,584.4)	(1,238.3)
<b>Total</b>	<b>(1,501.3)</b>	<b>(942.3)</b>

#### Cash flow hedges

The Group had designated a number of contracts which qualified, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 128.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2021, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedge has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the life of the hedging instrument.

During the year, £37.5 million (31 March 2020: £34.9 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 120. The amount recycled of £37.5 million consisted of a £37.2 million loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and for which the related debt has been issued and a £0.3 million loss due to ineffectiveness on the swaps that were restructured during the prior year. No fair value movement was recognised on the cash flow hedge reserve for the year ended 31 March 2021 (31 March 2020: loss of £4.1 million).

## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

The Group's cash flow hedge reserve disclosed on the 'Statement of changes in equity' on page 120 relate to forward starting interest rate swaps which have commenced.

	£m
At 1 April 2019	(117.9)
Loss on cash flow hedge	(4.1)
Cash flow hedge transferred to income statement	34.9
Deferred tax charge on cash flow hedge gains including impact of deferred tax rate change	(3.0)
At 31 March 2020	(90.1)
Loss on cash flow hedge	–
Cash flow hedge transferred to income statement	37.5
Deferred tax charge on cash flow hedge	(7.1)
<b>At 31 March 2021</b>	<b>(59.7)</b>

Following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

As at 31 March	2021 £m	2020 £m
<b>Quantitative</b>		
Cash flow hedge transferred to income statement	37.5	34.9

As at 31 March	2021	2020
<b>Qualitative</b>		
Line item affected in income statement due to reclassification	Net (losses)/ gains on financial instruments	Net (losses)/ gains on financial instruments

The table below shows phasing of amounts to be reclassified to income statement from the cash flow hedge reserve, which relates to the Group's forward starting interest rate swaps which have commenced:

As at 31 March	2021 £m	2020 £m
<b>Interest rate swaps</b>		
Within one year	(31.1)	(37.5)
Between one and two years	(21.1)	(31.1)
Between two and three years	(18.7)	(21.1)
Between three and four years	(2.8)	(18.7)
Between four and five years	–	(2.8)
After more than five years	–	–
<b>Total</b>	<b>(73.7)</b>	<b>(111.2)</b>

### Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where TWUL Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

TWUL Group has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as an early termination event for derivative transactions.

## Notes to the consolidated financial statements continued

### 18. Financial instruments continued

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2021 and 31 March 2020. The column 'net amount' shows the impact on the consolidated statement of financial position if circumstances arose for set-off rights to be applied.

Effects of offsetting on the Consolidated statement of financial position					
	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
<b>As at 31 March 2021</b>					
<b>Financial assets</b>					
Derivative financial instruments	163.4	–	163.4	(131.6)	31.8
	163.4	–	163.4	(131.6)	31.8
<b>Financial liabilities</b>					
Derivative financial instruments	(1,469.9)	–	(1,469.9)	131.6	(1,338.3)
	(1,469.9)	–	(1,469.9)	131.6	(1,338.3)
<b>Total</b>	<b>(1,306.5)</b>	<b>–</b>	<b>(1,306.5)</b>	<b>–</b>	<b>(1,306.5)</b>

Effects of offsetting on the Consolidated statement of financial position					
	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
<b>As at 31 March 2020</b>					
<b>Financial assets</b>					
Derivative financial instruments	374.3	–	374.3	(261.3)	113.0
	374.3	–	374.3	(261.3)	113.0
<b>Financial liabilities</b>					
Derivative financial instruments	(1,060.9)	–	(1,060.9)	261.3	(799.6)
	(1,060.9)	–	(1,060.9)	261.3	(799.6)
<b>Total</b>	<b>(686.6)</b>	<b>–</b>	<b>(686.6)</b>	<b>–</b>	<b>(686.6)</b>

### 19. Deferred tax

An analysis of movements in the deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	Total £m
At 1 April 2019	(1,051.2)	41.5	151.1	8.4	(850.2)
(Charge)/credit to income	(146.9)	(5.1)	(33.9)	5.7	(180.2)
Charge to other comprehensive income	–	(29.7)	(3.0)	–	(32.7)
At 31 March 2020	(1,198.1)	6.7	114.2	14.1	(1,063.1)
(Charge)/credit to income	(27.3)	(17.4)	89.9	8.7	53.9
Credit/(charge) to other comprehensive income	–	43.1	(7.1)	–	36.0
<b>At 31 March 2021</b>	<b>(1,225.4)</b>	<b>32.4</b>	<b>197.0</b>	<b>22.8</b>	<b>(973.2)</b>

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months are as follows:

	2021 £m	2020 £m
<b>As at 31 March</b>		
Deferred tax asset	252.2	135.0
Deferred tax liability	(1,225.4)	(1,198.1)
<b>Total</b>	<b>(973.2)</b>	<b>(1,063.1)</b>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Please refer to note 7 for details of the impact of this announcement, had it been enacted in the year. The deferred tax assets and liabilities shown above as at 31 March 2021 have therefore been calculated using the 19% tax rate, except the deferred tax liability on the pension surplus which is provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group.

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences currently tend to increase every year.



## Notes to the consolidated financial statements continued

### 19. Deferred tax continued

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is provided on the retirement benefit obligations booked in the accounts. The £32.4m deferred tax asset carried forward is the net of an asset of £52.6m (19% of the deficit on the TWPS pension scheme of £277.1m) less a liability of £20.2m (35% of the surplus on the MIPS pension scheme of £57.9m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- Cash flow hedge: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

### 20. Provisions for liabilities and charges

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Other provisions £m	Total £m
At 1 April 2020	85.1	17.5	11.0	30.7	144.3
Utilised during the period	(35.9)	(3.5)	–	(25.9)	(65.3)
Additional provisions recognised	23.3	–	0.4	43.0	66.7
Unused amounts reversed	(1.4)	–	–	(2.7)	(4.1)
Charge to capital project	–	2.1	–	–	2.1
<b>At 31 March 2021</b>	<b>71.1</b>	<b>16.1</b>	<b>11.4</b>	<b>45.1</b>	<b>143.7</b>

The insured liability provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 14. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. Due to the uncertain timing of these costs, the Group considers it appropriate to classify these as non-current.

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our outsourced property advisor. There have been no additional sites to consider under this provision during the current financial year.

Other provisions relate to contractual claims, legal claims including environmental matters and regulatory obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations.

During the current financial year, there has been an additional charge of £43.0m recognised in other provisions, this represents a reassessment of historic provisions and new provisions recorded during the period. An out of court settlement was reached between the Group and Castle Water Limited which was partially provided for in the previous period, which has been utilised in the current period. Timing of settlement of provisions is uncertain and therefore amounts provided have been classified as non-current.

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is a risk that the final outcome of legal claims could be materially different to amounts provided.

The Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

### 21. Called up share capital and other reserves

Called up share capital

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>As at 31 March</b>						
<i>Allotted, called up and fully paid:</i>						
29,050,000 ordinary shares of £1 each						
(2020: 29,050,000 ordinary shares of £1 each)	29.0	–	29.0	29.0	–	29.0

The company has one class of ordinary share which carries 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.

## Notes to the consolidated financial statements continued

### 21. Called up share capital and other reserves continued

#### Other reserves

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>As at 31 March</b>						
Share premium	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	(59.7)	–	(59.7)	(90.1)	–	(90.1)
Revaluation reserve	903.1	–	903.1	934.3	–	934.3
Retained earnings	1,604.6	217.6	1,822.2	2,016.3	158.0	2,174.3
<b>Total</b>	<b>2,548.0</b>	<b>217.6</b>	<b>2,765.6</b>	<b>2,960.5</b>	<b>158.0</b>	<b>3,118.5</b>

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### 22. Retirement benefit obligations

#### Background

The Group operates two defined benefit pension schemes and one defined contribution pension scheme.

	What are they?	How do they impact the financial statements?
<b>Defined Contribution Scheme</b>		
This scheme was set up in April 2011 and was managed through Standard Life. From October 2020, this is now managed through Aon MasterTrust. This scheme is open to all employees of the Company that are not members of the defined benefit pension schemes.	<p>In a defined contribution pension scheme, the benefits are linked to:</p> <ul style="list-style-type: none"> <li>contributions paid;</li> <li>the performance of the individual's chosen investments; and</li> <li>the form of benefits.</li> </ul>	<p>A charge of £15.2 million (2020: £13.1 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay.</p> <p>There were no outstanding contributions (2020: £1.6 million) at the year-end recognised in the statement of financial position. The prior year outstanding contributions were paid in the current financial year.</p> <p>The Group has no exposure to investment or other experience risks.</p>

#### Defined Benefit Schemes

Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit pension schemes:

- Thames Water Pension Scheme ("TWPS"); and
- Thames Water Mirror Image Pension Scheme ("TWMIPS").

Both now are career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the pension trustees. TWMIPS has been closed to new entrants since 1989 and TWPS since April 2011. Both schemes are closed to new employees. TWPS was closed to future accrual as of 31 March 2021.

#### What are they?

In a defined benefit pension scheme, the benefits:

- are defined by the scheme rules;
- depend on a number of factors including age, years of service and pensionable pay; and
- do not depend on contributions made by the members or the Company.

#### How do they impact the financial statements?

A charge was recognised in the income statement of £26.3 million (2020: £33.0 million) relating to the following:

- service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period;
- past service cost representing the increase in the defined benefit liability arising from GMP equalisation;
- administrative expenses for the pension schemes; and
- the net interest expense on pension scheme assets and liabilities.

An actuarial loss of £195.0 million (2020: gain of £168.4 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic of the scheme members when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense.

A pension asset of £57.9 million (2020: £94.5 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £277.1 million (2020: £209.1 million) is recognised in the statement of financial position for the TWPS scheme. As at 31 March 2021, the net pension deficit is £219.2 million (2020: £114.6 million).

The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

## Notes to the consolidated financial statements continued

### 22. Retirement benefit obligations continued

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2021 these related payments amounted to £0.2 million (2020: £0.3 million).

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the trustees of the pension schemes and the Group. The purpose of this triennial valuation is to evaluate and, if necessary, modify the funding plans of the pension schemes to ensure the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the two schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million).

This triennial funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2020 to 31 March 2021. The 2019 funding valuation has been updated to an accounting valuation as at 31 March 2021 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 Employee Benefits and shown in this note to the financial statements.

#### Amounts recognised in the financial statements in respect of the defined benefit pension schemes

##### Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

Year ended	2021		2020	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Current service cost	19.0	1.5	19.5	2.7
Past service cost including curtailments	0.4	0.1	–	–
Scheme administration expenses	1.8	1.6	3.1	1.5
Net interest cost/(income)	4.1	(2.2)	7.4	(1.2)
<b>Total</b>	<b>25.3</b>	<b>1.0</b>	<b>30.0</b>	<b>3.0</b>

The net expense is recognised in the following captions within the income statement:

Year ended	2021		2020	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Operating expenses	21.2	3.2	22.6	4.2
Net finance expense/(income)	4.1	(2.2)	7.4	(1.2)
<b>Total</b>	<b>25.3</b>	<b>1.0</b>	<b>30.0</b>	<b>3.0</b>

##### Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

As at 31 March	2021 £m	2020 Restated <sup>1</sup> £m
Actual return less expected return on pension scheme assets	32.4	88.4
Experience gain arising on scheme liabilities	100.8	19.0
(Loss)/gain arising due to change in financial assumptions	(341.2)	145.0
Gain/(loss) arising due to change in demographic assumptions	13.0	(84.0)
<b>Total actuarial (loss)/gain</b>	<b>(195.0)</b>	<b>168.4</b>
Cumulative actuarial losses recognised <sup>1</sup>	<b>(484.9)</b>	<b>(289.9)</b>

<sup>1</sup> The cumulative actuarial losses recognised in the prior year have been restated to reflect the MIPS pension surplus that was recognised in the accounts at 31 March 2018, which improved the net pension deficit by £49.7 million. £36.7 million of this amount was previously not reflected in this cumulative actuarial loss figure. The adjustment recognised in the prior period has led to an improvement in the cumulative actuarial losses recognised of £36.7 million.

##### Statement of financial position

The net pension liability recognised within the statement of financial position is as follows:

As at 31 March	2021			2020		
	TWPS £m	TWMIPS £m	Total £m	TWPS £m	TWMIPS £m	Total £m
Fair value of scheme assets	1,730.9	770.9	2,501.8	1,595.3	805.8	2,401.1
Present value of defined benefit obligations	(2,008.0)	(713.0)	(2,721.0)	(1,804.4)	(711.3)	(2,515.7)
(Deficit)/surplus	(277.1)	57.9	(219.2)	(209.1)	94.5	(114.6)
<b>Net pension deficit</b>			<b>(219.2)</b>			<b>(114.6)</b>

## Notes to the consolidated financial statements continued

### 22. Retirement benefit obligations continued

#### Reconciliation of defined benefit plan assets and liabilities

The movements in the present value of the defined benefit obligations were as follows:

	2021		2020	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,804.4	711.3	1,847.0	759.4
Current service cost	19.0	1.5	19.5	2.7
Past service cost including curtailments	0.4	0.1	–	–
Interest cost	41.8	16.2	43.9	17.4
Contributions from scheme members	0.1	–	0.1	–
Benefits paid	(56.0)	(45.4)	(51.5)	(44.5)
Termination benefits	0.2	–	1.4	0.3
Actuarial losses/(gains)	198.1	29.3	(56.0)	(24.0)
<b>At 31 March</b>	<b>2,008.0</b>	<b>713.0</b>	<b>1,804.4</b>	<b>711.3</b>

The movements in the fair value of scheme assets were as follows:

	2021		2020	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,595.3	805.8	1,508.2	805.2
Interest income on scheme assets	37.7	18.4	36.5	18.6
Contributions by sponsoring employers	114.4	2.3	39.8	3.2
Contributions from scheme members	0.1	–	0.1	–
Administration costs paid from scheme assets	(1.8)	(1.6)	(3.1)	(1.5)
Benefits paid	(56.0)	(45.4)	(51.5)	(44.5)
Contributions for termination benefits	0.2	–	1.4	0.3
Gains/(loss) on assets above interest	41.0	(8.6)	63.9	24.5
<b>At 31 March</b>	<b>1,730.9</b>	<b>770.9</b>	<b>1,595.3</b>	<b>805.8</b>

### Analysis of assets

As at 31 March	2021				2020			
	Quoted £m	Unquoted £m	Total £m	Total (%)	Quoted £m	Unquoted £m	Total £m	Total (%)
<b>Equities</b>								
UK	36.8	–	36.8	1.5	29.7	–	29.7	1.2
Rest of World	486.3	–	486.3	19.4	358.3	1.1	359.4	15.0
<b>Bonds</b>								
Government – UK	25.6	–	25.6	1.0	16.2	–	16.2	0.7
Government – Rest of World	92.0	–	92.0	3.7	116.2	1.1	117.3	4.9
Corporates – UK	50.3	0.2	50.5	2.0	48.4	3.5	51.9	2.2
Corporates – Rest of World	277.2	1.4	278.6	11.1	166.3	1.9	168.2	7.0
<b>Property</b>								
UK	7.1	–	7.1	0.3	4.5	–	4.5	0.2
Rest of world	1.1	–	1.1	–	1.9	–	1.9	0.1
<b>Alternative assets</b>								
Liability driven instruments	1,297.8	–	1,297.8	51.9	1,433.1	–	1,433.1	59.6
Other (including derivatives)	86.5	–	86.5	3.5	109.6	3.5	113.1	4.7
<b>Cash</b>	<b>139.5</b>	<b>–</b>	<b>139.5</b>	<b>5.6</b>	<b>105.8</b>	<b>–</b>	<b>105.8</b>	<b>4.4</b>
<b>Total market value of assets</b>	<b>2,500.2</b>	<b>1.6</b>	<b>2,501.8</b>	<b>100.0</b>	<b>2,390.0</b>	<b>11.1</b>	<b>2,401.1</b>	<b>100.0</b>

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Willis Towers Watson. As of 31 March 2021, Reddington have been appointed as our new advisors. 51.9% of the scheme assets are invested in Liability Driven Investment (“LDI”) portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

## Notes to the consolidated financial statements continued

### 22. Retirement benefit obligations continued

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

In the current period, Index Linked Gilts amount to £475.0 million and Fixed Interest Gilts amount to £849.0 million of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

#### IAS 19 Assumptions

The approach used to set the IAS 19 assumptions is detailed below:

	Approach to set the assumptions
<b>Discount rate</b>	As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2021.
<b>RPI inflation</b>	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS with an adjustment made for an inflation risk premium.
<b>CPI inflation</b>	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
<b>Salary increases</b>	Both defined benefit schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.
<b>Pension increases</b>	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
<b>Longevity</b>	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

### Financial assumptions

The main assumptions used in the valuation of these schemes are as follows:

	2021		2020	
As at 31 March	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	3.25%	3.30%	2.55%	2.65%
Price inflation – CPI (Pre 2030)	1.00%	1.00%	1.75%	1.85%
Price inflation – CPI (Post 2030)	0.10%	0.10%	–	–
Rate of increase to pensions in payment – RPI	3.25%	3.30%	2.55%	2.65%
Rate of increase to pensions in payment – CPI (Pre 2030)	1.00%	1.00%	1.75%	1.85%
Rate of increase to pensions in payment – CPI (Post 2030)	0.10%	0.10%	–	–
Discount rate	2.10%	2.00%	2.35%	2.35%

### Mortality assumptions

The mortality assumptions were based on the post retirement mortality assumptions used for the previous financial year, but updated for the latest CMI 2020 model. The table below illustrates the life expectancies of an average member retiring at age 60 at the year-end reporting data and a member reaching age 60 at the year-end reporting date in 20 years.

	2021		2020	
As at 31 March	TWPS	TWMIPS	TWPS	TWMIPS
<i>Life expectancy from age 60:</i>				
Male	27.6	26.8	27.6	26.8
Female	29.7	29.0	29.7	28.9
<i>Life expectancy from age 60 currently age 40:</i>				
Male	28.3	27.9	28.3	27.9
Female	30.8	30.2	30.8	30.1



## Notes to the consolidated financial statements continued

### 22. Retirement benefit obligations continued

#### Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, discount rate risk, inflation risk and longevity risk.

	Definition of risk
<b>Investment risk</b>	Assumptions are made about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long-term then additional contributions will need to be made to the schemes in order to fund the payment of future benefits.
<b>Discount rate risk</b>	A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings.
<b>Inflation risk</b>	The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. Additionally, the Company's contributions to the schemes are based on assumptions about the future levels of inflation, therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit.
<b>Longevity risk</b>	An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities.

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below:

	2021		2020	
As at 31 March	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
<i>Change in assumptions resulting in a decrease in liabilities</i>				
Change in discount rate (+/- 1% p.a.)	(360.0)	(90.0)	(320.0)	(90.0)
Change in rate of inflation (+/- 1% p.a.)	(250.0)	(65.0)	(210.0)	(70.0)
Change in life expectancy (+/- 1 year)	80.0	40.0	70.0	40.0

#### Future expected cash flows

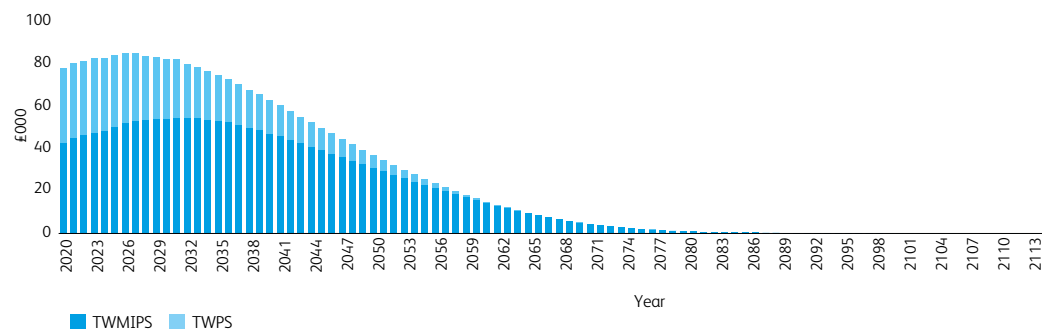
The Group made a pension deficit repair payment of £69.7 million on 30 March 2021 covering the financial periods from 2021/22 to 2024/25, which has been treated as an exceptional cash flow in the current year. The Group made a payment of £28.3 million on 1 April 2020 in relation to 2020/21. The average duration of the benefit obligation at the end of the year is 18 years for TWPS and 11 years for TWMIPS (2020: 19 years for TWPS and 12 years for TWMIPS).

In December 2020, the funding valuation as at 31 March 2020 was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	69.7	–	–	–	17.9	17.9	17.9

The expected cash flows payable from the schemes are presented in the graph below:

#### Expected benefit payments (£ millions)



The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2019. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

### 23. Capital commitments

As at 31 March	2021 £m	2020 £m
Property, plant and equipment	404.9	281.7
Intangible assets	10.0	7.5
<b>Total contracted for but not provided</b>	<b>414.9</b>	<b>289.2</b>

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments have increased during the year due to the start of a new AMP and delays to commencement of capital works driven by Covid-19.

## Notes to the consolidated financial statements continued

### 24. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group is currently defending five sets of court proceedings commenced by different groups of Property Search Companies ("PSCs") seeking refunds of fees paid for property search data, including CON29DW searches, from 1 December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, at a lower cost than that charged. The position is replicated across all other Water & Sewerage Companies in England and Wales. We are defending these claims, as are all the other water and sewage companies in England and Wales. However, the claims are at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of the Group.

As at 31 March 2021, there were ongoing commercial negotiations arising in the ordinary course of business in respect of closing out AMP6 contracts. At present the Directors consider an outflow of economic benefit is possible, however, cannot be reliably estimated. The outcome is contingent on future discussions and will only become known on conclusion of the negotiation. The outcome could result in either an economic outflow, inflow or neither. In respect of these negotiations, the Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

Other contractual matters with suppliers incurred in the ordinary course of business, which may result in a liability that could have a material effect on the Group's financial statements. These contractual matters are unquantifiable and subject to significant uncertainties. The Group has considered these contractual matters as a contingent liability.

### Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 18. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

### 25. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- leases not in the scope of IFRS 16;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Group is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary, Thames Water Utilities Finance plc are Obligators under the whole business securitisation entered into in 2007. The Obligators have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2021 was £12.9 billion (2020: £13.1 billion).

### 26. Post balance sheet events

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. The legislation was enacted on 24 May 2021 and the likely impact of this change is disclosed in note 7 for the Group and note 33 for Company only.

### Financing

In June 2021, the Group further strengthened its financing position, through Thames Water Utilities Finance Plc entering into a £180.0 million Class B loan facility due June 2026, which is currently undrawn. Since 31 March 2021, £525.0 million has been drawn under the Class A RCF, and debt repayments have been made of £214.3 million Class B RCF, £225.0 million Class A bond due April 2021 and £300.0 million Class B term loan due June 2023.

## Notes to the consolidated financial statements continued

### 27. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2021			2020		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	(258.1)	59.6	(198.5)	186.6	58.0	244.6
Less finance income	(187.7)	–	(187.7)	(90.1)	–	(90.1)
Add finance expense excluding interest on lease liabilities	392.4	–	392.4	420.9	–	420.9
Add interest expense on lease liabilities	3.4	–	3.4	3.7	–	3.7
Add/(less) net (losses)/gains on financial instruments	522.2	–	522.2	(190.8)	–	(190.8)
(Less)/add taxation on (loss)/profit on ordinary activities	(57.0)	14.0	(43.0)	183.1	6.1	189.2
<b>Operating profit</b>	<b>415.2</b>	<b>73.6</b>	<b>488.8</b>	513.4	64.1	577.5
Depreciation on property, plant and equipment	559.3	–	559.3	547.6	–	547.6
Amortisation of intangible assets	51.9	–	51.9	32.8	–	32.8
Depreciation of right of use asset	8.0	–	8.0	8.2	–	8.2
(Gain)/loss on sale of property, plant and equipment	(8.4)	–	(8.4)	4.1	–	4.1
Write-off of property, plant and equipment and intangible assets	–	–	–	9.9	–	9.9
Difference between pension charge and cash contribution <sup>1</sup>	(92.3)	–	(92.3)	(16.2)	–	(16.2)
Increase in inventory	(1.3)	–	(1.3)	(0.1)	–	(0.1)
Decrease/(increase) in trade and other receivables	10.9	(71.1)	(60.2)	(48.2)	(60.2)	(108.4)
Increase in contract assets	(4.6)	(4.3)	(8.9)	(17.9)	(0.6)	(18.5)
(Decrease)/increase in trade and other payables	(55.0)	1.0	(54.0)	(8.3)	(0.8)	(9.1)
Increase/(decrease) in contract liabilities	48.1	1.8	49.9	84.5	(3.1)	81.4
Group relief paid	–	–	–	(3.8)	(4.4)	(8.2)
(Decrease)/increase in provisions	(0.6)	–	(0.6)	25.1	–	25.1
<b>Net cash generated by operating activities<sup>1</sup></b>	<b>931.2</b>	<b>1.0</b>	<b>932.2</b>	1,131.1	(5.0)	1,126.1

<sup>1</sup> Operating cash flows for the year ended 31 March 2021 includes £69.7 million (31 March 2020: nil) of payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying operating cash flows would be £1,000.9 million for the year ended 31 March 2021 (31 March 2020: £1,131.1 million).

### Movement in cash and cash equivalents

	2021 £m	2020 £m
<b>Year ended 31 March</b>		
Unrestricted cash movement	(1.7)	(1.8)
Movement in money market funds	(262.2)	598.2
<b>Total</b>	<b>(263.9)</b>	596.4

### 28. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'Transactions with associates and the non-appointed business' disclosure in the Annual Performance Report section on pages 107–108.

#### Trading transactions

	2021		2020	
	Services provided by the Group £'000	Services provided to the Group £'000	Services provided by the Group £'000	Services provided to the Group £'000
<b>Year ended 31 March</b>				
<i>Intermediaries between the immediate and ultimate parent</i>				
Thames Water Limited	1,936	–	2,385	156
<i>Immediate parent</i>				
Thames Water Utilities Holdings Limited	13,105	32,900	22,019	62,300
<i>Other entities within the Kemble Water Holdings group</i>				
Kennet Properties Limited	45	–	32	–
Thames Water Commercial Services Limited	62	–	71	7
Thames Water Property Services Limited	180	193	295	210
<i>Entities external to the Kemble Water Holdings group</i>				
Dunelm Energy Limited	–	24	–	31
<b>Total</b>	<b>15,328</b>	<b>33,117</b>	24,802	62,704

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

## Notes to the consolidated financial statements continued

### 28. Related party transactions continued

#### Outstanding balances

The following amounts were owed to the Group from related entities, and owed to related entities by the Group at the balance sheet date:

	2021		2020	
	Amounts owed to the Group £'000	Amounts owed by the Group £'000	Amounts owed to the Group £'000	Amounts owed by the Group £'000
<b>As at 31 March</b>				
<i>Ultimate parent</i>				
Kemble Water Holdings Limited	5	–	5	–
<i>Intermediaries between the immediate and ultimate parent</i>				
Kemble Water Finance Limited	1,014	–	1,014	–
Thames Water Limited	–	–	12	–
<i>Immediate parent</i>				
Thames Water Utilities Holdings Limited	1,693,422	5,800	1,752,234	–
<b>Total</b>	<b>1,694,441</b>	<b>5,800</b>	<b>1,753,265</b>	<b>–</b>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

#### Key management personnel

Key management personnel comprise the members of the Board and of the Executive Team during the year.

The remuneration of the Directors is included within the amounts disclosed below. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 87-103.

Year ended 31 March	2021 £'000	2020 £'000
Fees	578	1,236
Salary	2,946	2,756
Pension and pension allowance	304	471
Bonus	1,556	4,435
Payment on loss of office	591	2,462
Other benefits	457	119
<b>Total</b>	<b>6,432</b>	<b>11,479</b>

Information regarding transactions with post-employment benefits plans is included in note 22.

During the previous period, there was an additional £2 million paid in respect of loss of office. This additional £2 million cost will not be passed onto customers but funded through earnings generated from the non-appointed business. In order to preserve the Company's gearing ratio, £2 million cash was received from Thames Water Limited, via the Company's immediate parent company, Thames Water Utilities Holdings Limited.

Other benefits includes medical benefits, car allowances and other incentives.

### 29. Intermediate and ultimate parent Company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and is the smallest group to consolidate these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

Kemble Water Holdings Limited is owned by 10 shareholders, of which the largest is Ontario Municipal Employees Retirement System (OMERS) with 31.777% holding.

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the financial statements for all entities may be obtained from The Group Secretary's Office at this address.

## Company income statement

For the year ended 31 March

	Note	2021			2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Revenue	2	2,032.9	73.8	2,106.7	2,108.5	64.3	2,172.8
Operating expenses excluding impairment losses on financial and contract assets <sup>1</sup>	30	(1,703.1)	–	(1,703.1)	(1,626.2)	–	(1,626.2)
Impairment losses on financial and contract assets	3,14	(36.5)	(0.2)	(36.7)	(40.6)	(0.2)	(40.8)
<b>Total operating expenses</b>		<b>(1,739.6)</b>	<b>(0.2)</b>	<b>(1,739.8)</b>	<b>(1,666.8)</b>	<b>(0.2)</b>	<b>(1,667.0)</b>
Other operating income	2	121.8	–	121.8	72.4	–	72.4
<b>Operating profit</b>		<b>415.1</b>	<b>73.6</b>	<b>488.7</b>	<b>514.1</b>	<b>64.1</b>	<b>578.2</b>
Finance income	31	138.2	–	138.2	78.1	–	78.1
Finance expense	31	(413.3)	–	(413.3)	(442.1)	–	(442.1)
Net (losses)/gains on financial instruments	32	(360.4)	–	(360.4)	108.1	–	108.1
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(220.4)</b>	<b>73.6</b>	<b>(146.8)</b>	<b>258.2</b>	<b>64.1</b>	<b>322.3</b>
Tax credit/(charge) on (loss)/profit on ordinary activities	33	39.5	(14.0)	25.5	(169.4)	(6.1)	(175.5)
<b>(Loss)/profit for the year</b>		<b>(180.9)</b>	<b>59.6</b>	<b>(121.3)</b>	<b>88.8</b>	<b>58.0</b>	<b>146.8</b>

1 Underlying operating expenses for the year ended 31 March 2021 includes £16.3 million (31 March 2020: £27.7 million) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 3.

The Company activities above are derived from continuing activities.

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.

## Company statement of other comprehensive income

For the year ended 31 March

	Note	2021			2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>(Loss)/profit for the year</b>		<b>(180.9)</b>	<b>59.6</b>	<b>(121.3)</b>	<b>88.8</b>	<b>58.0</b>	<b>146.8</b>
<b>Other comprehensive income</b>							
<i>Will not be reclassified to the income statement:</i>							
Net actuarial (loss)/gain on pension schemes	22	(195.0)	–	(195.0)	168.4	–	168.4
Deferred tax credit/(charge) on net actuarial (loss)/gain including impact of deferred tax rate change in prior year	41	43.1	–	43.1	(29.7)	–	(29.7)
<i>May be reclassified to the income statement:</i>							
Loss on cash flow hedge		–	–	–	(4.1)	–	(4.1)
Cash flow hedge transferred to income statement	40	37.5	–	37.5	34.9	–	34.9
Deferred tax charge on cash flow hedge gain including impact of deferred tax rate change in prior year	41	(7.1)	–	(7.1)	(3.0)	–	(3.0)
<b>Other comprehensive (expense)/income for the year</b>		<b>(121.5)</b>	<b>–</b>	<b>(121.5)</b>	<b>166.5</b>	<b>–</b>	<b>166.5</b>
<b>Total comprehensive (expense)/income for the year</b>		<b>(302.4)</b>	<b>59.6</b>	<b>(242.8)</b>	<b>255.3</b>	<b>58.0</b>	<b>313.3</b>

Bazalgette Tunnel Limited (“BTL”) is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.



## Company statement of financial position

As at

		31 March 2021			31 March 2020		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Non-current assets</b>							
Intangible assets	9	276.3	–	276.3	273.4	–	273.4
Property, plant and equipment	10	16,352.3	–	16,352.3	15,862.8	–	15,862.8
Investment in subsidiary undertakings	34	207.7	–	207.7	207.7	–	207.7
Right of use assets	11	41.6	–	41.6	52.3	–	52.3
Derivative financial assets	40	102.6	–	102.6	236.9	–	236.9
Intercompany loans receivable	35	1,993.4	–	1,993.4	2,052.2	–	2,052.2
Other receivables	36	46.3	228.9	275.2	72.4	159.0	231.4
Pension asset	22	57.9	–	57.9	94.5	–	94.5
		19,078.1	228.9	19,307.0	18,852.2	159.0	19,011.2
<b>Current assets</b>							
Inventories	13	14.9	–	14.9	13.6	–	13.6
Intercompany loans receivable	35	34.5	–	34.5	38.0	–	38.0
Contract assets	36	239.5	5.8	245.3	234.9	1.5	236.4
Trade and other receivables	36	371.4	12.8	384.2	356.0	11.6	367.6
Short-term investments	40	–	–	–	300.0	–	300.0
Cash and cash equivalents	37	488.5	3.6	492.1	753.2	2.6	755.8
		1,148.8	22.2	1,171.0	1,695.7	15.7	1,711.4
<b>Current liabilities</b>							
Contract liabilities	38	(121.9)	(2.1)	(124.0)	(123.8)	(0.3)	(124.1)
Trade and other payables	38	(640.9)	(31.4)	(672.3)	(666.1)	(16.4)	(682.5)
Borrowings	39	(1,289.5)	–	(1,289.5)	(1,880.0)	–	(1,880.0)
Lease liabilities	11	(7.5)	–	(7.5)	(7.9)	–	(7.9)
		(2,059.8)	(33.5)	(2,093.3)	(2,677.8)	(16.7)	(2,694.5)
<b>Net current liabilities</b>		<b>(911.0)</b>	<b>(11.3)</b>	<b>(922.3)</b>	<b>(982.1)</b>	<b>(1.0)</b>	<b>(983.1)</b>
<b>Non-current liabilities</b>							
Contract liabilities	38	(757.3)	–	(757.3)	(707.3)	–	(707.3)
Borrowings	39	(11,977.1)	–	(11,977.1)	(11,626.6)	–	(11,626.6)
Lease liabilities	11	(52.9)	–	(52.9)	(62.5)	–	(62.5)
Derivative financial liabilities	40	(937.3)	–	(937.3)	(702.6)	–	(702.6)
Deferred tax	41	(1,058.5)	–	(1,058.5)	(1,119.2)	–	(1,119.2)
Provisions for liabilities and charges	20	(143.7)	–	(143.7)	(144.3)	–	(144.3)
Pension deficit	22	(277.1)	–	(277.1)	(209.1)	–	(209.1)
		(15,203.9)	–	(15,203.9)	(14,571.6)	–	(14,571.6)
<b>Net assets</b>		<b>2,963.2</b>	<b>217.6</b>	<b>3,180.8</b>	<b>3,298.5</b>	<b>158.0</b>	<b>3,456.5</b>

	Note	31 March 2021			31 March 2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Equity</b>							
Called up share capital	42	29.0	–	29.0	29.0	–	29.0
Share premium	42	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	42	(59.7)	–	(59.7)	(90.1)	–	(90.1)
Revaluation reserve	42	903.1	–	903.1	934.3	–	934.3
Retained earnings	42	1,990.8	217.6	2,208.4	2,325.3	158.0	2,483.3
<b>Total equity</b>		<b>2,963.2</b>	<b>217.6</b>	<b>3,180.8</b>	<b>3,298.5</b>	<b>158.0</b>	<b>3,456.5</b>

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 121.

The company only financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 5 July 2021 and signed on its behalf by:



**Brandon Rennet**  
Chief Financial Officer

## Company statement of changes in equity

For the year ended 31 March

	Note	Called up Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
<b>1 April 2019</b>		29.0	100.0	(117.9)	989.3	2,199.3	<b>3,199.7</b>
Profit for the year		–	–	–	–	146.8	<b>146.8</b>
Loss on cash flow hedge		–	–	(4.1)	–	–	<b>(4.1)</b>
Cash flow hedges transferred to income statement	40	–	–	34.9	–	–	<b>34.9</b>
Deferred tax charge on cash flow hedge gain including impact of deferred tax rate change	41	–	–	(3.0)	–	–	<b>(3.0)</b>
Net actuarial gain on pension scheme	22	–	–	–	–	168.4	<b>168.4</b>
Deferred tax charge on net actuarial gain including impact of deferred tax rate change	41	–	–	–	–	(29.7)	<b>(29.7)</b>
<b>Total comprehensive income</b>		–	–	27.8	–	285.5	<b>313.3</b>
Transfer of depreciation <sup>1</sup>		–	–	–	(38.4)	38.4	<b>–</b>
Deferred tax on depreciation transfer <sup>1</sup>		–	–	–	(16.6)	16.6	<b>–</b>
Dividends paid	8	–	–	–	–	(56.5)	<b>(56.5)</b>
<b>At 1 April 2020</b>		29.0	100.0	(90.1)	934.3	2,483.3	<b>3,456.5</b>
Loss for the year		–	–	–	–	(121.3)	<b>(121.3)</b>
Cash flow hedge transfer to the income statement	40	–	–	37.5	–	–	<b>37.5</b>
Deferred tax charge on cash flow hedge gain	41	–	–	(7.1)	–	–	<b>(7.1)</b>
Net actuarial loss on pension scheme	22	–	–	–	–	(195.0)	<b>(195.0)</b>
Deferred tax credit on net actuarial gain	41	–	–	–	–	43.1	<b>43.1</b>
<b>Total comprehensive income/(expense)</b>		–	–	30.4	–	(273.2)	<b>(242.8)</b>
Transfer of depreciation <sup>1</sup>		–	–	–	(38.4)	38.4	<b>–</b>
Deferred tax on depreciation transfer <sup>1</sup>		–	–	–	7.2	(7.2)	<b>–</b>
Dividends paid	8	–	–	–	–	(32.9)	<b>(32.9)</b>
<b>31 March 2021</b>		29.0	100.0	(59.7)	903.1	2,208.4	<b>3,180.8</b>

1 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax (including the impact of the deferred tax rate change in the prior year) on the fair value uplift on assets.

## Company statement of cash flows

For the year ended 31 March

	Note	2021			2020		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Net cash generated by operating activities<sup>1</sup></b>	45	<b>973.6</b>	<b>1.0</b>	<b>974.6</b>	1,141.1	(5.0)	1,136.1
<b>Investing activities:</b>							
Proceeds from/(increase in) current asset investments		300.0	–	300.0	(300.0)	–	(300.0)
Purchase of property, plant and equipment		(1,050.2)	–	(1,050.2)	(1,137.9)	–	(1,137.9)
Purchase of intangible assets		(54.8)	–	(54.8)	(86.1)	–	(86.1)
Proceeds from sale of property, plant and equipment		10.6	–	10.6	–	–	–
Interest received		142.8	–	142.8	72.1	–	72.1
Repayment of loans by parent company		58.8	–	58.8	222.5	–	222.5
<b>Net cash used in investing activities</b>		<b>(592.8)</b>	<b>–</b>	<b>(592.8)</b>	(1,229.4)	–	(1,229.4)
<b>Financing activities:</b>							
New loans raised		1,575.3	–	1,575.3	3,141.8	–	3,141.8
Repayment of borrowings		(1,846.1)	–	(1,846.1)	(2,014.6)	–	(2,014.6)
Repayment of lease principal		(11.4)	–	(11.4)	(11.0)	–	(11.0)
Derivative accretion settlement <sup>2</sup>		–	–	–	(76.0)	–	(76.0)
Interest paid		(322.6)	–	(322.6)	(285.0)	–	(285.0)
Fees paid		(7.8)	–	(7.8)	(9.2)	–	(9.2)
Dividends paid		(32.9)	–	(32.9)	(56.5)	–	(56.5)
<b>Net cash used in financing activities</b>		<b>(645.5)</b>	<b>–</b>	<b>(645.5)</b>	689.5	–	689.5
Net (decrease)/increase in cash and cash equivalents		(264.7)	1.0	(263.7)	601.2	(5.0)	596.2
Net cash and cash equivalents at beginning of period		753.2	2.6	755.8	152.0	7.6	159.6
<b>Net cash and cash equivalents at end of period</b>		<b>488.5</b>	<b>3.6</b>	<b>492.1</b>	753.2	2.6	755.8

1 Net cash generated by operating activities for the year ended 31 March 2021 includes £69.7 million (31 March 2020: nil) of payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying net cash generated by operating activities would be £1,043.3 million for the year ended 31 March 2021 (31 March 2020: £1,141.1 million).

2 Derivative accretion settlement in the prior year ended 31 March 2020 includes £76.0 million relating to index-linked swaps where accretion is payable periodically.

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies on page 121.

## Notes to the company financial statements

### 30. Operating expenses

The Company's total operating expenses for the year end 31 March 2021 are £1,739.8 million (31 March 2020: £1,667.7 million). This is higher than the Group's total operating expenses total for the year by £0.1 million (31 March 2020: lower by £0.7 million). The difference in the previous financial year is related to consultancy costs incurred in TWUF, which would not be recognised in the Company's financial statements.

### 31. Finance income and expense

During the year ended 31 March 2021, the Company recognised finance income of £138.2 million (2020: £78.1 million) relating mainly to interest on swaps, intercompany loans and interest on bank deposits.

#### Finance income

Year ended 31 March	2021 £m	2020 £m
Interest income on bank deposits	1.2	2.0
Interest income on intercompany loans receivable	19.8	30.0
Interest income on swaps	116.5	45.2
Other finance income on swaps	–	0.2
Other interest income	0.7	0.7
<b>Total finance income</b>	<b>138.2</b>	<b>78.1</b>

#### Finance expense

The Company also recognised finance expenses of £413.3 million (2020: £442.1 million) relating mainly to interest and accretion on loans and other borrowings, leases and defined benefit pension obligations.

Year ended 31 March	Note	2021 £m	2020 £m
<i>Interest in relation to bank and other loans:</i>			
Interest expense		(44.9)	(52.9)
RPI accretion on loans		(11.8)	(36.7)
<i>Interest in relation to intercompany borrowings:</i>			
Interest expense		(373.5)	(357.3)
RPI accretion on loans		(46.5)	(82.6)
<i>Interest in relation to defined benefit obligation</i>			
Net interest expense on defined benefit obligation	22	(1.9)	(6.2)
<i>Interest in relation to leases</i>			
Leases	11	(3.4)	(3.7)
<i>Fees</i>			
Finance fees		(1.0)	(0.3)
<b>Gross finance expense</b>		<b>(483.0)</b>	<b>(539.7)</b>
Capitalised borrowing costs		69.7	97.6
<b>Total finance expense</b>		<b>(413.3)</b>	<b>(442.1)</b>

### 32. Net (losses)/gains on financial instruments

The reconciliation to net (losses)/gains on financial instruments has been provided below:

Year ended 31 March	2021 £m	2020 £m
Net exchange gains/(losses) on foreign currency borrowings	45.0	(22.4)
Net (loss)/gain arising on swaps where hedge accounting is not applied <sup>1</sup>	(367.9)	165.4
Loss on cash flow hedge transferred from equity <sup>2</sup>	(37.5)	(34.9)
<b>Total</b>	<b>(360.4)</b>	<b>108.1</b>

- 1 In the current period the net loss arising on swaps where hedge accounting is not applied primarily reflects higher RPI expectations and an appreciation of GBP against USD and JPY. This excludes interest which is disclosed in note 31 Finance income and expense.
- 2 Refer to note 40 Financial Instruments on page 181 for more information on the loss on cash flow hedge transferred from equity.

### 33. Tax credit/(charge) on (loss)/profit on ordinary activities

Year ended 31 March	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Current tax:</b>						
Amounts (receivable)/payable in respect of group relief	(14.8)	14.0	(0.8)	(0.3)	6.1	5.8
Current tax subtotal	(14.8)	14.0	(0.8)	(0.3)	6.1	5.8
<b>Deferred tax:</b>						
Origination and reversal of timing differences	(25.6)	–	(25.6)	49.7	–	49.7
Adjustment in respect of corporation tax rate change	–	–	–	119.1	–	119.1
Adjustment in respect of prior periods	0.9	–	0.9	0.9	–	0.9
Deferred tax subtotal	(24.7)	–	(24.7)	169.7	–	169.7
<b>Tax (credit)/charge on (loss)/profit on ordinary activities</b>	<b>(39.5)</b>	<b>14.0</b>	<b>(25.5)</b>	<b>169.4</b>	<b>6.1</b>	<b>175.5</b>

## Notes to the company financial statements continued

### 33. Tax credit/(charge) on (loss)/profit on ordinary activities continued

The tax credit for the year ended 31 March 2021 is lower (2020: higher charge) than the standard rate of corporation tax in the UK. The differences are explained below:

Year ended 31 March	2021				2020			
	Underlying £m	BTL £m	Total £m	Effective tax rate %	Underlying £m	BTL £m	Total £m	Effective tax rate %
(Loss)/profit on ordinary activities before taxation	(220.4)	73.6	(146.8)		258.2	64.1	322.3	
Tax at 19% (2020: 19%)	(41.9)	14.0	(27.9)	19.0%	49.0	12.2	61.2	19.0%
Effects of:								
<i>Recurring items</i>								
Depreciation on assets that do not qualify for tax relief	4.4	–	4.4		4.2	–	4.2	
Disallowable expenditure <sup>1</sup>	2.1	–	2.1		0.2	–	0.2	
Non-taxable income <sup>2</sup>	(4.4)	–	(4.4)		(4.4)	–	(4.4)	
Property disposals	(0.9)	–	(0.9)		0.1	–	0.1	
Group relief paid for at lower than statutory rate	–	–	–		0.3	(6.1)	(5.8)	
Tax as adjusted for recurring items	(40.7)	14.0	(26.7)	18.2%	49.4	6.1	55.5	17.2%
<i>Non-recurring items</i>								
Impact of deferred tax rate change <sup>3</sup>	–	–	–		119.1	–	119.1	
Effect of tax rate differential	0.3	–	0.3		–	–	–	
Adjustments to tax charge in respect of prior periods – deferred tax	0.9	–	0.9		0.9	–	0.9	
<b>Total tax (credit)/charge</b>	<b>(39.5)</b>	<b>14.0</b>	<b>(25.5)</b>	<b>17.4%</b>	<b>169.4</b>	<b>6.1</b>	<b>175.5</b>	<b>54.5%</b>

1 Disallowable expenditure primarily relates to fines included in operating expenses.

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

3 The deferred tax rate changed in the prior year from 17% to 19%. A one-off charge of £119.1 million arose on the restatement of deferred tax balances to 19%.

The Company is not currently in a tax paying position with HMRC, primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs, although it does (receive)/pay amounts for group relief sold to/bought from group companies. The differences between profit/(loss) on ordinary activities before taxation at the standard tax rate and the current tax charge/(credit) for the year are set out below.

Year ended 31 March	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	(220.4)	73.6	(146.8)	258.2	64.1	322.3
Tax at 19% (2020: 19%)	(41.9)	14.0	(27.9)	49.0	12.2	61.2
Effects of:						
Depreciation on assets that do not qualify for relief	4.4	–	4.4	4.2	–	4.2
Disallowable expenditure	2.1	–	2.1	0.2	–	0.2
Non-taxable income	(4.4)	–	(4.4)	(4.4)	–	(4.4)
Property disposals	(0.9)	–	(0.9)	0.1	–	0.1
Capital allowances for the year higher than depreciation	(12.6)	–	(12.6)	(3.3)	–	(3.3)
Capitalised borrowing costs allowable for tax <sup>4</sup>	(13.3)	–	(13.3)	(18.5)	–	(18.5)
Taxable profit on IFRS 16 and other restatements	–	–	–	5.5	–	5.5
Profits on financial derivatives <sup>5</sup>	60.7	–	60.7	(30.4)	–	(30.4)
Pension cost charge lower than pension contributions <sup>6</sup>	(17.2)	–	(17.2)	(1.9)	–	(1.9)
Other short term timing differences	8.3	–	8.3	(1.1)	–	(1.1)
Group relief not paid at standard rate	–	–	–	0.3	(6.1)	(5.8)
<b>Current tax (credit)/charge for the year</b>	<b>(14.8)</b>	<b>14.0</b>	<b>(0.8)</b>	<b>(0.3)</b>	<b>6.1</b>	<b>5.8</b>

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

5 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.

6 The Company made higher pension contributions in the year as a result of the additional pension deficit repair payment, which will receive tax relief. The Company reduced its claim for capital allowances accordingly so that current tax was not affected; as a result, no tax amounts have been booked to OCI in respect of the pension deficit repair payment.

## Notes to the company financial statements continued

### 33. Tax credit/(charge) on (loss)/profit on ordinary activities continued

#### Uncertain tax positions

At 31 March 2021 the total value of uncertain corporation tax positions was £nil (2020: £nil), reflecting the agreement of tax computations with HMRC up to and including 31 March 2018.

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

Year ended 31 March	2021 £m	2020 £m
<b>Deferred tax:</b>		
Tax credit/charge on net actuarial loss/(gain) in year	43.1	(37.4)
Impact of deferred tax rate change on net actuarial (gains)/losses	–	7.7
	43.1	(29.7)
<b>Deferred tax:</b>		
Tax charge on cash flow hedges in year	(7.1)	(5.2)
Impact of deferred tax rate change on cash flow hedges	–	2.2
	(7.1)	(3.0)
<b>Total credited/(charged) directly to other comprehensive income</b>	<b>36.0</b>	<b>(32.7)</b>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change for the Company, had it been substantively enacted by the balance sheet date, would be to increase the net deferred tax liability by £320.5m, comprising an increase of £372.4m in the liability for accelerated depreciation, less a £51.9m increase in the assets for pensions, derivatives and other timing differences. The tax expense for the period would increase by £357.5m and the credit to reserves would increase by £37.0m.

### 34. Investment in subsidiary undertaking

The Company has no interest in joint ventures or associates. The Company had the following investment in a subsidiary undertaking as at 31 March 2021:

Entity	Holding	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights & shares held
Thames Water Utilities Finance plc	Direct	Finance Company	United Kingdom	£1 Ordinary	100%

The subsidiary undertaking is wholly owned by the Company.

The address of the registered office of Thames Water Utilities Finance plc is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

### 35. Intercompany loans receivable

As at 31 March	2021		2020	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Amounts owed by group undertakings:</b>				
Thames Water Utilities Holdings Limited	1,693.4	1,693.4	1,752.2	1,752.2
Thames Water Utilities Finance plc	300.0	300.0	300.0	300.0
Total principal owed	1,993.4	1,993.4	2,052.2	2,052.2
<b>Interest receivable on amounts owed by group undertakings:</b>				
Thames Water Utilities Holdings Limited	3.7	3.7	11.8	11.8
Thames Water Utilities Finance plc	30.8	30.8	26.2	26.2
Total interest receivable	34.5	34.5	38.0	38.0
<b>Total</b>	<b>2,027.9</b>	<b>2,027.9</b>	<b>2,090.2</b>	<b>2,090.2</b>
Disclosed within non-current assets	1,993.4	1,993.4	2,052.2	2,052.2
Disclosed within current assets	34.5	34.5	38.0	38.0

The above intercompany loans are unsecured. These balances have not been included within the Company's net debt and covenant calculations.

The intercompany loan receivable from TWUHL is repayable on demand. Interest on the loan is charged at LIBOR plus 0.35% margin (2020: LIBOR plus 0.35% margin). Paragraph B5.5.38 of IFRS 9 states that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. As the loan is repayable on demand, the expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. The Group has considered the recoverability of the intercompany loans receivable as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany loans receivable and the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

TWUL recognises two intercompany loans receivable from TWUF plc for a total principal amount of £300.0 million, consisting of £200.0 million and £100.0 million loans. The interest is charged at LIBOR plus 2% margin (2020: LIBOR plus 2% margin) and LIBOR plus 1.55% margin (2020: LIBOR plus 1.55% margin) respectively. There are also corresponding borrowings payable to TWUF plc of a total principal amount of £300.0 million, see note 39, which is also made up of two loans for £200.0 million and £100.0 million. The intercompany loans receivable therefore net off with the borrowings on a notional basis and therefore the Directors do not consider there is any need to book an impairment provision and expect to materially recover the intercompany amount.

The terms of the intercompany loans may be impacted by the GBP LIBOR transition plan. Refer to IBOR reform section on page 130 for more information.



## Notes to the company financial statements continued

### 36. Trade and other receivables

As at 31 March	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>Non-current:</b>						
Prepayments	–	228.9	228.9	–	159.0	159.0
Amounts owed by group undertakings	1.1	–	1.1	7.9	–	7.9
Insurance claims receivable	45.1	–	45.1	64.5	–	64.5
Other receivables	0.1	–	0.1	–	–	–
	46.3	228.9	275.2	72.4	159.0	231.4
<b>Current:</b>						
Gross trade receivables	441.2	15.2	456.4	475.4	13.5	488.9
Less doubtful debt provision	(143.1)	(3.2)	(146.3)	(185.1)	(2.7)	(187.8)
<b>Net trade receivables</b>	<b>298.1</b>	<b>12.0</b>	<b>310.1</b>	<b>290.3</b>	<b>10.8</b>	<b>301.1</b>
Amounts owed by group undertakings	7.1	–	7.1	–	–	–
Prepayments	38.4	–	38.4	32.9	–	32.9
Other receivables	27.8	0.8	28.6	32.8	0.8	33.6
	371.4	12.8	384.2	356.0	11.6	367.6
<b>Current:</b>						
Contract assets	239.5	5.8	245.3	234.9	1.5	236.4
	610.9	18.6	629.5	590.9	13.1	604.0
<b>Total</b>	<b>657.2</b>	<b>247.5</b>	<b>904.7</b>	<b>663.3</b>	<b>172.1</b>	<b>835.4</b>

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 31 March 2021 includes £228.9 million (2020: £159.0 million) of prepayment relating to the Bazalgette Tunnel Limited (“BTL”) arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Contract assets at 31 March 2021 includes £176.7 million (2020: £173.5 million) of services provided to metered customers. Included within this amount is £7.1 million of bad debt (31 March 2020: £5.9 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

### Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2021 £m	2020 £m
At 1 April	(187.8)	(176.6)
Charge for bad and doubtful debts – charged against revenue <sup>1</sup>	(41.0)	(33.1)
Charge for bad and doubtful debts – included within operating expenses	(36.7)	(40.8)
Excess credits recognised during the year	–	(5.1)
Amounts written off (utilised)	119.2	67.8
<b>Total at 31 March</b>	<b>(146.3)</b>	<b>(187.8)</b>

<sup>1</sup> included within this is a £8.9 million reduction in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The decrease of the provision in the current financial year is credited to gross revenue. The remaining amount pertains to the £49.9m charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

As at 31 March	2021 £m	2020 £m
Up to 365 days	318.3	273.9
1 – 2 years	73.0	78.5
2 – 3 years	33.6	94.4
More than 3 years	31.5	42.1
<b>Total</b>	<b>456.4</b>	<b>488.9</b>

The ageing of gross BTL receivables is as follows:

As at 31 March	2021 £m	2020 £m
Up to 365 days	11.4	8.3
1 – 2 years	2.6	2.4
2 – 3 years	1.2	2.8
<b>Total</b>	<b>15.2</b>	<b>13.5</b>

BTL receivables relates to the amount of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

## Notes to the company financial statements continued

### 36. Trade and other receivables continued

Expected credit loss split by ageing is as follows:

	2021 £m	2020 £m
<b>As at 31 March</b>		
Up to 365 days	74.5	82.1
1 – 2 years	29.5	32.4
2 – 3 years	15.4	44.4
More than 3 years	26.9	28.9
<b>Total</b>	<b>146.3</b>	<b>187.8</b>

Ageing of impaired BTL receivables<sup>1</sup> is as follows:

	2021 £m	2020 £m
<b>As at 31 March</b>		
Up to 365 days	2.0	1.4
1 – 2 years	0.8	0.6
2 – 3 years	0.4	0.7
<b>Total</b>	<b>3.2</b>	<b>2.7</b>

### 37 Cash and cash equivalents

	2021			2020		
<b>As at 31 March</b>	<b>Underlying £m</b>	<b>BTL £m</b>	<b>Total £m</b>	<b>Underlying £m</b>	<b>BTL £m</b>	<b>Total £m</b>
Cash at bank and in hand	–	–	–	1.5	–	1.5
Money market funds	488.5	3.6	492.1	751.7	2.6	754.3
<b>Total</b>	<b>488.5</b>	<b>3.6</b>	<b>492.1</b>	<b>753.2</b>	<b>2.6</b>	<b>755.8</b>

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

### 38. Trade and other payables

	2021			2020		
<b>As at 31 March</b>	<b>Underlying £m</b>	<b>BTL £m</b>	<b>Total £m</b>	<b>Underlying £m</b>	<b>BTL £m</b>	<b>Total £m</b>
<b>Non-current:</b>						
Contract liabilities	757.3	–	757.3	707.3	–	707.3
<b>Current:</b>						
Trade payables – operating	232.0	–	232.0	273.5	–	273.5
Amounts owed to group undertakings	54.1	–	54.1	10.7	–	10.7
Other taxation and social security	8.3	–	8.3	7.2	–	7.2
Amounts (receivable)/payable in respect of group relief	(15.9)	20.1	4.2	(1.0)	6.1	5.1
Accruals	290.6	–	290.6	304.7	–	304.7
Amounts owed to Bazalgette Tunnel Limited	–	11.3	11.3	–	10.3	10.3
Other payables	71.8	–	71.8	71.0	–	71.0
	640.9	31.4	672.3	666.1	16.4	682.5
<b>Current:</b>						
Contract liabilities	121.9	2.1	124.0	123.8	0.3	124.1
	762.8	33.5	796.3	789.9	16.7	806.6
<b>Total</b>	<b>1,520.1</b>	<b>33.5</b>	<b>1,553.6</b>	<b>1,497.2</b>	<b>16.7</b>	<b>1,513.9</b>

Current contract liabilities at 31 March 2021 includes £75.4 million (2020: £78.2 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2021 includes £522.7 million (2020: £511.9 million) of deferred infrastructure charges, £227.8 million of deferred income for nil cost “adopted” assets (2020: £179.7 million) with the remaining amount relating to payments received in advance for compensation for operating costs.

Amounts owed to group undertaking at 31 March 2021 of £54.1 million (2020: £10.7 million) primarily reflects £53.7 million (2020: £9.8 million) relating to interest received by the Company on behalf of TWUF plc in relation to restructured swaps. In the previous year, the amounts owed to group undertakings were recognised under other payables.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.

## Notes to the company financial statements continued

### 39. Borrowings

	2021 £m	2020 £m
<b>As at 31 March</b>		
Secured bank loans and private placements	2,340.5	2,371.1
Amounts owed to group undertakings	10,679.4	10,902.2
	13,019.9	13,273.3
Interest payable on secured bank loans and private placements	6.0	7.2
Interest payable on amounts owed to group undertakings	240.7	226.1
	246.7	233.3
<b>Total</b>	<b>13,266.6</b>	<b>13,506.6</b>
Disclosed within non-current liabilities	11,977.1	11,626.6
Disclosed within current liabilities	1,289.5	1,880.0
<b>Total</b>	<b>13,266.6</b>	<b>13,506.6</b>

Secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiary TWUF, has guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

As at 31 March 2021, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £10,914.6 million (2020: £11,122.8 million) owed to TWUF. Financing costs arising in Thames Water Utilities Finance plc are directly recharged under mirrored interest terms for all loans except for:
  - a £225.0 million 6.59% secured bond due in 2021, which was loaned on to the Company with a margin of one basis point, and
  - financing costs relating to instruments transferred from the former financing subsidiary Thames Water Utilities Cayman Finance Limited (TWUCF) to TWUF on 31 August 2018, where all costs are recharged under mirrored interest terms, with an additional margin of ten basis points.
- £5.2 million (2020: £5.2 million) owed to Thames Water Utilities Holdings Limited.
- £0.3 million (2020: £0.3 million) owed to Thames Water Limited.

Maturity analysis with respect to borrowings is presented in note 40.

### Breakdown of secured bank loans and private placements

	2021 £m	2020 £m
<b>As at 31 March</b>		
£75.0m 1.350% index-linked loan due 2021 <sup>(d), (f)</sup>	92.9	91.6
£215.0m 0.460% index-linked loan due 2023 <sup>(a), (f)</sup>	258.4	254.8
£215.0m 0.380% index-linked loan due 2032 <sup>(a), (b), (f)</sup>	195.0	209.5
£100.0m 3.261% index-linked loan due 2043 <sup>(a), (c), (f)</sup>	135.0	133.1
£100.0m 0.790% index-linked loan due 2025 <sup>(a), (d), (f)</sup>	114.4	112.8
£125.0m 0.598% index-linked loan due 2026 <sup>(a), (d), (f)</sup>	142.3	140.4
£70.0m Class B 3.867% fixed rate loan due 2026 <sup>(a)</sup>	70.0	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 <sup>(a)</sup>	50.0	50.0
£20.0m Class B floating rate loan due 2026 <sup>(a)</sup>	20.0	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 <sup>(a)</sup>	38.6	38.5
\$55.0m 3.380% private placement due 2023 <sup>(a), (e)</sup>	39.9	44.2
\$285.0m 3.570% private placement due 2025 <sup>(a), (e)</sup>	206.5	229.1
£216.0m 2.450% private placement due 2028 <sup>(a)</sup>	215.5	215.4
£210.0m 2.550% private placement due 2030 <sup>(a)</sup>	209.4	209.3
£40.0m 2.620% private placement due 2033 <sup>(a)</sup>	39.8	39.8
£150.0m floating rate loan due 2024 <sup>(a)</sup>	149.7	149.7
£125.0m floating rate loan due 2024 <sup>(a)</sup>	124.6	124.4
£50.0m floating rate loan due 2022 <sup>(a)</sup>	49.9	49.9
£63.1m floating rate loan due 2027 <sup>(a)</sup>	62.9	62.9
£63.1m floating rate loan due 2029 <sup>(a)</sup>	62.9	62.9
£63.1m floating rate loan due 2031 <sup>(a)</sup>	62.8	62.8
<b>Total secured bank loans and private placements</b>	<b>2,340.5</b>	<b>2,371.1</b>

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.

(b) This debt amortises in equal tranches from 2017 onwards.

(c) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet repayment of £25.0 million.

(d) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.

(e) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.

(f) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

## Notes to the company financial statements continued

### 39. Borrowings continued

#### Breakdown of amounts owed to group undertakings

These amounts are intercompany loans.

As at 31 March	2021 £m	2020 £m
<b>THAMES WATER UTILITIES FINANCE PLC</b>		
£100.0m 5.050% fixed rate due 2020	–	100.0
£225.0m 6.590% fixed rate due 2021 <sup>(c)</sup>	225.0	225.0
£175.0m 3.375% index-linked due 2021 <sup>(b), (k)</sup>	295.3	290.4
£330.0m 6.750% fixed rate due 2028 <sup>(a), (b)</sup>	327.9	327.7
£200.0m 6.500% fixed rate due 2032 <sup>(b)</sup>	198.0	197.9
£600.0m 5.125% fixed rate due 2037 <sup>(b)</sup>	596.7	596.6
£300.0m 1.680% index-linked due 2053 <sup>(b), (k)</sup>	454.8	447.4
£300.0m 1.681% index-linked due 2055 <sup>(b), (k)</sup>	454.8	447.4
£600.0m 1.029% floating rate loan due 2020 <sup>(j), (m)</sup>	–	600.0
£300.0m 1.029% floating rate loan due 2020 <sup>(j), (m)</sup>	–	300.0
£300.0m 1.001% floating rate loan due 2020 <sup>(j), (m)</sup>	–	300.0
£214.3m 1.082% Class B floating rate loan due 2020 <sup>(j)</sup>	–	214.3
£214.3m 0.968% Class B floating rate loan due 2021 <sup>(h), (j)</sup>	214.3	–
£150.0m 1.713% Class B floating rate loan due 2023 <sup>(n)</sup>	150.0	150.0
£150.0m 1.708% Class B floating rate loan due 2023 <sup>(n)</sup>	150.0	–
£82.0m 2.9720% fixed rate due 2026 <sup>(a), (o)</sup>	81.8	81.8
£101.3m 3.2300% fixed rate due 2029 <sup>(a), (o)</sup>	101.0	101.0
£44.1m 3.1468% fixed rate due 2030 <sup>(a), (o)</sup>	43.9	43.9
£100.0m 1.985% index-linked due 2022 <sup>(a), (e), (k), (o)</sup>	125.4	123.5
£96.6m 4.146% fixed rate due 2022 <sup>(a), (o)</sup>	96.6	96.6
£128.7m 4.300% fixed rate due 2024 <sup>(a), (o)</sup>	128.8	128.7
£161.1m 4.534% fixed rate due 2027 <sup>(a), (o)</sup>	161.0	161.1
£100.0m 1.790% index-linked due 2029 <sup>(e), (k)</sup>	101.3	115.0
£300.0m 5.750% Class B Fixed rate due 2030 <sup>(a), (b), (f)</sup>	298.9	298.5
£300.0m 4.375% fixed rate due 2034 <sup>(a), (b)</sup>	296.1	295.9
¥20.0bn 3.280% fixed rate due 2038 <sup>(a), (i)</sup>	131.2	149.4
£200.0m 0.205% index-linked due 2039 <sup>(a), (e), (k)</sup>	204.1	200.9
£50.0m 3.853% index-linked due 2040 <sup>(a), (d)</sup>	67.5	66.6
£500.0m 5.500% fixed rate due 2041 <sup>(a), (b)</sup>	490.3	490.1
£50.0m 1.980% index-linked due 2042 <sup>(a), (k)</sup>	71.3	70.4
£55.0m 2.091% index-linked due 2042 <sup>(a), (b), (k)</sup>	75.8	74.7
£40.0m 1.974% index-linked due 2045 <sup>(a), (b), (k)</sup>	45.2	46.2

As at 31 March	2021 £m	2020 £m
£300.0m 4.625% fixed rate due 2046 <sup>(a), (b)</sup>	293.7	293.4
£100.0m 1.846% index-linked due 2047 <sup>(a), (k)</sup>	142.5	140.9
£200.0m 1.819% index-linked due 2049 <sup>(a), (b), (k)</sup>	284.7	281.3
£200.0m 1.771% index-linked due 2057 <sup>(a), (b), (k)</sup>	284.5	281.2
£100.0m index-linked due 2060 <sup>(a), (k)</sup>	101.2	99.4
£350.0m 1.760% index-linked due 2062 <sup>(a), (b), (k)</sup>	498.1	492.1
£500.0m 4.000% fixed rate due 2025 <sup>(a), (b)</sup>	497.1	496.5
£40.0m 0.750% index-linked loan due 2034 <sup>(a), (b), (k)</sup>	45.3	44.7
£45.0m 0.721% index-linked loan due 2027 <sup>(a), (b), (k)</sup>	50.9	50.2
£300.0m 3.500% fixed rate loan due 2028 <sup>(a), (b)</sup>	297.3	297.0
£400.0m 7.738% fixed rate bond due 2058 <sup>(a), (b)</sup>	418.4	419.1
£250.0m 1.875% fixed rate bond due 2024 <sup>(a), (b)</sup>	248.9	248.5
£250.0m 2.625% fixed rate bond due 2032 <sup>(a), (b)</sup>	247.7	247.6
£300.0m 2.375% Class B fixed rate bond due 2023 <sup>(a), (b)</sup>	299.4	299.1
£250.0m 2.875% Class B fixed rate bond due 2027 <sup>(a), (b)</sup>	247.6	247.3
£143.6m 2.296% fixed rate bond due 2024 <sup>(a), (b), (o)</sup>	143.3	143.1
£350.0m 2.375% fixed rate bond due 2040 <sup>(a), (b)</sup>	345.9	–
£40.0m 2.442% fixed rate bond due 2050 <sup>(a), (b)</sup>	39.9	–
£84.7m 0.875% fixed rate bond due 2023 <sup>(a)</sup>	84.5	–
£362.8m 0.987% fixed rate bond due 2023 <sup>(a), (o)</sup>	362.5	–
£90.4m 1.009% fixed rate bond due 2023 <sup>(a), (o)</sup>	90.4	–
£44.2m 1.619% fixed rate bond due 2030 <sup>(a), (o)</sup>	44.1	–
£29.6m 1.233% fixed rate bond due 2027 <sup>(a), (o)</sup>	29.6	–
Fees <sup>(g)</sup>	(10.6)	(10.9)
£85.2m floating rate loan due 2043 <sup>(l)</sup>	–	85.2
<b>THAMES WATER LIMITED</b>		
£0.3m floating rate loan due 2043	0.3	0.3
<b>THAMES WATER UTILITIES HOLDINGS LIMITED</b>		
£5.2m floating rate loan due 2043	5.2	5.2
<b>Total amounts owed to group undertakings</b>	<b>10,679.4</b>	<b>10,902.2</b>

All debt is Class A except where highlighted.

(a) Thames Water Utilities Finance plc charges the Company a margin of ten basis points in respect of the loans.

(b) These loans are shown net of issuance costs.

(c) Thames Water Utilities Finance plc charges the Company a margin of one basis point in respect of this loan.

(d) This is a Limited Price Index ("LPI") loan. Accretion is calculated using an adjusted UK Retail Price Index.

(e) These amounts have been swapped into RPI-linked debt within the financing subsidiary and the net proceeds lent to the Company.

## Notes to the company financial statements continued

### 39. Borrowings continued

- (f) In September 2022 this Bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
- (g) These fees have been shown within the bonds section as they relate to RPI-linked debt issued in 2007.
- (h) In March 2021, £214.3 million out of the £214.3 million Class B revolving credit facility was drawn. In April 2021, £214.3 million Class B drawdown was repaid.
- (i) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.
- (j) The interest margins of these loans are based on (i) a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's; and (ii) the Group's GRESB score.
- (k) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
- (l) During the year ended 31 March 2021, the £85.2m floating rate loan originally due to Thames Water Utilities Finance plc was repaid early.
- (m) These loans represent drawdowns from the £1,432.1 million Class A revolving credit facility. As at 31 March 2021, £nil was drawn (2020: £1,200.0 million).
- (n) The interest margins of these loans are based on a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.
- (o) Thames Water Utilities Finance plc has entered into a cross currency swap which converted this debt into a sterling debt, which was then on lent to the Company in sterling. The interest rate represents the effective interest rate post cross currency swap.

### 40. Financial instruments

#### Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

#### Financial assets:

As at 31 March	2021 £m	2020 Restated <sup>1,2</sup> £m
<b>Fair value through profit or loss</b>		
Cross currency swaps	17.1	51.6
Interest rate swaps	16.2	87.7
Index-linked swaps	69.3	97.6
Cash and cash equivalents – money market funds	492.1	754.3
	594.7	991.2
<b>Amortised cost</b>		
Intercompany loans receivable	2,027.9	2,090.1
Other receivables (excluding prepayments)	46.3	72.4
Trade and other receivables (excluding prepayments)	345.8	334.7
Short-term investments	–	300.0
Cash and cash equivalents – cash at bank and in hand	–	1.5
	2,420.0	2,798.7
<b>Total</b>	<b>3,014.7</b>	<b>3,789.9</b>

1 The comparative amounts have been restated to reclassify amounts between 'Other receivables' and 'Trade and other receivables' consistent with how these balances are presented in note 36. Trade and other receivables.

2 The comparative amounts have been restated to reclassify cash and cash equivalents – money market funds from the amortised cost section to the fair value through profit or loss section.

#### Financial liabilities:

As at 31 March	2021 £m	2020 £m
<b>Fair value through profit or loss</b>		
Cross currency swaps	(68.9)	(49.7)
Interest rate swaps	(166.6)	(252.1)
Index-linked swaps	(701.8)	(400.8)
	(937.3)	(702.6)
<b>Amortised cost</b>		
Trade and other payables (excluding other taxation and social security)	(664.0)	(675.3)
Borrowings	(13,266.6)	(13,506.6)
Lease liabilities	(60.4)	(70.3)
	(13,991.0)	(14,252.2)
<b>Total</b>	<b>(14,928.3)</b>	<b>(14,954.8)</b>

#### Fair value measurements

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 between informed and willing parties, other than in a forced or liquidation sale at the measurement date. 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.



## Notes to the company financial statements continued

### 40. Financial instruments continued

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 values of interest rate and index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2021:

	Level 2 <sup>1</sup>	
As at 31 March	2021 £m	2020 £m
<i>Financial assets – derivative financial instruments</i>		
Cross currency swaps	17.1	51.6
Interest rate swaps	16.2	87.7
Index-linked swaps	69.3	97.6
	102.6	236.9
<i>Financial liabilities – derivative financial instruments</i>		
Cross currency swaps	(68.9)	(49.7)
Interest rate swaps	(166.6)	(252.1)
Index-linked swaps	(701.8)	(400.8)
	(937.3)	(702.6)
<b>Net total</b>	<b>(834.7)</b>	<b>(465.7)</b>

1 The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index-linked swaps are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates and inflation rates and discounted at a rate that reflects the credit risk of the Company and counterparties, currency cash flows are then translated at spot rate.

During the year, £37.5 million (31 March 2020: £34.9 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 168. The amount recycled of £37.5 million consisted of a £37.2 million loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and for which the related debt has been issued and a £0.3 million loss due to ineffectiveness on the swaps that were restructured during the prior year. No fair value movement was recognised on the cash flow hedge reserve for the year ended 31 March 2021 (31 March 2020: loss of £4.1 million).

In November 2019, the maturity date of an index linked swap, with £200.0 million notional, was extended to 2038. The swap is measured at fair value through the income statement. The £15.8 million observed fair value movement on the restructure date could not be supported by observable inputs alone. In management's view the difference in value was due to unobservable factors and so has been capitalised and is recognised in the income statement over the extended maturity period on a straight line basis. As at 31 March 2021, £14.6 million (31 March 2020: £15.5 million) remained capitalised and £0.9 million had been recognised in the income statement (31 March 2020: £0.3 million). Unobservable factors include the counterparty's credit, capital, funding and trading charges.

### Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Company's financial assets and financial liabilities are set out in the tables below.

#### Financial assets:

	2021		2020 Restated <sup>1</sup>	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>As at 31 March</b>				
<b>Non-current</b>				
Intercompany loans receivable <sup>2</sup>	1,993.4	1,993.4	2,052.2	2,052.2
Derivative financial instruments				
Cross currency swaps	17.1	17.1	51.6	51.6
Interest rate swaps	16.2	16.2	87.7	87.7
Index-linked swaps	69.3	69.3	97.6	97.6
Other receivables (excluding prepayments) <sup>1</sup>	46.3	46.3	72.4	72.4
	2,142.3	2,142.3	2,361.5	2,361.5
<b>Current</b>				
Short-term investments	–	–	300.0	300.0
Cash and cash equivalents	492.1	492.1	755.8	755.8
Intercompany loans receivable <sup>2</sup>	34.5	34.5	38.0	38.0
Trade and other receivables (excluding prepayments) <sup>1</sup>	345.8	345.8	334.7	334.7
	872.4	872.4	1,428.5	1,428.5
<b>Total</b>	<b>3,014.7</b>	<b>3,014.7</b>	<b>3,790.0</b>	<b>3,790.0</b>

1 The comparative amounts have been restated to exclude prepayments.

2 Intercompany loans receivable includes a floating rate loan and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

## Notes to the company financial statements continued

### 40. Financial instruments continued

#### Financial liabilities:

As at 31 March	2021		2020 Restated <sup>1</sup>	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Non-current</b>				
Borrowings				
Secured bank loans and private placements	(2,231.5)	(2,532.7)	(2,355.0)	(2,538.5)
Amounts owed to group undertakings	(9,745.6)	(13,287.7)	(9,271.6)	(11,690.5)
Derivative financial instruments				
Cross currency swaps	(68.9)	(68.9)	(49.7)	(49.7)
Interest rate swaps	(166.6)	(166.6)	(252.1)	(252.1)
Index-linked swaps	(701.8)	(701.8)	(400.8)	(400.8)
	(12,914.4)	(16,757.7)	(12,329.2)	(14,931.6)
<b>Current</b>				
Borrowings				
Secured bank loans and private placements	(109.0)	(112.1)	(16.1)	(16.1)
Amounts owed to group undertakings	(933.8)	(974.2)	(1,630.6)	(1,635.9)
Interest payable	(246.7)	(246.7)	(233.3)	(233.3)
Trade and other payables (excluding other taxation and social security) <sup>1</sup>	(664.0)	(664.0)	(675.3)	(675.3)
	(1,953.5)	(1,997.0)	(2,555.3)	(2,560.6)
<b>Total</b>	(14,867.9)	(18,754.7)	(14,884.5)	(17,492.2)

<sup>1</sup> The comparative amounts have been restated to include Trade and other payables (excluding other taxation and social security).

Amounts owed to group undertakings include bonds and private placements issued by subsidiary entities, which are publicly traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of secured bank loans and private placements is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread. The fair value of amounts owed to group undertakings represents the market value of the underlying debt instrument, associated derivative instrument and relevant margin on the intercompany loan. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity, discounted using a risk free rate plus the Group's credit spread.

### Capital risk management

Capital risk primarily relates to whether the Company is adequately capitalised and financially solvent. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Company's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable.

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, along with TWUHL, guarantees the funding activity of TWUF which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. TWUF and TWUHL guarantee the debt obligations of the Company. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Group is included on page 151.

### Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

## Notes to the company financial statements continued

### 40. Financial instruments continued

	2021			2020		
	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m
<b>As at 31 March</b>						
<b>Opening balance</b>	<b>(13,506.6)</b>	<b>(465.7)</b>	<b>(70.3)</b>	(12,218.6)	(718.9)	(72.5)
Non-current	(11,626.6)	(465.7)	(62.4)	(10,996.0)	(718.9)	(65.1)
Current	(1,880.0)	–	(7.9)	(1,222.6)	–	(7.4)
<b>Cash flows</b>						
New loans raised	(1,575.3)	–	–	(3,141.8)	–	–
Repayment of borrowings	1,846.6	–	–	2,014.6	–	–
Repayment of lease principal	–	–	11.4	–	–	11.0
Derivative accretion settlement <sup>1</sup>	–	–	–	–	76.0	–
Interest paid <sup>2</sup>	392.0	–	–	382.4	–	–
Interest received <sup>3</sup>	–	(117.6)	–	–	(29.5)	–
	663.3	(117.6)	11.4	(744.8)	46.5	11.0
<b>Non-cash changes</b>						
Interest accrued/Fees amortised	(410.8)	116.5	–	(402.3)	45.3	–
Foreign exchange movement	45.1	–	–	(22.4)	–	–
Indexation	(58.2)	–	–	(119.1)	–	–
Fair value changes	–	(367.9)	–	–	161.4	–
Lease additions	–	–	1.9	–	–	(5.1)
Interest accrued for IFRS 16 leases	–	–	(3.4)	–	–	(3.7)
Unamortised IFRS 9 transition adjustment	0.6	–	–	0.6	–	–
	(423.3)	(251.4)	(1.5)	(543.2)	206.7	(8.8)
<b>Closing balance</b>	<b>(13,266.6)</b>	<b>(834.7)</b>	<b>(60.4)</b>	(13,506.6)	(465.7)	(70.3)
Non-current	(11,977.1)	(834.7)	(52.9)	(11,626.6)	(465.7)	(62.4)
Current	(1,289.5)	–	(7.5)	(1,880.0)	–	(7.9)

1 Derivative accretion settlement of £76.0 million in the prior year ended 31 March 2020 relates to an index-linked swap where accretion is payable periodically.

2 Interest paid of £392.0 million (2020: £382.4 million) includes £69.7 million of capitalised borrowing costs (2020: £97.6 million) and excludes £0.3 million of bank charges (2020: £0.2 million).

3 Interest received of £117.6 million (2020: £29.5 million) excludes £21.2 million of interest received on an intercompany loan with holding company Thames Water Utilities Holdings Limited (2020: £37.5 million), £1.9 million of interest received on an intercompany loan with subsidiary Thames Water Utilities Finance plc (2020: £2.5 million) £1.4 million interest received on bank deposits (2020: £1.9 million) and £0.7 million other interest income (2020: £0.7 million).

### Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Company has taken to manage them is described below and overleaf.

#### (a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Company's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk.

	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
<b>As at 31 March 2021</b>				
Interest bearing loans and borrowings				
Net of corresponding swap assets				
– £ Sterling	4,952.7	703.5	7,611.5	13,267.7

	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
<b>As at 31 March 2020</b>				
Interest bearing loans and borrowings				
Net of corresponding swap assets				
– £ Sterling	4,051.5	1,838.4	7,541.5	13,431.4

The weighted average interest rates of the debt held by the Company, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

	Weighted average interest rate	Weighted average period until maturity		
	2021 %	2020 %	2021 Years	2020 Years
<b>As at 31 March</b>				
Fixed	4.2	5.4	11.0	11.8
Index-linked	2.6	3.5	17.0	18.1

#### (i) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 181.

## Notes to the company financial statements continued

### 40. Financial instruments continued

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2021. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	2021 +1% £m	2021 -1% £m	2020 +1% £m	2020 -1% £m
Profit	208.6	(243.8)	127.5	(148.8)
Equity	208.6	(243.8)	127.5	(148.8)

#### (ii) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Company has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2021. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2021 +10% £m	2021 -10% £m	2020 +10% £m	2020 -10% £m
Profit	(4.6)	0.9	(7.2)	6.2
Equity	(4.6)	0.9	(7.2)	6.2

#### (iii) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Company as a regulated water and wastewater company is subject to fluctuations in its revenues due to movements in inflation. Therefore the Company's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2021. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2021 +1% £m	2021 -1% £m	2020 +1% £m	2020 -1% £m
Profit	(620.3)	563.4	(529.5)	534.7
Equity	(620.3)	563.4	(529.5)	534.7

### (b) Credit risk

Credit risk relates to the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Company's trade receivables, its loan to its immediate parent entity Thames Water Utilities Holdings Limited, insurance receivables short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Company and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Company's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 36. For non-household customers, the company's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Company's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2021, no collateral was held (2020: nil).

The following table summarises amounts held on cash at bank and in hand, money market funds and short-term investments by credit rating of counterparties.

As at 31 March	2021 £m	2020 £m
AAA	492.1	754.3
A+	–	150.0
A	–	151.5
<b>Total</b>	<b>492.1</b>	<b>1,055.8</b>

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2021 £m	2020 £m
AA-	0.5	25.0
A+	94.0	168.8
A	8.1	33.8
A-	–	9.3
<b>Total</b>	<b>102.6</b>	<b>236.9</b>

## Notes to the company financial statements continued

### 40. Financial instruments continued

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in note 39.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2021 £m	2020 £m
Within one year	1,042.8	1,655.3
Between one and two years	207.4	721.0
Between two and three years	1,939.4	211.5
Between three and four years	606.3	1,098.3
Between four and five years	835.6	800.7
After more than five years	8,388.4	8,786.5
<b>Total</b>	<b>13,019.9</b>	<b>13,273.3</b>

#### (iii) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March	2021 £m	2020 Restated <sup>1</sup> £m
Undiscounted amounts payable		
Within one year	2,009.3	2,673.3
Between one and two years	624.0	1,115.7
Between two and three years	2,317.5	606.7
Between three and four years	1,038.5	1,489.3
Between four and five years	1,204.3	1,190.2
After more than five years	19,448.9	18,294.8
<b>Total</b>	<b>26,642.5</b>	<b>25,370.0</b>

<sup>1</sup> The comparative amounts have been restated to include lease liabilities.

#### (iv) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March	2021 £m	2020 £m
Undiscounted amounts payable		
Within one year	107.1	125.1
Between one and two years	72.4	105.1
Between two and three years	(70.5)	82.7
Between three and four years	(65.7)	(57.4)
Between four and five years	55.0	(35.3)
After more than five years	(975.4)	(787.6)
<b>Total</b>	<b>(877.1)</b>	<b>(567.4)</b>

#### Cash flow hedges

The Company has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 128.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2021, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedge has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the life of the hedging instrument.

During the year, £37.5 million (31 March 2020: £34.9 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 168. The amount recycled of £37.5 million consisted of a £37.2 million loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and for which the related debt has been issued and a £0.3 million loss due to ineffectiveness on the swaps that were restructured during the prior year. No fair value movement was recognised on the cash flow hedge reserve for the year ended 31 March 2021 (31 March 2020: loss of £4.1 million).

The Company's cash flow hedge reserve disclosed on the statement of changes in equity on page 168 relate to forward starting interest rate swaps which have now commenced.



## Notes to the company financial statements continued

### 40. Financial instruments continued

Cash flow hedge reserve	£m	
At 1 April 2019	(117.9)	
Loss on cash flow hedge	(4.1)	
Cash flow hedge transferred to income statement	34.9	
Deferred tax charge on cash flow hedge gain including impact of deferred tax rate change	(3.0)	
At 31 March 2020	(90.1)	
Loss on cash flow hedge	–	
Cash flow hedge transferred to income statement	37.5	
Deferred tax charge on cash flow hedge gain	(7.1)	
<b>At 31 March 2021</b>	<b>(59.7)</b>	
<b>As at 31 March</b>	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
<i>Quantitative</i>		
Cash flow hedge transferred to income statement	37.5	34.9

Following are the effects of forward starting interest rate swaps which have commenced on the Company's financial position and performance:

<b>As at 31 March</b>	<b>2021</b>	<b>2020</b>
<i>Qualitative</i>		
Line item affected in income statement due to reclassification	Net (losses)/ gains on financial instruments	Net (losses)/ gains on financial instruments

The table below shows phasing of amounts to be reclassified to income statement from the cash flow hedge reserve, which relates to the Company's forward starting interest rate swaps which have commenced:

<b>As at 31 March</b>	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
<i>Interest rate swaps</i>		
Within one year	(31.1)	(37.5)
Between one and two years	(21.1)	(31.1)
Between two and three years	(18.7)	(21.1)
Between three and four years	(2.8)	(18.7)
Between four and five years	–	(2.8)
After more than five years	–	–
<b>Total</b>	<b>(73.7)</b>	<b>(111.2)</b>

## Notes to the company financial statements continued

### 40. Financial instruments continued

#### Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where TWUL currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

TWUL has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as the early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2021 and 31 March 2020. The column 'net amount' shows the impact on the statement of financial position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the Company statement of financial position				
	Gross amounts £m	Amounts set off £m	Net amounts presented on company statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
<b>As at 31 March 2021</b>					
<b>Financial assets</b>					
Derivative financial instruments	102.6	–	102.6	(101.3)	1.3
	102.6	–	102.6	(101.3)	1.3
<b>Financial liabilities</b>					
Derivative financial instruments	(937.3)	–	(937.3)	101.3	(836.0)
	(937.3)	–	(937.3)	101.3	(836.0)
<b>Total</b>	(834.7)	–	(834.7)	–	(834.7)

	Effects of offsetting on the Company statement of financial position				
	Gross amounts £m	Amounts set off £m	Net amounts presented on company statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
<b>As at 31 March 2020</b>					
<b>Financial assets</b>					
Derivative financial instruments	236.9	–	236.9	(201.2)	35.7
	236.9	–	236.9	(201.2)	35.7
<b>Financial liabilities</b>					
Derivative financial instruments	(702.6)	–	(702.6)	201.2	(501.4)
	(702.6)	–	(702.6)	201.2	(501.4)
<b>Total</b>	(465.7)	–	(465.7)	–	(465.7)

### 41. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Company is set out below:

	Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	Total £m
At 1 April 2019	(1,051.3)	41.5	84.6	8.4	(916.8)
Charge to income	(146.9)	(5.1)	(23.4)	5.7	(169.7)
Credit to other comprehensive income	–	(29.7)	(3.0)	–	(32.7)
<b>At 31 March 2020</b>	(1,198.2)	6.7	58.2	14.1	(1,119.2)
(Charge)/credit to income	(27.2)	(17.4)	60.6	8.7	24.7
Credit/(charge) to other comprehensive income	–	43.1	(7.1)	–	36.0
<b>At 31 March 2021</b>	(1,225.4)	32.4	111.7	22.8	(1,058.5)

## Notes to the company financial statements continued

### 41. Deferred tax continued

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months are as follows:

	2021 £m	2020 £m
<b>As at 31 March</b>		
Deferred tax asset	166.9	79.0
Deferred tax liability	(1,225.4)	(1,198.2)
<b>Total</b>	<b>(1,058.5)</b>	<b>(1,119.2)</b>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Please refer to note 33 for details of the impact of this announcement, had it been enacted in the year. The deferred tax assets and liabilities shown above as at 31 March 2021 have therefore been calculated using the 19% tax rate, except the deferred tax liability on the pension surplus which is provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Company.

A deferred tax liability arises in respect of accelerated tax depreciation, because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Company mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- **Retirement benefit obligations:** A net deferred tax asset is provided on the retirement benefit obligations booked in the accounts. The £32.4m deferred tax asset carried forward is the net of an asset of £52.6m (19% of the deficit on the TWPS pension scheme of £277.1m) less a liability of £20.2m (35% of the surplus on the MIPS pension scheme of £57.9m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- **Cash flow hedge:** A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- **Other:** A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

### 42. Share capital and other reserves

#### Share capital

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>As at 31 March</b>						
<i>Allotted, called up and fully paid:</i>						
29,050,000 ordinary shares of £1 each (2020: 29,050,000 ordinary shares of £1 each)	29.0	–	29.0	29.0	–	29.0

The company has one class of ordinary share which carries 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.

#### Other reserves

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<b>As at 31 March</b>						
Share premium	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	(59.7)	–	(59.7)	(90.1)	–	(90.1)
Revaluation reserve	903.1	–	903.1	934.3	–	934.3
Retained earnings	1,990.8	217.6	2,208.4	2,325.3	158.0	2,483.3
<b>Total</b>	<b>2,934.2</b>	<b>217.6</b>	<b>3,151.8</b>	<b>3,269.5</b>	<b>158.0</b>	<b>3,427.5</b>

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Refer to note 8 for information on the dividends paid by the Company.

### 43. Contingent liabilities

Contingent liabilities for the Company are consistent with the Group, as detailed in note 24.

#### Financial guarantees

The Company is part of a Whole Business Securitisation ("WBS") group as described in note 40. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Company will be required to make a payment under the guarantee.

## Notes to the company financial statements continued

### 44. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases that do not fall under IFRS 16;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Company is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2021 was £12.9 billion (2020: £13.1 billion).

### 45. Statement of cash flows

#### Reconciliation of operating profit to operating cash flows

	2021			2020		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	(180.9)	59.6	(121.3)	88.8	58.0	146.8
Less finance income	(138.2)	–	(138.2)	(78.1)	–	(78.1)
Add finance expense excluding interest on lease liabilities	409.9	–	409.9	438.4	–	438.4
Add interest expense on lease liabilities	3.4	–	3.4	3.7	–	3.7
Add/(less) net (losses)/gains on financial instruments	360.4	–	360.4	(108.1)	–	(108.1)
(Less)/add taxation on (loss)/profit on ordinary activities	(39.5)	14.0	(25.5)	169.4	6.1	175.5
<b>Operating profit</b>	<b>415.1</b>	<b>73.6</b>	<b>488.7</b>	<b>514.1</b>	<b>64.1</b>	<b>578.2</b>
Depreciation on property, plant and equipment	559.3	–	559.3	547.6	–	547.6
Amortisation of intangible assets	51.9	–	51.9	32.8	–	32.8
Depreciation of right of use asset	8.0	–	8.0	8.2	–	8.2
(Gain)/loss on sale of property, plant and equipment	(8.4)	–	(8.4)	4.1	–	4.1
Write off of property, plant and equipment and intangible assets	–	–	–	9.9	–	9.9
Difference in pension charge and cash contribution <sup>1</sup>	(92.3)	–	(92.3)	(16.2)	–	(16.2)
Increase in inventory	(1.3)	–	(1.3)	(0.1)	–	(0.1)
Decrease/(increase) in trade and other receivables	10.7	(71.1)	(60.4)	(48.6)	(60.2)	(108.8)
Increase in contract assets	(4.6)	(4.3)	(8.9)	(17.9)	(0.6)	(18.5)
(Decrease)/increase in trade and other payables	(12.3)	1.0	(11.3)	1.4	(0.8)	0.6
Increase/(decrease) in contract liabilities	48.1	1.8	49.9	84.5	(3.1)	81.4
Group relief paid	–	–	–	(3.8)	(4.4)	(8.2)
(Decrease)/increase in provisions	(0.6)	–	(0.6)	25.1	–	25.1
<b>Net cash generated by operating activities<sup>1</sup></b>	<b>973.6</b>	<b>1.0</b>	<b>974.6</b>	<b>1,141.1</b>	<b>(5.0)</b>	<b>1,136.1</b>

<sup>1</sup> Operating cash flows for the year ended 31 March 2021 includes £69.7 million (31 March 2020: nil) of payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying operating cash flows would be £1,043.3 million for the year ended 31 March 2021 (31 March 2020: £1,141.1 million).

## Notes to the company financial statements continued

### 45. Statement of cash flows continued

#### Movement in cash and cash equivalents

	2021 £m	2020 £m
<b>Year ended 31 March</b>		
Unrestricted cash movement	(1.5)	296.2
Movement in money market funds	(262.2)	300.0
<b>Total</b>	<b>(263.7)</b>	<b>596.2</b>

### 46. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'Transactions with associates and the non-appointed business' disclosure in the Annual Performance Report section on pages 107–108.

#### Trading transactions

	2021		2020	
	Services provided by the Group £'000	Services provided to the Group £'000	Services provided by the Group £'000	Services provided to the Group £'000
<b>Year ended 31 March</b>				
<i>Intermediaries between the immediate and ultimate parent</i>				
Thames Water Limited	1,936	–	2,385	156
<i>Immediate parent</i>				
Thames Water Utilities Holdings Limited	13,105	32,900	22,019	62,300
<i>Subsidiary</i>				
Thames Water Utilities Finance Plc	7,538	362,071	8,256	348,009
<i>Other entities within the Kemble Water Holdings group</i>				
Kennet Properties Limited	45	–	32	–
Thames Water Commercial Services Limited	62	–	71	7
Thames Water Property Services Limited	180	193	295	210
<i>Entities external to the Kemble Water Holdings group</i>				
Dunelm Energy Limited	–	24	–	31
<b>Total</b>	<b>22,866</b>	<b>395,188</b>	<b>33,058</b>	<b>410,713</b>

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

### Outstanding balances

The following amounts were owed to the Company from related entities, and owed to related entities by the Company at the balance sheet date:

	2021		2020	
	Amounts owed to the Company £'000	Amounts owed by the Company £'000	Amounts owed to the Company £'000	Amounts owed by the Company £'000
<b>As at 31 March</b>				
<i>Ultimate parent</i>				
Kemble Water Holdings Limited	5	–	5	–
<i>Intermediaries between the immediate and ultimate parent</i>				
Kemble Water Finance Limited	1,014	–	1,014	–
Thames Water Limited	–	–	12	–
<i>Immediate parent</i>				
Thames Water Utilities Holdings Limited	1,693,422	5,800	1,752,234	5,800
<i>Subsidiary</i>				
Thames Water Utilities Finance Plc	331,650	10,968,765	290,000	12,685,500
<b>Total</b>	<b>2,026,091</b>	<b>10,974,565</b>	<b>2,043,265</b>	<b>12,691,300</b>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.