Thames Water Utilities Limited

Half year results for the six months to 30 September 2024

10 December 2024

Chief Executive Officer, Chris Weston, said: "In the last six months we've made solid progress on the transformation and turnaround of Thames Water.

"After recognition from Ofwat with an improved performance ranking, we have continued to improve operational and underlying financial performance, with leakage at an all-time low and investment remaining at high levels in the first half of the year. After record rainfall and groundwater levels in our region, pollutions and spills are unfortunately up; however, we've been increasing pipe relining and cleaning, and the landmark Thames Tideway Tunnel, now in its testing phase, is already reducing overflows into the Tidal River Thames.

"At the same time, we've reached key milestones in establishing a more stable financial platform, agreeing a liquidity extension transaction proposal and progressing our equity raise process. The next critical step is receiving an investable Final Determination which is fundamental to our future."

Financial performance

- 10% growth in underlying revenue[2] to £1.3 billion, reflecting an inflation linked increase in our charges for water and wastewater services
- Underlying EBITDA[2] of £715 million, up 14% reflecting higher revenue and operating cost discipline
- Underlying profit after tax of £187 million, an increase of £46 million
- Statutory loss after tax of £190 million includes post tax exceptional costs of £427 million and income related to Bazalgette Tunnel Limited
- Capital expenditure of £1.0 billion as we maintain high levels of investment in our ageing assets and to improve network resilience
- Underlying operating cash flow of £605 million, an increase of £26 million.

Financial resilience

- Committed liquidity of £1.5 billion[3] as at 30 September 2024; STID proposal approved in November, supporting near-term liquidity by accessing reserved cash
- Launched Liquidity Extension Proposal

- Up to £3.0 billion new super senior facility, the first £1.5 billion of which is backstopped by creditors
- Two-year extension of all debt maturities, deferring £3.2 billion of maturities currently due by January 2027
- More than 75% of Class A creditors signed up to Transaction Support Agreement ahead of a convening hearing on 17 December 2024

- Next phase of equity raise process launched
- Julian Gething appointed as Chief Restructuring Officer

Operational and environmental performance

- 23% reduction in lost-time injuries (HY25: 20: HY24: 26)
- 19% reduction in total complaints (HY25: 31,600: HY24: 38,900)
- 1.86 Compliance Risk Index[1] (HY24: 1.19)
- 4% reduction in leakage (HY25: 536.5 Ml/d (annual average): HY24: 557.1 Ml/d)
- 3 minutes 42 seconds in supply interruptions (HY24: 2 minutes 52 seconds)
- Record rainfall leads to 40% increase in total pollutions (category 1-3) (HY25: 359: HY24: 257)
- Improvement to 'average' in Ofwat's annual performance ranking

Sustainability highlights

- The Thames Tideway Tunnel and Lee Tunnel collectively captured 589 million litres of sewage in a single 24-hour period, as new super sewer enters testing phase
- £67 million in total financial help for customers in vulnerable circumstances

[1] Compliance Risk Index measures risk to water quality with 0 being the target
[2] Underlying figures exclude BTL and exceptional items
[3] Committed liquidity includes £1.1 billion cash and cash equivalents and £0.4 billion undrawn facilities. The undrawn facilities mainly consist of revolving credit facilities, and it is intended that these would be cancelled as part of the Liquidity Extension Transaction and whilst the Transaction Support Agreement ("TSA") is in place the TWUL Group has agreed not to draw these without the consent of the relevant lenders ahead of the implementation of the Liquidity Extension Transaction.

Key financials

Period ended	30 September 2024				30 September 2023				
£m	Underlying	Exceptional items[5]	BTL[1]	Total	Underlying	Exceptional items[5]	BTL[1]	Total	Total Movement
Revenue	1,326.2	-	66.8	1,393.0	1,210.9	-	58.8	1,269.7	+10%
EBITDA	715.1	(143.5)	66.5	638.1	627.1	(17.8)	58.5	667.8	(4%)
Profit / (loss) after tax	187.3	(426.8)	49.8	(189.7)	141.7	(13.3)	43.9	172.3	(210%)
Capital investment [3]	1,033.3	-	-	1,033.3	1,049.0	-	-	1,049.0	(1%)
Operating cash flow	604.6	-	5.4	610.0	579.1	-	4.9	584.0	+4%
Free cash flow[6]	(436.9)	-	5.4	(431.5)	(388.9)	-	4.9	(384.0)	(12%)
Net debt (statutory)	15,798.1	-	-	15,798.1	14,738.7	-	-	14,738.7	+7%
Senior gearing [4]	84.2%				79.5%				

1 Refer to page 37 for information about the Bazalgette Tunnel Limited ("BTL") arrangement
2 Operating profit includes revenue and other operating income, offset by operating expenses
3 Capital expenditure including intangibles
4 Ratio of covenant senior net debt to Regulatory Capital Value ("RCV")
5 Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Exceptional items have been split out from our underlying figures to support users of the financial statements to understand underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements
6 Net cash generated by operating activities less cash flows used for capital expenditure

For further information

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Operational update

Our essential services

It has continued to be an incredibly busy time for the business as we navigate the right pathway forward for our customers, communities, stakeholders and the environment. Throughout this challenging period for the business, our 8,000 strong team has maintained focus on what matters most to our customers and the environment, working tirelessly to make improvements and deliver our essential services to 16 million customers across London, the Thames Valley and the Home Counties.

Navigating the path forward

Over the last six months, we've continued to invest heavily in our network, moved forward in our turnaround to support the delivery of our PR24 plan, and made solid progress to improve our financial resilience.

On 25 October 2024, we announced our proposed transaction to extend the Group's liquidity runway. This includes up to £3.0 billion of new money, debt extensions and access to cash reserves. With the support of our creditors, this will allow us to progress our equity raise process and a holistic recapitalisation transaction. It will also allow us to complete the Final Determination process, including a Competition and Markets Authority ("CMA") appeal if necessary, and deliver our ambitious PR24 plan for the benefit of our customers and the environment.

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

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

We will continue to issue updates on both our creditor and equity engagement processes as appropriate.

The next critical step in enabling our ambitious PR24 business plan, improving operational performance and increasing financial resilience is securing an affordable, deliverable, financeable and investible PR24 final determination from Ofwat on 19 December 2024.

Our response to our Draft Determination

In October 2023, and the subsequent update in April 2024, we submitted a business plan to deliver record investment to turn around performance for customers, communities and the environment in AMP8. This ambitious plan delivers what our customers have told us are their top priorities: maintain safe high quality drinking water; ensure security of water supplies across London and the Thames Valley now and in the future; and deliver further environmental improvements. It also promised to do more than ever to support customers by introducing an improved social tariff for those who struggle to pay their bills. However, in July 2024 we received a draft determination from Ofwat that both our own and independent analysis shows would be neither financeable, nor investible, nor deliverable.

We listened carefully to Ofwat's feedback and responded constructively, updating our plan in August 2024 to reflect stretching goals, while offering changes that would give us the opportunity to secure the necessary funding so that our plan can be delivered for our customers and the environment.

We need to significantly increase investment in our ageing infrastructure to deliver our ambitious objectives and, in our response to our draft determination, we put forward total expenditure of £23.7 billion. The increase compared to our previous business plan submissions reflects updated requirements since those submissions, and increased evidence to support the true costs relating to capital maintenance, as well as our Strategic Resource Options. These are infrastructure solutions to reduce water wastage and develop new water supply and storage resources, including a new reservoir for the South East and a new water recycling project for London. Together, they form part of our Water Resources Management Plan, which received Government approval in October 2024.

Our transformation

Since joining in January 2024, our CEO Chris Weston has been making changes to transform Thames Water. These changes recognise that we are a critical infrastructure business and resulted in a new operating model being launched combining our asset management, operations, and capital delivery divisions. This enables a more cohesive, coordinated, and effective operation focused on optimising value at each step of the asset lifecycle. Led by Esther Sharples in the new role of Chief Operating Officer, the team's structure is pivoting to align with the water and wastewater regulatory price controls, giving senior directors accountability for all spend and outcomes aligned with their respective price control.

This supports 'delivering within our means', another building block of our transformation, that will end the unsustainable cycle of overspending our regulatory allowances that has been prevalent in recent AMPs. To achieve this change by 2030 and support the new operating model, Chis has also put in place enhanced governance practices to increase oversight of business performance.

Together these strategic building blocks will underpin the delivery of Thames Water's transformation, turnaround plan and our PR24 business plan.

Operational performance

Our turnaround plan is specifically targeted on driving improvement in areas which matter most to our customers and the environment. Health and safety is our number one priority, followed by six further operational priorities: water quality; leakage; supply interruptions; pollutions; complaints; and bad debt.

We've made solid progress during the first half of the year, with year-on-year improvements in lost time injuries, leakage and customer complaints. And, for the first time this regulatory period, we moved up a performance rating in Ofwat's FY24 report on performance across the industry, which is testament to the hard work of our teams in turning around performance in critical areas. Notwithstanding the progress we've made over the last year, there's still a lot to do. In particular we need to do more to drive down the number of pollutions and make faster progress on the delivery of key environmental enhancement schemes.

The **health, safety and wellbeing** of our people and our customers is our greatest priority. At the end of the first half of the year, we recorded a 23% reduction in lost time injuries year-on-year and a 5% reduction in lost time illness. Our improved performance has been supported by targeted communication to highlight key risks leading up to and through risk periods; upskilling managers in how to support colleagues with their mental health; and increasing the visibility of senior management. We've also rectified manufacturing issues that were causing small and contained gas leaks, and we have increased 'safety critical' competencies on the front line. Insight from our first safety culture survey, completed in June 2024, along with an internal review and business-wide feedback has enabled the completion of a full health, safety and wellbeing strategy review to create our improvement plan.

Our key metric for water quality, called the **compliance risk index** (CRI), is a calendar year measure. CRI is susceptible to very small changes in risk at our large water treatment works and, while still a significant improvement on our September 2023 result, CRI went up to 1.86 during the first six months (HY24: 1.19) due to a number of microbiological sample failures. We continue to deliver our Public Health Transformation Plan and, in the last six months, have made significant progress on improving our competency through targeted training, coaching and assessment. Our detailed risk assessments, called 'enhanced hazard reviews' at our water treatment works and tank inspection programmes have helped us continue to adapt our plans to mitigate the root causes of failure. We've completed major work at Hampton and Coppermills, our large water treatment works in London, with further investment planned at both sites, as well as Ashford, to increase their resilience.

Our **supply interruptions** performance commitment measures the average time customers don't have water for three or more hours. Our supply interruptions performance for the first half of the year was 3 minutes and 42 seconds, with three large incidents accounting for 1 minute and 4 seconds of supply interruptions, in Oxford, Royal Wootton Bassett and Eltham in South East London. Although we do not expect to meet our year-end regulatory target of five minutes, we are still on track to improve performance by the end of this financial year compared with last. As part of our turnaround, we are focused on prioritising maintaining water supply ahead of asset repair, increasing the speed and effectiveness of our response to incidents and reducing the number of trunk main bursts, which are the 'motorways' of our water network.

To increase our resilience to weather and the increasing effects of climate change, our wastewater assets require significant investment. February and September of 2024 were the wettest on record according to the Environment Agency, which had an impact on our pollution incidents. **Total pollutions** (category 1-3) increased from 257 at September 2023 to 359 at September 2024 (figures subject to Environment Agency review.) Despite the impact of storm conditions and prolonged high groundwater levels, the number of pollutions from our network remained stable, with the deterioration in our performance predominantly due to pollutions from our sewage treatment works. Although it's been a challenging first half of the year, we're making progress in our turnaround initiatives which will, in turn, support improved performance. We reduced blockages by 7% compared with last year, by cleaning and jetting more pipes on our network before issues arose. We also proactively relined 6.4km of pipes across 222 locations in the first half of the year, 28% above our target of 5km. Heading into the second half of the year, we're focused on mitigating the thirteen highest pollution risks at our sewage treatment works and increasing our sites' resilience to power outages by installing more generators and enabling auto-resets.

2024 saw the wettest Spring since 1986, according to the Met Office, with over 30 cm of rain in England. Rain or groundwater getting into our sewers is often the main cause of storm overflows, known as spills. In some areas, our system has been designed to operate in this way, though the circumstances of a spill may or may not be permitted. Spills are measured on a calendar-year basis and rose to 17,564 between January and September 2024, compared with 12,428 in the same period the previous year.

With building now complete, testing of the Thames Tideway Tunnel has begun and we will begin to operate the system as part of our London wastewater network in 2025. When the tunnel reaches full operating capacity next year, it will be critical not just to improving our network's resilience to rainfall, but improving the health of the River Thames throughout the next century. We are delighted that the first Thames Tideway Tunnel connections have now been switched on and, in combination with the Thames Water Lee Tunnel, the tunnel network collectively captured 589,000 cubic metres of sewage in a single 24-hour period. The Thames Tideway Tunnel, combined with the Lee Tunnel and previous upgrades to sewage treatment works, will capture 95 per cent of the volume of untreated sewage currently entering the tidal Thames in a typical year

Our annual average **leakage** position at the end of September 2024 was 536.5 Ml/d (subject to water balance reconciliation). This performance represents a 4% reduction compared to the same time last year and leakage continued to be at the lowest ever level on our network. Notwithstanding this, after seeing an increase in leaks in August and September, we're behind where we aimed to be at this time of the year. We continue to focus on improving leak detection, reducing outstanding repairs and speeding up the fixes of some of our largest leaks, driving our four-pronged strategy of 'prevent, mend, locate and aware'. The strategy includes increasing oversight of leakage detection, introducing new technology and processes, and collaborating more effectively across delivery streams. In the Thames Valley, we have increased leakage detection resources by 26% and have successfully achieved our long-term target of reducing leakage jobs (visible and invisible) to less than 1,000, down from 6,500 in April 2023.

We performed well in **total complaints** during the first half of the financial year, with a 19% reduction year-on-year. Our focus on getting things right first time has had a positive impact on our performance. The setup of escalation teams within our Billing and Operational departments has led to us resolving 94% of escalated customer calls the first time a customer contacts us, significantly contributing to the reduction in complaints. We've also improved our communication with customers, particularly during incidents.

Looking ahead

We welcome the Government's new, independent commission into the sector and its regulation, led by Sir Jon Cunliffe. It will consider the fundamental changes required to enable the sector to meet public expectations and tackle the twin challenges of climate change and population growth and we look forward to playing an active role in supporting the Commission's work.

As well as on the sector as a whole, there will likely continue to be intense focus on Thames Water as we receive and consider our Final Determination, extend our liquidity and continue our equity raise process. And we look forward to engaging with all our stakeholders as we seek to stabilise the business and move forward with our transformation to deliver improved outcomes for customers and the environment.

Our financial review

Alastair Cochran

Underlying financial performance has continued to improve with increases in revenue, profit and operating cash flow in the first six months of the 2024/25 financial year, and we have maintained high levels of investment in our infrastructure for the benefit of customers and the environment.

We've also reached critical milestones in improving our financial resilience, a key financial priority in the near term. In October we announced our proposed transaction to extend the Group's liquidity runway by agreeing terms to defer debt maturities by two years, secure a new super senior debt facility backstopped by creditors, and suspend financial covenants if approved by creditors and the Court. In addition, creditors approved the Group accessing cash reserves in November to extend near term liquidity. This £6.5 billion package of new liquidity and maturity deferrals will allow us to continue to progress our equity raise process and a holistic recapitalisation transaction post the conclusion of the PR24 price review.

Income statement

Period ended	30 September 2024				30 September 2023			
£m	Underlying	Exceptional items[1]	BTL[2]	Total	Underlying	Exceptional items[1]	BTL[2]	Total
Revenue	1,326.2	-	66.8	1,393.0	1,210.9	-	58.8	1,269.7
Operating profit	329.1	(143.5)	66.5	252.1	245.4	(17.8)	58.5	286.1
EBITDA	715.1	(143.5)	66.5	638.1	627.1	(17.8)	58.5	667.8
Net finance expense	(194.8)	(11.1)	-	(205.9)	(208.7)	-	-	(208.7)
Net gain on financial instruments	115.3	-	-	115.3	169.0	-	-	169.0
Net impairment losses	-	(310.9)	-	(310.9)	-	-	-	-
Profit / (loss) before tax	249.6	(465.5)	66.5	(149.4)	205.7	(17.8)	58.5	246.4
Taxation	(62.3)	38.7	(16.7)	(40.3)	(64.0)	4.5	(14.6)	(74.1)
Profit / (loss) after tax	187.3	(426.8)	49.8	(189.7)	141.7	(13.3)	43.9	172.3

[1] Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Exceptional items have been split out from our underlying figures to support users of the financial statements to understand underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements

[2] 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

Underlying revenue for the six months ended 30 September 2024 increased by 10% to £1,326 million largely reflecting the increase in our charges for water and wastewater services. Including BTL, total revenue increased by £123 million in the first half to £1,393 million.

Appointed revenue generated from our regulated activities was £1,332 million in the first six months of the financial year, an increase of £110 million. Household and non-household revenue grew by 10% and 6% respectively, reflecting growth in both tariffs and consumption. Other appointed revenue grew by 16% year-on-year, driven by bulk supplies.

Non-appointed revenue grew by 18% to £14 million.

EBITDA

Underlying EBITDA increased by 14% to £715 million largely reflecting higher revenue and other operating income, as well operating cost discipline.

Underlying operating costs increased by £40 million or 4% year-on-year. Higher employment costs, business rates and insurance were largely offset by declines in power and other costs reflecting cost control measures to mitigate the impact of inflation in our core cost base.

Bad debt charges reduced by 8% to £44 million, equivalent to 3.9% of total household appointed revenue (HY24: 4.6%). Of this, £19 million (HY24: £22 million) related to current year bills, which is a deduction to revenue. We are continuing to work diligently to improve bad debt performance and support our financially vulnerable customers who cannot afford to pay their bill in full, with 377,000 households benefiting from our social tariffs at the end of the first half.

Other operating income increased by £8 million year-on-year despite a reduction in land sales, driven primarily by compensation for the relocation of the Guildford Sewage Treatment Works and income received to progress our strategic water options.

Total EBITDA decreased by £30 million to £638 million in the first half of 2024/25 and included BTL revenue and exceptional items recognised in relation to our restructuring and transformation plans, as well as a provision related to Ofwat's investigation into non-compliance of our sewage treatment works.

Operating profit

Growth in underlying EBITDA, combined with a £4 million increase in depreciation, amortisation and impairment as we continued to invest in our infrastructure, generated a 34% increase in underlying operating profit to £329 million.

Total operating profit decreased by £34 million to £252 million, reflecting the impact of exceptional items and BTL revenue in the period.

Profit / loss before tax

Underlying profit before tax of £250 million increased by 21% year-on-year, reflecting the increase in operating profit and a reduction in net finance expense, partially offset by a decrease in fair value gains on financial instruments in the period.

Underlying net finance expense decreased by 7% to £195 million largely reflecting lower accretion on borrowings and capitalised borrowing costs, largely offset by higher net interest.

In the first half, changes in expectations for interest rates and inflation, higher credit spreads and the appreciation of Sterling generated changes in the balance sheet value of financial instruments that Thames Water uses to hedge financing risk, which resulted in a £54 million decrease in net gains on financial instruments to £115 million.

The total loss before tax for the year was £149 million, a decrease of £396 million compared to the prior period. This includes the impact of higher exceptional items in the period, including an expected credit loss of £311 million on the intercompany loan receivable from Thames Water Utilities Holdings Limited recognised in accordance with IFRS 9.

Taxation

The Group recognised an underlying tax charge of £62 million in the period, comprising a current tax charge of £53 million and a deferred tax charge of £9 million. The current year tax charge reflected disallowable costs net of non-taxable income. The deferred tax charge largely related to timing differences on derivatives.

Profit / loss after tax

Underlying profit after tax was £187 million in the period, 32% year-on-year increase.

The reported total loss after tax for the six months ended 30 September 2024 was £190 million, a decrease of £362 million compared to the prior period reflecting the impact of exceptional items and BTL revenue in the period.

Exceptional items

In aggregate, the Group recognised pre-tax exceptional items of £466 million in the six months ended 30 September 2024, comprising:

- a £104 million provision related to Ofwat's investigation into non-compliance at sewage treatment works
- £40 million of restructuring and transformation expenditure
- £11 million of expenditure related to engagement with creditors
- an expected credit loss of £311 million on the Company's intercompany receivable from its immediate parent, Thames Water Utilities Holdings Limited

Post-tax exceptional items recognised in the period totalled £427 million (HY24: £13 million).

Capital investment

During the first half of the year, the Group invested £1,033 million in its infrastructure including capitalised borrowing costs, maintaining high levels of investment to increase resilience in our network and help mitigate the dual impacts of climate change and population growth.

Capital expenditure in the first six months included: £349 million invested through our in-house Capital Delivery vehicle on major programmes including water distribution mains replacement and rehabilitation, and the installation of new water trunk mains in London and the Thames Valley; £102 million invested in our water network to reduce leakage and improve our trunk main network; £84 million invested in large projects, including upgrading our major sewage treatment works at Beckton, Mogden, Greenwich and Crossness; £17 million invested to connect our network to the Thames Tideway Tunnel; and £36 million invested in our metering programme. We also continued to progress our Strategic Resourcing Options, including the Abingdon Reservoir, in line with our strategic priority to ensure the supply of safe, high-quality water for generations to come.

Pensions

As at 30 September 2024, the total net IAS19 accounting pension deficit for the Group's two independently administered defined benefit schemes, the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"), was £86 million. The £33 million year-on-year decrease in the six-month period was due to actuarial gains, as well as £21 million of Company contributions.

The triennial valuations at 31 March 2022 for TWMIPS and TWPS were agreed in March 2024 and August 2024 respectively. As part of the triennial valuations, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2029 by making regular contributions and deficit repair payments. A first payment of £20 million was made in August 2024.

Cash flow statement

Period ended	30 September 2024			30 September 2023		
£m	Underlying	BTL	Total	Underlying	BTL	Total
Operating cash flow	604.6	5.4	610.0	579.1	4.9	584.0
Cash capex	(1,041.5)	-	(1,041.5)	(968.0)	-	(968.0)
Free cash flow	(436.9)	5.4	(431.5)	(388.9)	4.9	(384.0)
Net interest paid	(122.6)	-	(122.6)	(81.0)	-	(81.0)
Cash inflow/(outflow) from financing activities excluding interest paid	518.1	-	518.1	(476.3)	-	(476.3)
Net cash (outflow) / inflow	(41.4)	5.4	(36.0)	(946.2)	4.9	(941.3)
Gross debt	-	-	(16,916.6)	-	-	(15,633.7)
Cash and cash equivalents	-	-	1,118.5	-	-	895.0
Closing net debt	-	-	(15,798.1)	-	-	(14,738.7)

Underlying operating cash flow increased by £26 million to £605 million due to higher EBITDA and a reduction in working capital. This partly funded the Group's capital investment programme and interest payments, with the balance being funded by debt draw downs and cash.

Net interest paid of £123 million in the first six months of the year (excluding capitalised interest) represents a £42 million period-on-period increase, mainly due to the impact of debt drawn at higher rates of interest, partially offset by an increase in interest received on swaps, money market funds and short-term investments.

These resulted in an underlying net cash outflow of £41 million in the year and a total net cash outflow of £36 million. Total cash and cash equivalents held at 30 September 2024 was £1,119 million.

Gearing and interest cover

The net cash outflow for the first half, together with non-cash changes to the carrying value of borrowings and leases (consisting of accrued interest and debt accretion), increased statutory net debt to £15,798 million, representing an increase of £551 million since the year ended 31

March 2024 and a £1,059 million increase since the comparative period ended 30 September 2023. Net debt on a covenant basis was £16,997 million as at 30 September 2024.

The increase in net debt was accompanied by a £249 million increase in Regulatory Capital Value to £20,196 million as at 30 September 2024. This resulted in senior gearing increasing to 84.2%, below the covenant event of default threshold of 95.0%.

Under the terms of the Common Terms Agreement and as disclosed in the compliance certificate submitted to the Security Trustee in July 2024, Thames Water is forecasting non-compliance with certain forecast ratios for gearing and interest cover with Trigger Event thresholds. Class A gearing exceeds the Trigger Event threshold as at 30 September 2024. This places restrictions on the Group's ability to incur debt, pay dividends, and make payments to associated companies, and required Thames Water to prepare a remedial plan for our lenders.

Subsequently, we announced our proposed transaction in October 2024 to extend the Group's liquidity runway by agreeing terms to defer debt maturities by two years, secure a backstopped new super senior debt facility with capacity to increase it further, and suspend financial covenants once the transaction is approved by creditor and the Court, and we have gained access to cash reserves. This package of measures will allow us to continue to progress our equity raise process and a holistic recapitalisation transaction to improve financial resilience post conclusion of the PR24 price review.

Credit ratings

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

Ratings as at date of publication

In April 2024, Moody's downgraded the Corporate Family Rating to Baa3, the Class A debt rating to Baa2 and the Class B debt rating to Ba3 (all with negative outlook), and S&P downgraded the Class A debt rating to BBB- and the Class B debt rating to BB (both with negative outlook). As a result of these rating downgrades, the Group is operating in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

In July 2024, S&P put the Group's ratings on CreditWatch negative following publication of our 2023/24 annual results. Later in the month, Moody's downgraded the Corporate Family Rating to Ba2, the Class A debt rating to Ba1 and the Class B debt rating to B3 (all with negative outlook), and S&P downgraded the Class A debt rating to BB and the Class B debt rating to B (both with negative outlook). As a result of these downgrades, the Company is no longer in compliance with the requirements of its Instrument of Appointment to maintain, at all times, two investment grade Ratings from two different Credit Rating Agencies. In response, Ofwat accepted undertakings put forward by Thames Water, which required the Company to appoint both an independent Monitor, L.E.K., to report on the Company's progress delivering its transformation plan and completing an equity raise, as well as two new independent non-executive director board appointments, Aidan de Brunner and Neil Robson, to assist in an equity process and recapitalisation transaction. These commitments will remain in place until the Group regains two investment grade credit ratings.

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

The Group aims to secure a PR24 regulatory determination that is affordable, deliverable and financeable. Accordingly, our PR24 business plan submitted to Ofwat targets credit ratios consistent with long-term investment grade credit ratings of Baa1/ BBB+.

Financing investment

We finance investment in our water, wastewater and digital infrastructure through a combination of operating cash flows, debt issuance and new equity. Our funding strategy focuses on diversifying sources of finance, pre-funding maturities and maintaining a balanced debt maturity profile. In the first half of the year, we repaid or drew down on the following facilities:

- £371 million of Class B Revolving Credit Facilities were repaid in April 2024
- a total of £17 million amortising debt was repaid in April and May 2024
- a £125 million Class A loan was repaid in May 2024
- £1,091 million of Class A Revolving Credit Facilities and a £80 million Class A loan facility were drawn in May and June 2024
- £120 million of Class A Revolving Credit Facilities were repaid in August 2024

In addition, after the period end, we rolled a total of £2,441 million of Class A Revolving Credit Facilities and we secured the consent of bond holders to access cash previously reserved under our financing arrangements.

Total borrowings including accrued interest and lease liabilities increased by £388 million to £16,917 million as at 30 September 2024. Of this, £16,587 million comprised secured bank loans and private placements, and bonds.

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

Cost of interest

Overall, the Group's effective cost of interest including accretion on index-linked debt was 5.7%; the effective cash cost of interest was 2.7%.

After the period end, we settled £132 million of accretion on index-linked swaps when falling due.

Liquidity

As at 30 September 2024, the Group had total liquidity of £1,538 million, comprising available cash of £1,121 million and undrawn committed revolving credit facilities[1] of £417 million. This excludes £550 million of undrawn Debt Service Reserve and Operation and Maintenance Reserve liquidity facilities, which can only be drawn in limited circumstances. Available cash means the cash and cash equivalents which are in bank accounts, money market funds or short-term investments under the control of the Group.

As at 30 November 2024, the Group had total liquidity of £1,327 million, comprising available cash of £910 million and undrawn committed facilities[2] of £417 million. The Board has previously announced its intention to seek sufficient equity investment to finance operations for the period ended 31 March 2030. We completed an extensive pre-marketing process in September 2024 and launched the first phase of formal marketing in October 2024. In

[2] The undrawn facilities mainly consist of revolving credit facilities from banks, and it is intended that these would be cancelled as part of the Liquidity Extension Transaction and whilst the Transaction Support Agreement ("TSA") is in place the TWUL Group has agreed not to draw these without the consent of the relevant lenders ahead of the implementation of the Liquidity Extension Transaction.

addition, we announced a proposed transaction at the end of October 2024 to extend the Group's liquidity runway by agreeing terms to defer debt maturities by two years, secure a new £3.0 billion super senior debt facility of which £1.5 billion is backstopped by creditors, and suspend financial covenants if approved by creditors and the Court. We also gained access to cash reserves. This £6.5 billion package of new liquidity and maturity deferrals will allow us to progress our equity raise process and a holistic recapitalisation transaction. It will also allow us to complete the Final Determination process, including a CMA appeal if necessary, and deliver our ambitious PR24 plan for the benefit of our customers and the environment.

Overall, this Liquidity Extension Transaction and related Security Trustee Intercreditor Deed approval will extend the Group's liquidity to October 2025, with the ability to extend further to May 2026 if the Board appeals the final determination to the Competition and Markets Authority.

Going concern

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

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

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

Dividends

During the six-month period ended 30 September 2024, no dividends were paid to Thames Water Utilities Holdings Limited, our immediate parent company. No distributions were made to external shareholders of the group, who own shares in our ultimate parent company, Kemble Water Holdings Limited.

Statement of Directors' responsibilities in respect of the interim results for the six months to 30 September 2024

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

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

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

Alastair Cochran
Chief Financial Officer

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water Utilities Limited

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Thames Water Utilities Limited's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Report 2024-25 of Thames Water Utilities Limited for the 6 month period ended 30 September 2024 (the "period").

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

The interim financial statements comprise:

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

The interim financial statements included in the Interim Report 2024-25 of Thames Water Utilities Limited have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

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

We have read the other information contained in the Interim Report 2024-25 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Material uncertainty related to going concern

In forming our conclusion on the interim financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Accounting policies of the interim financial statements concerning the Group's ability to continue as a going concern. The Group and Company do not have sufficient committed liquidity for a period of 12 months from the date of approval of the interim financial statements. The ability to extend the period of committed liquidity is not wholly within the directors' control, and is dependent on the implementation of a Liquidity Extension Transaction. The implementation of the Liquidity Extension Transaction, and the subsequent securing of additional funding via a creditor led solution and / or equity, is dependent upon a number of matters which, individually and collectively, are outside of the Group and Company's control; these commence shortly after the approval of these interim financial statements. These conditions, along with the other matters explained in the Accounting policies of the interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Report 2024-25, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Report 2024-25 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and the terms of its licence under the Water Industry Act 1991 which requires the Company to report as if it had issued equity share capital listed on the London Stock Exchange. In preparing the Interim Report 2024-25, including the interim financial statements, the directors are responsible for assessing the Group'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 to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report 2024-25 based on our review. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and the terms of its licence under the Water Industry Act 1991 and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
10 December 2024

Condensed consolidated income statement

For the six-month period ended 30 September 2024

		2024				2023			
		Underlying	Exceptional items	BTL	Total	Underlying	Exceptional items	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	2	1,326.2	-	66.8	1,393.0	1,210.9	-	58.8	1,269.7
Operating expenses	3	(1,050.2)	(143.5)	-	(1,193.7)	(1,008.9)	(17.8)	-	(1,026.7)
Impairment losses on trade receivables and contract assets	3	(24.6)	-	(0.3)	(24.9)	(26.3)	-	(0.3)	(26.6)
Total operating expenses		**(1,074.8)**	**(143.5)**	**(0.3)**	**(1,218.6)**	**(1,035.2)**	**(17.8)**	**(0.3)**	**(1,053.3)**
Other operating income		77.7	-	-	77.7	69.7		-	69.7
Operating profit		**329.1**	**(143.5)**	**66.5**	**252.1**	**245.4**	**(17.8)**	**58.5**	**286.1**
Finance income	4	142.7	-	-	142.7	134.6	-	-	134.6
Finance expense	4	(337.5)	(11.1)	-	(348.6)	(343.3)	-	-	(343.3)
Net gain on financial instruments	4	115.3	-	-	115.3	169.0	-	-	169.0
Impairment losses on intercompany loan	5	-	(310.9)	-	(310.9)	-	-	-	-
Profit/(loss) on ordinary activities before taxation		**249.6**	**(465.5)**	**66.5**	**(149.4)**	**205.7**	**(17.8)**	**58.5**	**246.4**
Tax (charge)/credit on profit on ordinary activities	6	(62.3)	38.7	(16.7)	(40.3)	(64.0)	4.5	(14.6)	(74.1)
Profit/(loss) for the period		**187.3**	**(426.8)**	**49.8**	**(189.7)**	**141.7**	**(13.3)**	**43.9**	**172.3**

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 37.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2023/24.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies on page 36. Exceptional items have been split out from our underlying figures to support users of the financial statements to understand the underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Condensed consolidated statement of other comprehensive income

For the six-month period ended 30 September 2024

		2024				2023			
		Underlying	Exceptional items	BTL	Total	Underlying	Exceptional items	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Profit/(loss) for the period		187.3	(426.8)	49.8	(189.7)	141.7	(13.3)	43.9	172.3
Other comprehensive income									
Will not be reclassified to the income statement:									
Net actuarial gain/(loss) on pension schemes	14	16.8	-	-	16.8	(11.9)	-	-	(11.9)
Deferred tax (charge)/credit on net actuarial gain/(loss)		(4.2)	-	-	(4.2)	4.4	-	-	4.4
May be reclassified to the income statement:									
Cash flow hedges transferred to income statement	13	2.8	-	-	2.8	9.3	-	-	9.3
Deferred tax charge on cash flow hedge transfer		(0.7)	-	-	(0.7)	(2.3)	-	-	(2.3)
Other comprehensive income/(expense) for the period		14.7	-	-	14.7	(0.5)	-	-	(0.5)
Total comprehensive income/(expense) for the period		202.0	(426.8)	49.8	(175.0)	141.2	(13.3)	43.9	171.8

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2023/24.

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 37.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies on page 36. Exceptional items have been split out from our underlying figures to support users of the financial statements understanding of the underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Condensed consolidated statement of financial position

As at

	Note	30 September 2024 Underlying £m	BTL £m	Total £m	Restated[1] 31 March 2024 Underlying £m	BTL £m	Total £m
Non-current assets							
Intangible assets		220.0	-	220.0	233.9	-	233.9
Property, plant and equipment	8	20,036.4	-	20,036.4	19,371.8	-	19,371.8
Investment property		2.0	-	2.0	2.0	-	2.0
Right-of-use assets		33.4	-	33.4	36.5	-	36.5
Derivative financial assets	13	225.2	-	225.2	355.3	-	355.3
Intercompany loans receivable	9	545.5	-	545.5	1,200.6	-	1,200.6
Prepayments	10	-	547.1	547.1	-	493.4	493.4
Insurance and other receivables	10	37.1	-	37.1	40.0	-	40.0
Pension asset	14	29.2	-	29.2	33.0	-	33.0
		21,128.8	547.1	21,675.9	21,273.1	493.4	21,766.5
Current assets							
Inventories		26.3	-	26.3	23.3	-	23.3
Intercompany loans receivable		380.7	-	380.7	-	-	-
Trade Receivables	10	765.0	44.9	809.9	373.8	25.7	399.5
Contract assets	10	318.1	6.2	324.3	288.6	7.5	296.1
Prepayments	10	83.1	-	83.1	45.2	-	45.2
Insurance, other receivables and amounts owed by group undertakings	10	63.6	-	63.6	62.7	-	62.7
Derivative financial assets	13	11.8	-	11.8	33.0	-	33.0
Cash and cash equivalents		1,106.8	11.7	1,118.5	1,274.9	6.3	1,281.2
		2,755.4	62.8	2,818.2	2,101.5	39.5	2,141.0
Current liabilities							
Contract liabilities	11	(548.8)	(19.7)	(568.5)	(132.9)	(0.5)	(133.4)
Trade and other payables		(900.9)	(33.3)	(934.2)	(914.8)	(54.7)	(969.5)
Bank overdraft		-	-	-	(126.7)	-	(126.7)
Borrowings	12	(1,029.4)	-	(1,029.4)	(922.0)	-	(922.0)
Lease liabilities		(6.8)	-	(6.8)	(7.8)	-	(7.8)
Derivative financial liabilities	13	(247.7)	-	(247.7)	(245.4)	-	(245.4)
Provisions for liabilities and charges	16	(53.6)	-	(53.6)	(65.1)	-	(65.1)
		(2,787.2)	(53.0)	(2,840.2)	(2,414.7)	(55.2)	(2,469.9)
Net current (liabilities)/asset		(31.8)	9.8	(22.0)	(313.2)	(15.7)	(328.9)
Non-current liabilities							
Contract liabilities	11	(1,084.6)	-	(1,084.6)	(1,039.1)	-	(1,039.1)
Borrowings	12	(15,837.5)	-	(15,837.5)	(15,426.5)	-	(15,426.5)
Lease liabilities		(42.9)	-	(42.9)	(45.2)	-	(45.2)
Derivative financial liabilities	13	(1,330.4)	-	(1,330.4)	(1,490.5)	-	(1,490.5)
Deferred tax liabilities		(1,299.7)	-	(1,299.7)	(1,295.4)	-	(1,295.4)
Provisions for liabilities and charges	16	(339.5)	-	(339.5)	(209.6)	-	(209.6)
Pension deficit	14	(115.1)	-	(115.1)	(152.1)	-	(152.1)
		(20,049.7)	-	(20,049.7)	(19,658.4)	-	(19,658.4)
Net assets		1,047.3	556.9	1,604.2	1,301.5	477.7	1,779.2
Equity							
Called up share capital		76.5	-	76.5	76.5	-	76.5
Share premium		100.0	-	100.0	100.0	-	100.0
Cash flow hedge reserve		-	-	-	(2.1)	-	(2.1)
Revaluation reserve		759.7	-	759.7	770.9	-	770.9
Retained earnings		111.1	556.9	668.0	356.2	477.7	833.9
Total equity		1,047.3	556.9	1,604.2	1,301.5	477.7	1,779.2

[1] The prior year current / non-current classification of borrowings has been restated due to the impact of the amendments to IAS 1 'Presentation of Financial Statements' as discussed on pages 38 to 40.

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 37.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2023/24. The accounting policies also reflect the Amendments to IAS 1 discussed on pages 38 to 40. The condensed interim consolidated financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 10 December 2024 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Condensed consolidated statement of changes in equity

For the six month period ended 30 September 2024

	Note	Called up share capital	Share premium	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
1 April 2023		29.0	100.0	(16.1)	795.5	916.7	1,825.1
Profit for the period		-	-	-	-	172.3	172.3
Cash flow hedge transferred to the income statement	13	-	-	9.3	-	-	9.3
Deferred tax charge on cash flow hedge		-	-	(2.3)	-	-	(2.3)
Net actuarial loss on pension scheme	14	-	-	-	-	(11.9)	(11.9)
Deferred tax credit on actuarial loss		-	-	-	-	4.4	4.4
Total comprehensive income		-	-	7.0	-	164.8	171.8
Transfer of depreciation[1]		-	-	-	(16.4)	16.4	-
Deferred tax on depreciation transfer[1]		-	-	-	4.1	(4.1)	-
Share capital issued[2]		20.4	-	-	-	-	20.4
30 September 2023		49.4	100.0	(9.1)	783.2	1,093.8	2,017.3
Loss for the period		-	-	-	-	(96.9)	(96.9)
Cash flow hedge transferred to the income statement	13	-	-	9.4	-	-	9.4
Deferred tax charge on cash flow hedge		-	-	(2.4)	-	-	(2.4)
Net actuarial gain on pension scheme	14	-	-	-	-	30.8	30.8
Deferred tax charge on net actuarial gain		-	-	-	-	(10.3)	(10.3)
Total comprehensive expense		-	-	7.0	-	(76.4)	(69.4)
Transfer of depreciation[1]		-	-	-	(16.4)	16.4	-
Deferred tax on depreciation transfer[1]		-	-	-	4.1	(4.1)	-
Dividends paid	7	-	-	-	-	(195.8)	(195.8)
Share capital issued[3]		27.1	-	-	-	-	27.1
31 March 2024		76.5	100.0	(2.1)	770.9	833.9	1,779.2
Loss for the period		-	-	-	-	(189.7)	(189.7)
Cash flow hedge transfer to the income statement	13	-	-	2.8	-	-	2.8
Deferred tax charge on cash flow hedge		-	-	(0.7)	-	-	(0.7)
Net actuarial gain on pension scheme	14	-	-	-	-	16.8	16.8
Deferred tax credit on actuarial gain		-	-	-	-	(4.2)	(4.2)
Total comprehensive income		-	-	2.1	-	(177.1)	(175.0)
Transfer of depreciation[1]		-	-	-	(15.0)	15.0	-
Deferred tax on depreciation transfer[1]		-	-	-	3.8	(3.8)	-
30 September 2024		76.5	100.0	-	759.7	668.0	1,604.2

[1] The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax on the fair value uplift on assets.
[2] 20,428,000 shares with a nominal value of £1 each were issued during the reporting period to the immediate parent, Thames Water Utilities Holding Limited, for a total value of £20,428,000.
[3] 27,072,000 shares with a nominal value of £1 each were issued during the reporting period to the immediate parent, Thames Water Utilities Holding Limited, for a total value of £27,072,000.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2023/24. The accounting policies also reflect the Amendments to IAS 1 discussed on pages 38 to 40.

Condensed consolidated statement of cash flows

For the six month period ended 30 September

	2024			2023		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Operating activities:						
(Loss)/Profit for period	(239.5)	49.8	(189.7)	128.4	43.9	172.3
Less finance income	(142.7)	-	(142.7)	(134.6)	-	(134.6)
Add finance expense excluding interest on lease liabilities	347.0	-	347.0	342.0	-	342.0
Add interest expense on lease liabilities	1.6	-	1.6	1.3	-	1.3
Less net gains on financial instruments	(115.3)	-	(115.3)	(169.0)	-	(169.0)
Add Impairment losses on intercompany loan	310.9	-	310.9	-	-	-
Add taxation on profit/(loss) on ordinary activities[1]	23.6	16.7	40.3	59.5	14.6	74.1
Operating profit	185.6	66.5	252.1	227.6	58.5	286.1
Depreciation on property, plant and equipment	346.8	-	346.8	327.8	-	327.8
Amortisation of intangible assets	35.8	-	35.8	34.5	-	34.5
Depreciation of right of use assets	3.4	-	3.4	3.6	-	3.6
Impairment of property, plant and equipment	-	-	-	15.8	-	15.8
Less gain on sale of property, plant and equipment	(1.3)	-	(1.3)	(21.6)	-	(21.6)
Difference in pension charge and cash contribution	(19.1)	-	(19.1)	0.8	-	0.8
Increase in inventory	(3.0)	-	(3.0)	(7.7)	-	(7.7)
Increase in trade and other receivables	(427.1)	(72.9)	(500.0)	(373.8)	(69.3)	(443.1)
(Increase)/decrease in contract assets	(29.5)	1.3	(28.2)	(28.9)	(4.8)	(33.7)
Decrease in trade and other payables	(66.8)	(8.9)	(75.7)	(61.1)	-	(61.1)
Increase in contract liabilities	461.4	19.4	480.8	450.2	20.5	470.7
Increase in provisions	118.4	-	118.4	11.9	-	11.9
Net cash generated by operating activities[1]	604.6	5.4	610.0	579.1	4.9	584.0
Investing activities:						
Purchase of property, plant and equipment[2]	(1,020.7)	-	(1,020.7)	(952.1)	-	(952.1)
Purchase of intangible assets	(21.9)	-	(21.9)	(20.8)	-	(20.8)
Proceeds from sale of property, plant and equipment[3]	1.1	-	1.1	4.9	-	4.9
Interest received	86.5	-	86.5	60.0	-	60.0
Net cash used in investing activities	(955.0)	-	(955.0)	(908.0)	-	(908.0)
Financing activities:						
New loans raised[4]	1,167.1	-	1,167.1	370.7	-	370.7
Repayment of borrowings[5]	(632.4)	-	(632.4)	(681.7)	-	(681.7)
Repayment of lease principal	(5.0)	-	(5.0)	(5.1)	-	(5.1)
Payment for derivative settlement[6]	-	-	-	(152.0)	-	(152.0)
Interest paid	(209.1)	-	(209.1)	(141.0)	-	(141.0)
Net financing fees paid	(11.6)	-	(11.6)	(8.2)	-	(8.2)
Net cash generated/(used) in financing activities	309.0	-	309.0	(617.3)	-	(617.3)
Net decrease in cash and cash equivalents	(41.4)	5.4	(36.0)	(946.2)	4.9	(941.3)
Net cash and cash equivalents at beginning of period	1,148.2	6.3	1,154.5	1,829.3	7.0	1,836.3
Net cash and cash equivalents at end of period	1,106.8	11.7	1,118.5	883.1	11.9	895.0

Condensed consolidated statement of cash flows (continued)

[1] Net cash generated by operating activities for the six months ended 30 September 2024 includes £35.9 million (30 September 2023: £5.7 million) payments that are considered to be exceptional. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to defined benefit pension upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made it would have resulted in a cash payment of £10.2 million for the six-month period ended 30 September 2024. If this cash payment had been made by the Group, then the net cash generated by operating activities for the six-month period ended 30 September 2024 would be £599.8 million.
[2] Purchase of property, plant and equipment includes an adjustment to account for the cash on accruals relating to additions of capital investment in the period, therefore this figure does not tie to the additions in Note 8.
[3] Proceeds from sale of property, plant and equipment for the six months ended 30 September 2024 does not include nil (30 September 2023: £16.7 million) of disposal presented in other operating income, which was in exchange for land (non-cash).
[4] New loans raised of £1,167.1 million relates to £1,087.1 million (net of fees) drawdowns from Class A revolving credit facilities and £80.0 million relating to loans raised. In the comparative period ended 30 September 2023, new loans raised was £370.7 million relating to drawdowns from Class B revolving credit facilities. Rollovers of drawdowns under revolving credit facilities will not appear as new cash flows in the cash flow statement.
[5] Repayment of borrowings of £632.4 million (30 September 2023: £681.7 million) includes £370.7 million of repayments relating to Class B revolving credit facilities (30 September 2023: £370.7 million Class B revolving credit facilities), £140.8 million loan repayments (30 September 2023: £10.1 million), £120 million repayment of a Class A revolving credit facility (30 September 2023: £nil) and a £0.9 million bond repayment (30 September 2023: £300.9 million).
[6] For the six month period ended 30 September 2023, payment for derivative settlement of £152.0 million relates to accretion paydown on index-linked swaps (£nil for the current six month period ended 30 September 2024).

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 37.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2023/24.

Accounting policies

General information

Thames Water Utilities Limited ("TWUL" or "the Company") is a private limited company incorporated in England & Wales 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 consolidated condensed financial statements have been reviewed, not audited.

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").

The Thames Water Utilities Limited Group ("the Group") includes the Company and its sole subsidiary Thames Water Utilities Finance plc ("TWUF").

Statement of compliance

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

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

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

Principal risks and uncertainties

Uncertainty concerning the outcome of the PR24 price review and current levels of liquidity has resulted in credit rating downgrades and Trigger Events. The success and timing of securing the capital the Company needs to finance our ambitious business plan, turnaround performance and increase financial resilience depends on securing a PR24 price determination that is both financeable and investible. This is a matter the Company will continue to engage on with our regulators, and the Government.

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

The Company continues to be exposed to inflationary pressures in FY25, which could impact its cost base and with bill increases expected in the future could increase the risk to cash collection rates. Rapid population growth and changing weather patterns also continue to put pressure on our ageing infrastructure, this creates risk of non-compliance with environmental regulatory and statutory requirements (see contingent liabilities accounting note for details of current investigations).

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 for information on the Group.

Basis of preparation

The condensed interim consolidated financial statements for the six months ended 30 September 2024, set out on pages 23 to 28, have been prepared on the going concern basis with a material uncertainty disclosed.

Accounting policies (continued)

Going concern

The consolidated financial statements for the six months ended 30 September 2024, set out on pages 23 to 28, 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.

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

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

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

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

Context

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

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

Accounting policies (continued)

Going concern (continued)

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

A. PR24 Business Plan

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

In August 2024, TWUL submitted its PR24 draft determination response, which proposes a significant increase in investment in AMP8 to maintain safe high quality drinking water, ensure security of water supplies, deliver further environmental improvements, and build greater network resilience. This step-up in investment will require an increase in customer bills, as well as additional debt and equity funding. There is no assurance of the level of customer funding that will be determined by Ofwat to support this level of proposed investment. However, under Section 2 of the Water Industry Act 1991 (as amended), Ofwat is under a duty to "secure that water companies can (in particular through securing reasonable returns on capital) finance the proper carrying out of their statutory functions".

The PR24 Final Determination is expected to be published on 19 December 2024. If the Board considers TWUL's PR24 final determination is neither financeable nor investible, it has the right to request that Ofwat refers its determination to the Competition and Markets Authority ("CMA") within two months of the final determination for a full re-determination. There are no set appeal grounds and the CMA will make its own independent judgement as to an appropriate outcome. In reaching its re-determination conclusions, the CMA is required to have regard to Ofwat's duties, strategic priorities and objectives to the same extent as is required of Ofwat, including in relation to Ofwat's duty to exercise its powers in the manner which it considers is best calculated to (among other things) secure that a notional, efficient water company is able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of its functions.

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

B. Equity Funding

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

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

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

Discussions with Ofwat and other stakeholders are ongoing. TWUL aims to secure a PR24 regulatory determination that is affordable for customers, deliverable and financeable for the TWUL Group, as well as investible for equity investors.

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

Going concern (continued)

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

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

The Board will continue to carefully monitor progress towards achieving equity funding on a regular basis and has undertaken prudent contingency planning to assess what options may be available to maintain its core water and wastewater services and financial resilience should this be required. In the event that equity funding was not to be forthcoming, the Board would consider all options available at that time. The Board is also aware that certain of its creditors are considering the development of a creditor-led recapitalisation transaction should equity funding not be forthcoming, or not be forthcoming on acceptable terms.

C. Liquidity Extension Transaction

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

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

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

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

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

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

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

Accounting policies (continued)

Going concern (continued)

Impact on the Group and Company

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

- The Company and Group do not have sufficient committed liquidity to meet their liabilities as they fall due for a period of 12 months from the date of approval of the financial statements for the half-year year ended 30 September 2024.
- Achieving the necessary liquidity is dependent on events not wholly within the control of the Company and the Group.
- The Group has launched a consent process for a TSA in connection with a Liquidity Extension Transaction and related STID Proposals which are intended to provide liquidity to October 2025 and, if TWUL appeals to the CMA, to May 2026. Currently creditors certifying that they represent more than 75% of the Class A Debt have entered into the TSA. The Company continues to engage with all creditor groups as part of efforts to deliver the Restructuring Plan.
- The STID Proposals have passed and reserved cash in the debt service and operation & maintenance reserve accounts and compensation account was permitted to be released in November 2024
- The Liquidity Extension Transaction is intended to be implemented through a Restructuring Plan which requires approval of the court and for which the convening hearing is scheduled for 17 December 2024 and sanction hearing is scheduled for 20 January 2025 (with an expected effective date of 31 January 2025, if the Restructuring Plan is approved (subject to any appeal process)).
- The Group and Company have sufficient cash to meet their liabilities as they fall due until prior to the end of March 2025 and any delays to the implementation of the Liquidity Extension Transaction could result in that cash being exhausted before the Liquidity Extension Transaction is implemented.
- As part of TWUL's response to the PR24 Draft Determination submitted to Ofwat in August 2024, TWUL is seeking to raise at least £3.3 billion of equity. It is expected that any equity raise process, if successful, would only be capable of concluding following the PR24 Final Determination which is expected to be published on 19 December 2024. Ofwat has modified water companies' licences to allow Ofwat to delay the PR24 Final Determination until January 2025, although current indications are that the PR24 Final Determination will not be delayed. Furthermore, given TWUL has the right to request that Ofwat refers its determination to the CMA and that timing of the appeal process is uncertain, there can be no assurance that equity funding could be completed within the going concern assessment period. Additionally, there is no certainty that the CMA would make a re-determination that is more investible or financeable than Ofwat's PR24 Final Determination which would facilitate the raising of equity.
- Completion of the Liquidity Extension Transaction will improve TWUL's liquidity runway to enable it to continue with the planned investment and maintenance of its infrastructure in order to continue to meet customers' needs, and its environmental responsibilities. It will allow the Group to progress its equity raise process and a holistic recapitalisation transaction and will allow it to complete the Final Determination process, including a CMA appeal if necessary.

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

1. Credit ratings

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

Accounting policies (continued)

Going concern (continued)

However, there continues to be a risk that events occur which result in these conditions not being met and subsequently may result in further regulatory action being taken which may result in Ofwat concluding a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements.

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

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

2. Liquidity runway

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

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

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

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

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

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

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

Accounting policies (continued)

Going concern (continued)

3. Covenant compliance

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

The Group was compliant with financial covenants in the 2023/24 financial year. The compliance certificate submitted to the Security Trustee in July 2024, had projections showing non-compliance of certain forecast gearing and interest cover ratios with Trigger Event thresholds for the 2024/25 and 2025/26 financial years. Gearing ratios as at 30 September 2024 and current projections of financial covenants, at the time of preparation assume a recapitalisation of the business in 2025/26, and continue to show similar results of non-compliance. As such, the Group continues to operate with the restrictions arising from being in Trigger as per the WBS. This includes a cash lockup preventing distributions and a prohibition from incurring additional debt unless consent is given by the Secured Creditors, other than utilisations or amendments and extensions of existing committed facilities. A remedial plan has been submitted to the Security Trustee and further information has also been provided to Secured Creditors.

In assessing going concern, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected reflecting the economic uncertainty associated with various macro factors such as a decline in real wages, a reduction in economic activity and inflationary pressures on operating costs. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, adverse weather as well as the crystallisation of fines proposed by Ofwat in relation to regulatory investigations into wastewater operations and the October 2023 dividend payment. To mitigate the impact on operational cashflows, active working capital management, and the release of contingencies embedded within the Business Plan have also been considered.

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

In the event of an event of default, the Group and therefore TWUL would enter into an automatic 18-month standstill period (a “Standstill Period”) during which Secured Creditors are prohibited from taking enforcement action or accelerating any of the Group’s debt. During this period, £550 million of liquidity facilities would be available to finance specific costs incurred by the business, thereby providing additional runway. However, there would be restrictions on TWUL’s operations including the cessation of capital expenditure other than for essential maintenance. These liquidity facilities will be cancelled in the event that the Restructuring Plan is approved and whilst the TSA is in place the TWUL Group has agreed not to draw these without the consent of the relevant lenders ahead of the implementation of the Liquidity Extension Transaction.

4. Regulatory licence compliance

There are scenarios where a revised business plan would need to be prepared to take account of available funding during the going concern assessment period. The implementation of a revised business plan would deliver less for customers, communities, and the environment and may result in a failure to comply with relevant standards, environmental permits and other legislation that could lead to enforcement action by regulators, including Ofwat. Depending on the severity of non-compliance, this could give rise to grounds for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order. A petition could also be made if the TWUL Group is unable to pay its debts.

The purpose of the Special Administration Regime is to protect the interests of the customers in the event a water company (the regulated entity) is or is likely to be unable to pay its debts or is in contravention with its principal statutory duties or an enforcement order.

Accounting policies (continued)

Going concern (continued)

Conclusion

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

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

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

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

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

Exceptional Items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale 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 financial statements in the current year relate to restructuring, transformation expenditure and impairment on intercompany receivables. The Group continues to recognise exceptional items related to its turnaround plan and the process of raising equity and managing our creditors due to financial resilience challenges faced by the business and these are expected to continue into the rest of the financial year. These costs are deemed significant and outside our ordinary course of business, and therefore are considered to be exceptional by value and by nature.

IBOR reform

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

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

Accounting policies (continued)

IBOR reform (continued)

Refer to the IBOR reform section included in Note 13 Fair value of financial instruments for details of all of the financial instruments that the Group holds at 30 September 2024 which contain references to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

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. 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, assets under construction and buildings are acquired by the Group and will be recognised within Land and Buildings and Assets Under Construction within Property, Plant and Equipment ("PP&E"). These will be disposed of in future financial periods once construction is completed.

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 PP&E 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.

The handover of the tunnel from BTL to Thames Water Utilities Limited is expected in June 2025.

New standards and amendments

Amendments to IAS 1

The Group has applied the following amendments:

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

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

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

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

- Condensed consolidated statement of financial position on page 25
- Note 12 Borrowings on pages 50 to 51

Refer to pages 38 to 40 for management's accounting judgement relating to current and non-current classification of borrowings and further information on the restatement.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim 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. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Annual Report for the year ended 31 March 2024 except as reported below.

Accounting judgement and estimation – provision for expected credit losses

Management makes an estimate of the recoverable value of the Thames Water Utilities Holdings Limited ("TWUHL") loan receivables in line with the provisions of IFRS 9. When assessing these receivables for expected credit losses, management considers factors driving recoverability, including borrower's ability to pay, ageing profile of the receivables, net debt of the borrowing entity, seniority of debt and historical experience, among other factors. The key inputs into management's expected credit losses model is the expectation of a future equity injection and which entity within the corporate structure will receive the injection after the Restructuring Plan will receive these injections.

In accordance with the specific requirements of IFRS 9, the expected credit loss on the TWUHL loan receivables is determined by estimating the expected recoverability of these assets based on different scenarios considered by management, informed by available data and information where possible. A range of scenarios resulting in the outcomes of the Final Determination, CMA appeal, Restructuring Plan and in the event that TWUL enters a Special Administrative Regime have been used in the assessment and estimates are made of the ability for TWUHL to receive equity investment and future dividends which will be available to repay the principal and interest of its receivables. Management have exercised judgement over the probability weighting of the scenarios based on management's view about the likelihood of each scenario arising and considering the outcomes discussed in the going concern statement above.

These scenarios have been weighted with the most likely outcome being the achievement of a successful Restructuring Plan, leading to sufficient equity being injected into TWUHL which could be used to recover the intercompany loan; and a disappointing Final Determination outcome which results in TWUL entering into a Special Administration Regime ("SAR") as the least probable scenario and leads to a full expected credit loss of the receivable.

Expected credit losses on receivables, which are detailed in note 9, total £429.8 million as at the six month period ended 30 September 2024 (31 March 2024: £118.9 million). Refer to movement of this balance in note 5.

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

Accounting judgement – current / non-current classification of borrowings

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

The IAS 1 amendments changed the criteria for current liabilities from the position that the right to defer settlement for 12 months be unconditional to be, under the changed standard, that the right has to have substance and must exist at the reporting date. Furthermore, the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early.

As a result of these amendments, we have reassessed our classification of borrowings, and reclassified certain borrowings from current to non-current due to the final maturity date of the revolving credit facility being over 12 months from the reporting date.

Accounting policies (continued)

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

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

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

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

In the 31 March 2024 financial statements, drawdowns from revolving credit facilities were classified as current as repayments of the amounts drawn down were due within 12 months and, despite the ability to rollover under the terms of certain facilities, there was an expectation at 31 March 2024 that the amounts drawn down would instead be repaid within that 12 month period.

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

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

- there not being an event of default or potential event of default[1], or an event of default or potential event of default would result from the proposed rollover;
- there not being a standstill period;
- the period to the final maturity date at the end of the reporting period being at least 12 months; and
- for the Class A RBC facility only, no Trigger Event has occurred and is continuing pursuant to paragraph 7 (Circumstances Leading to a Special Administration Order) of part 1 (Trigger Events) of schedule 5 (Trigger Events) to the CTA.

As at 30 September 2024, none of these conditions have been met, and therefore the drawdowns from the revolving credit facilities have been classified as non-current. In addition, the RBC facility would be partially repayable if Class A debt or equity proceeds were received by TWUL Group. This potential repayment requirement in the future has not impacted the presentation of the facility as non-current at 30 September 2024.

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

For the period ended 30 September 2024, the TWUL Group had drawn £2,030.7 million of revolving credit facilities, which will be classified as non-current as the period to the final maturity date is at least 12 months from the reporting date. There is no impact from the Amendment on presentation for the period ended 30 September 2024, as the drawn £2,030.7 million of revolving credit facilities would also have been classified as non-current under legacy IAS 1 due to there being an expectation (and discretion) to roll over the facilities.

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

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

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty (continued)
Accounting judgement – current / non-current classification of borrowings (continued)

	As previously stated			IAS 1 Amendments	Restated		
	Underlying	BTL	Total	Underlying	Underlying	BTL	Total
	£m	£m		£m	£m	£m	£m
Current liabilities							
Borrowings	(2,202.7)	-	(2,202.7)	1,280.7	(922.0)	-	(922.0)
Net current (liabilities)/assets	**(1,593.9)**	**(15.7)**	**(1,609.6)**	**1,280.7**	**(313.2)**	**(15.7)**	**(328.9)**
Non-current liabilities							
Borrowings	(14,145.8)	-	(14,145.8)	(1,280.7)	(15,426.5)	-	(15,426.5)
Net assets	**1,301.5**	**477.7**	**1,779.2**	**-**	**1,301.5**	**477.7**	**1,779.2**

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

IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps using observable inputs as well as management estimation. As at 30 September 2024, an additional 150 basis points differential has been applied to the difference between the two ITRX indices used in determining the super seniority adjustment as a management estimate of the overall difference in spread for super senior versus senior instruments. This seeks to address the inherent uncertainty in valuation methodology, given a lack of a more appropriate data point in determining the spread for the Group's super senior instruments. As at 31 March 2024 the differential was calculated by reference to corporate bonds with a two notch investment grade credit rating differential, which was appropriate at the time, given that the Group's debt was rated Baa1 (Moody's) and BBB (S&P), i.e. investment grade and so a high correlation would be expected.

Accounting policies (continued)

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

Accounting estimate – valuation of derivatives (continued)

The change in methodology and use of significant unobservable inputs, means these interest rate swaps and index-linked swaps are classified as level 3 whereas at 31 March 2024 they were level 2. Cross currency swaps continue to be classified as level 2 as they rank equally to Class A debt, where observable spreads are available. The net total of derivative financial assets and liabilities as at 30 September 2024 was a liability of £1,341.1 million (31 March 2024: a liability of £1,347.6 million). Refer to note 13 on pages 51 to 56 for more information. The valuations if no credit and any other adjustment is applied is £1,917.0 million net liability (31 March 2024: £1,837.4 million net liability). The credit and any other adjustment is £575.9 million (31 March 2024: £489.8 million).

If the 150 basis point additional adjustment to the credit spread had not been applied in valuing the super senior derivatives, this would have reduced the net liability by £92 million, and the overall net liability would have been £1,249.1 million. The size of this adjustment in the value is correlated with the unadjusted market value of super senior instruments which will move with interest rate curves and expected inflation assumptions. This demonstrates the sensitivity of the valuations to the selection of credit curve. This uncertainty on the methodology of valuation of super senior derivatives may persist into the next financial year, depending on the success and timing of the Group's plans for raising new equity and stabilising its financial position.

Level 2 instruments	2024 £m
Opening balance	(1,347.6)
Transfers from Level 2 to Level 3[1]	1,332.3
Gains and losses recognised through profit or loss	(59.1)
Closing balance	**(74.4)**

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

Level 3 instruments	2024 £m
Opening balance	-
Transfers from Level 2 to Level 3[1]	(1,332.3)
Gains and losses recognised through profit or loss	65.6
Closing balance	**(1,266.7)**

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

Seasonality and cyclic nature of operations

Fluctuations in the billing cycle across the year impact balances reported in our Statement of Financial Position, see Note 10 Trade and other receivables and Note 11 Contract liabilities for further information.

Notes to the condensed consolidated financial statements

1. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Team. The Executive Team is responsible for the day-to-day running of the business and consequently the Executive Team is considered to be the Chief Operating Decision Maker ("CODM") of the Group.

In line with the Group's structure 'One Thames' all operational functions are included in a single business unit, enabling an end-to-end view of customer journeys and integrated resource management. Certain operational costs are split regionally by London and the Thames Valley and Home Counties, however revenue, overheads and capital expenditure are reported to the CODM at the group level. 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.

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.

Revenue is further disaggregated into the different products and services, as detailed in note 2.

Segmental performance

EBITDA is a key performance metric used by management. A segmental analysis of EBITDA and the management revenue figures has been presented with a reconciliation to statutory revenue and profit/(loss) before tax below:

For the six month period ended 30 September	2024 £m	2023[9] £m
Management revenue	1,345.5	1,232.3
Management net operating expenses before depreciation and amortisation	(713.8)	(677.2)
Management other operating income[1]	13.0	35.0
Capital income[2]	64.7	34.7
Management EBITDA	**709.4**	**624.8**
IFRS 16 adjustment[3]	2.2	3.8
Statutory reclassification of pension costs[4]	(0.9)	(0.8)
Other statutory adjustments[5]	4.4	(0.7)
Underlying EBITDA	**715.1**	**627.1**
Household BTL gross revenue[6]	54.7	48.4
Non-household BTL gross revenue[6]	12.2	10.5
BTL charge for bad and doubtful debt and expenses	(0.4)	(0.4)
Exceptional items – restructuring and transformation[7]	(39.5)	(17.8)
Exceptional items – Ofwat wastewater investigation[7]	(104.0)	-
Total EBITDA	**638.1**	**667.8**
Depreciation of property, plant and equipment	(346.8)	(327.8)
Depreciation of right-of-use assets	(3.4)	(3.6)
Amortisation of intangible assets	(35.8)	(34.5)
Impairment of property, plant and equipment	-	(15.8)
Total statutory operating profit	**252.1**	**286.1**
Finance income	142.7	134.6
Finance expense	(337.5)	(343.3)
Exceptional items – finance expense restructuring[7]	(11.1)	
Net gains on financial instruments	115.3	169.0
Exceptional items – impairment losses on intercompany loan [8]	(310.9)	-
Total statutory (loss)/profit before tax	**(149.4)**	**246.4**

[1] Management other operating income includes £1.3million gain on sale of property, plant and equipment (six-month period ended 30 September 2023: £20.2 million gain).

[2] Management EBITDA now includes capital income to align to statutory reporting, an adjustment to other operating income and reclassification of BTL. These have been adjusted in both periods for consistency.

[3] The management numbers do not recognise any balances associated with IFRS 16. The expense is recognised proportionally over the lease term rather than interest and depreciation.

[4] Contributions made into the defined benefit pension schemes are recognised on an accruals basis. To ensure the accounting is in line with IAS 19, any accruals made for contributions are reversed and are recognised on a cash basis for statutory purposes.

[5] These amounts relate to provisions and other statutory adjustments not included in management numbers.

[6] The portion of BTL revenue related to our household and non-household customers.

Notes to the condensed consolidated financial statements (continued)

1. Segmental analysis (continued)

[7] Exceptional costs reflect a £104.0 million provision related to Ofwat's regulatory investigation into our Wastewater Business and operation of sewage treatment work in addition to £50.6 million restructuring and transformation expenditure incurred due to significant restructuring of the business, of which £11.1 million is classified in finance expense that relates to debt restructuring costs.
[8] Exceptional items relate to impairments on the intercompany receivables from Thames Water Utilities Holdings Limited. See note 5 for further detail.
[9] The September 2023 numbers have been updated to reflect the 30 September 2024 note presentation.

Revenue – Management to statutory reconciliation

The business segment's revenue is reconciled to the Group's statutory revenue below:

For the six month period ended 30 September	2024 £m	2023 £m
Management revenue	1,345.5	1,232.3
Household BTL revenue	54.7	48.4
Non-household BTL revenue	12.2	10.5
Statutory reclassification of bad debt from operating expenditure[1]	(19.4)	(21.5)
Total statutory revenue	**1,393.0**	**1,269.7**

[1] This relates to amounts billed that are not probable of being recovered and therefore excluded from statutory revenue in line with the requirements of IFRS 15 revenue. In the current six-month period ended 30 September 2024, £19.3 million relates to management revenue (six-month period ended 30 September 2023: £21.4 million) and £0.1 million relates to BTL revenue (six-month period ended 30 September 2023: £0.1 million).

2. Revenue

For the six month period ended 30 September	2024			2023		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Gross revenue	1,345.5	66.9	1,412.4	1,232.3	58.9	1,291.2
Charge for bad and doubtful debts	(19.3)	(0.1)	(19.4)	(21.4)	(0.1)	(21.5)
Total	**1,326.2**	**66.8**	**1,393.0**	**1,210.9**	**58.8**	**1,269.7**

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 six month period ended 30 September	2024 £m	2023 £m
Household market:		
Water services	459.7	426.4
Wastewater services	556.1	490.8
Retail services	69.3	72.1
Total gross revenue from household market	**1,085.1**	**989.3**
Non-household market:		
Water services	126.3	122.4
Wastewater services	109.5	99.7
Retail services	0.6	0.4
Total gross revenue from non-household market	**236.4**	**222.5**
Gross revenue from principal services[1]	**1,321.5**	**1,211.8**
Other appointed revenue[2]	10.3	8.9
Total appointed revenue	**1,331.8**	**1,220.7**
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)[3]	13.7	11.6
Total gross underlying revenue	**1,345.5**	**1,232.3**
Amounts billed for the Thames Tideway Tunnel	66.9	58.9
Total gross revenue	**1,412.4**	**1,291.2**

Notes to the condensed consolidated financial statements (continued)

2. Revenue (continued)

[1] 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.
[2] Other appointed revenue is revenue generated from appointed activities but is not governed by the price control. These activities mainly include bulk supplies.
[3] 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).

All revenue is derived from activities based in the UK.

3. Operating expenses

For the six month period ended 30 September	2024			2023		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Wages and salaries	214.8	-	214.8	211.2	-	211.2
Social security costs	23.1	-	23.1	21.2	-	21.2
Pension costs – defined benefit schemes	1.7	-	1.7	1.3	-	1.3
Pension costs – defined contribution schemes	16.6	-	16.6	16.3	-	16.3
Apprenticeship levy	1.2	-	1.2	1.2	-	1.2
Total employee costs	**257.4**	**-**	**257.4**	**251.2**	**-**	**251.2**
Power	106.3	-	106.3	110.1	-	110.1
Raw materials and consumables	43.6	-	43.6	43.2	-	43.2
Rates	74.9	-	74.9	65.5	-	65.5
Research and development expenditure	8.3	-	8.3	6.4	-	6.4
Insurance	32.9	-	32.9	27.7	-	27.7
Legal and professional fees	12.7	-	12.7	13.3	-	13.3
Other Operating Costs[1]	257.1	-	257.1	261.0	-	261.0
Own work capitalised	(129.0)	-	(129.0)	(151.2)	-	(151.2)
Net operating expenses before depreciation, amortisation, impairment losses on trade receivables and contract assets and exceptional costs	**664.2**	**-**	**664.2**	**627.2**	**-**	**627.2**
Depreciation of property, plant and equipment	346.8	-	346.8	327.8	-	327.8
Depreciation of right-of-use assets	3.4	-	3.4	3.6	-	3.6
Amortisation of intangible assets	35.8	-	35.8	34.5	-	34.5
Impairment of property, plant and equipment	-	-	-	15.8	-	15.8
Net operating expenses excluding impairment losses on trade receivables and contract assets and exceptional costs	**1,050.2**	**-**	**1,050.2**	**1,008.9**	**-**	**1,008.9**
Exceptional costs						
Financial restructuring and transformation[2]	39.5	-	39.5	17.8	-	17.8
Ofwat wastewater investigation[2]	104.0	-	104.0	-	-	-
Net operating expenses excluding impairment losses on trade receivables and contract assets	**1,193.7**	**-**	**1,193.7**	**1,026.7**	**-**	**1,026.7**
Impairment losses on trade receivables and contract assets	24.6	0.3	24.9	26.3	0.3	26.6
Total operating expenses	**1,218.3**	**0.3**	**1,218.6**	**1,053.0**	**0.3**	**1,053.3**

[1]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.
[2]Exceptional costs reflects a provision related to Ofwat's regulatory investigation into our Wastewater Business and operation of sewage treatment works of £104.0 million (2023: £nil), equity restructuring of £30.6 million (2023: £10.7 million), and turnaround and transformation expenditure of £8.9 million (2023: £7.1 million) incurred as a result of significant restructuring of the business. These costs are considered exceptional in nature with additional significant expenditure to be incurred that is not in the ordinary course of the business. Financial restructuring and transformation costs are expected to continue over the next 12 to 18 months. The tax impact of exceptional items is a reduction in the tax charge in the income statement of £35.9 million (2023: £4.5 million) applying the 25% corporation tax rate (2023: 25%). Refer to accounting policies on page 36 for exceptional items considerations.

Notes to the condensed consolidated financial statements (continued)

4. Finance income and expense and net gains on financial instruments

During the six months ended 30 September 2024, the Group recognised finance income of £142.7 million (Six months ended 30 September 2023: £134.6 million) relating mainly to interest income on swaps, intercompany loans receivable, money market funds and short term investments.

The Group also recognised finance expense of £337.5 million (Six months ended 30 September 2023: £343.3 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and interest on leases.

The Group also recognised £ 11.1 million (Six months ended 30 September 2023: £nil) exceptional items on financial restructuring recognised in finance expense. These costs are considered exceptional in nature with additional significant expenditure to be incurred that is not in the ordinary course of the business. The tax impact of exceptional items is a reduction in the tax charge in the income statement of £2.8 million (Six months ended 30 September 2023: £nil) applying the 25% corporation tax rate (2023: 25%). Refer to accounting policies on page 36 for exceptional items considerations.

For the six month period ended 30 September	2024			2023		
	Underlying £m	Exceptional items £m	Total £m	Underlying £m	Exceptional Items £m	Total £m
Finance income	142.7	-	142.7	134.6	-	134.6
Finance expense	(337.5)	(11.1)	(348.6)	(343.3)	-	(343.3)
Net finance expense	**(194.8)**	**(11.1)**	**(205.9)**	**(208.7)**	**-**	**(208.7)**

Net gains on financial instruments

The reconciliation to net gains on financial instruments has been provided below:

For the six month period ended 30 September	2024 £m	2023 £m
Net exchange gains on foreign currency borrowings	131.0	35.8
Net losses arising on swaps where hedge accounting is not applied[1]	(12.9)	142.5
Loss on cash flow hedge transferred from equity[2]	(2.8)	(9.3)
Net gains on financial instruments	**115.3**	**169.0**

[1] Net losses arising on swaps where hedge accounting is not applied primarily reflects appreciation of GBP against USD, EUR, CAD and JPY, partially offset by higher own credit spread, lower interest rates and lower inflation rates. The amount includes the fair value of £154.6 million (Six months ended 30 September 2023: £254.0 million) accreted on index-linked swaps during the period.

[2] Refer to note 13 "Fair value of financial instruments" for more information on the loss on cash flow hedge transferred from equity.

5. Impairment losses on intercompany loan

For the six month period ended 30 September	2024 £m	2023 £m
Expected credit loss on loan receivable from Thames Water Utilities Holdings Limited	310.9	-
Total	**310.9**	**-**

The Group has intercompany loans receivable due from Thames Water Utilities Holdings Limited, totalling £1,249.1 million (31 March 2024: £1,249.1 million) in principal, together with accrued interest of £106.9 million (31 March 2024: £70.4 million). As a result of the IFRS 9 assessment on the intercompany loans performed in the period, an expected credit loss of £310.9 million (30 September 2023: £nil) has been recognised in the Income Statement. This is shown as an exceptional item, as these losses are not as a result of the ordinary course of business. The expected credit loss has been recognised following an analysis of the loans receivable recovery in line with IFRS 9. Refer to note 9 for further details of the expected credit loss on the intercompany loans and interest receivable.

Notes to the condensed consolidated financial statements (continued)

6. Taxation

For the six month period ended 30 September	2024				2023			
	Underlying	Exceptional items	BTL	Total	Underlying	Exceptional Items	BTL	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Current tax:								
Amounts payable/ (receivable) in respect of group relief [1]	58.0	(38.7)	16.7	36.0	86.8	(4.5)	14.6	96.9
Adjustments in respect of prior periods	(4.9)	-	-	(4.9)	-	-	-	-
	53.1	(38.7)	16.7	31.1	86.8	(4.5)	14.6	96.9
Deferred tax:								
Origination and reversal of timing differences	4.3	-	-	4.3	(22.8)	-	-	(22.8)
Adjustment in respect of prior periods	4.9	-	-	4.9	-	-	-	-
	9.2	-	-	9.2	(22.8)	-	-	(22.8)
Tax charge/(credit) on profit/(loss) on ordinary activities	62.3	(38.7)	16.7	40.3	64.0	(4.5)	14.6	74.1

[1] The Group has net taxable profits for the six months to 30 September 2024 and expects to buy £36.0 million (2023: £96.9m) of group relief from group companies at the 25% standard rate of corporation tax.

The corporation tax charge is based upon the standard rate of corporation tax in the UK of 25% (six-month period ended 30 September 2023: 25%). The interim corporation tax charge for the six-month period ended 30 September 2024 is based on the forecast effective tax rate for the full year to 31 March 2025 applied to the profits earned in the six months to 30 September 2024.

The Group is not currently in a cash tax paying position with HMRC (although it does pay for group relief on taxable profits), 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 tax charge for the six-month period ended 30 September 2024 is a higher charge than the standard rate of corporation tax in the UK. The differences between profit on ordinary activities before taxation at the standard corporation tax rate and the total tax charge for the period are caused by disallowable costs less non-taxable income.

7. Dividends

During the six months ended 30 September 2024, the Company paid no dividends (year ended 31 March 2024: £195.8 million; six months ended 30 September 2023: £nil) to its immediate parent Thames Water Utilities Holdings Limited ("TWUHL").

Dividends paid during previous periods were ultimately used to fund interest obligations, internal inflation mechanism pension contribution payments and settlement of group relief and intercompany loans within the Kemble Water Holdings Group and was distributed as follows:

	Six months ended 30 September 2024	Year ended 31 March 2024	Six months ended 30 September 2023
	£m	£m	£m
Distribution to external shareholders:	-	-	-
External dividend distributions	-	-	-
	-	-	-
Other distributions:			
Kemble Water Finance Limited debt service costs	-	37.5	-
	-	37.5	-
Net-settled against other intercompany cashflows:			
Internal inflation mechanism pension contribution payment	-	27.1	-
Settlement of group relief and intercompany loans	-	131.2	-
	-	158.3	-
Total	-	**195.8**	-

7. Dividends (continued)

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (31 March 2024: £nil).

External shareholders above is referring to shareholders of Kemble Water Holdings Limited ("Kemble").

In October 2023, the Company paid dividends of £37.5 million to TWUHL. These proceeds were subsequently distributed by TWUHL to Thames Water Limited ("TWL") and then through to Kemble Water Finance Limited ("KWF"). KWF retained the proceeds to service its, and its subsidiary Thames Water (Kemble) Finance plc's, external debt obligations.

In March 2024, Kemble Water Eurobond plc ("KWE"), an intermediate parent of the Company, agreed to make internal inflation mechanism pension contribution payments totalling £27.1 million to the defined benefit schemes, Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme, on behalf of the Company. In connection with this transaction, the Company issued 27.1 million shares with a nominal value of £1 each to TWUHL, for a total value of £27.1 million. The Company paid a £27.1 million dividend to TWUHL and through further intercompany transactions between intermediate holding companies, the amount was to be received by KWE. These flows were settled cash neutrally as part of a net settlement deed, and as a result of this arrangement, £27.1 million was paid directly into the defined benefit pension schemes.

In March 2024, the Company paid dividends of £131.2 million to TWUHL. Simultaneously the Company received payments for group relief owed by TWL, TWUF and KWE totalling £153.6 million and settled intercompany loans including associated interest owed to TWUHL (£5.6 million), TWL (£0.3 million) and TWUF (£16.5 million). These, along with other intercompany transactions between other group companies were recorded under a net settlement deed, and as a result no cash payments were made by the Company in connection with the £131.2 million dividends.

Refer to Note 17 on the contingent liability raised on these dividend payments.

8. Property, plant and equipment

	Total £m
Cost:	
At 1 April 2023	26,043.1
Additions	2,038.9
Transfers between intangibles assets and property, plant and equipment	-
Disposals	(2,313.2)
At 31 March 2024	25,768.8
Additions	1,011.6
Transfers between intangibles assets and property, plant and equipment	(0.2)
Disposals	(3.5)
At 30 September 2024	26,776.7
Accumulated Depreciation:	
At 1 April 2023	(8,025.7)
Depreciation charge	(655.6)
Impairment loss	(27.0)
Disposals	2,311.3
At 31 March 2024	(6,397.0)
Depreciation charge	(346.8)
Transfers between intangibles assets and property, plant and equipment	0.1
Disposals	3.4
At 30 September 2024	(6,740.3)
Net book value at 31 March 2024	19,371.8
Net book value at 30 September 2024	20,036.4

9. Intercompany loans receivable

Intercompany loans receivable are amounts owing outside of this consolidation group and relate to intercompany amounts within the wider Thames Water Utilities Holdings Group.

As at	30 September 2024 £m	31 March 2024 £m
Amounts owed by group undertakings:		
Thames Water Utilities Holdings Limited	1,249.1	1,249.1
Interest receivable on amounts owed by group undertakings:		
Thames Water Utilities Holdings Limited	106.9	70.4
Expected credit loss on amounts owed by group undertakings:		
Provision for expected credit losses	(429.8)	(118.9)
Total	926.2	1,200.6
Disclosed within non-current assets	545.5	1,200.6
Disclosed within current assets	380.7	-

Intercompany loans receivable due to the Group include the following:

- £735.7 million (31 March 2024: £735.7 million) owed by Thames Water Utilities Holdings Limited ("TWUHL"), the Company's immediate parent), the loan is unsecured and interest is charged at a rate of SONIA + 0.6266% (31 March 2024: SONIA + 0.6266%). The loan is repayable on 30 August 2037.
- £513.4 million (31 March 2024: £513.4 million) owed by TWUHL, is unsecured and interest is charged at a rate of SONIA + 0.6266% (31 March 2024: SONIA + 0.6266%) and is repayable on demand.

During the six month period ended 30 September 2024, the Group accrued £36.5 million of interest income related to the intercompany loans (six month period ended 30 September 2023: £33.6 million). As at 30 September 2024, £106.9 million interest receivable is outstanding from TWUHL (31 March 2024: £70.4 million) relating to the intercompany loans. The receivable balance classified as current as of 30 September 2024 represents amounts which are repayable on demand and expected to be settled upon a successful raise of equity by TWUHL net of expected credit loss. Non-current balances are not repayable until 30 August 2037 net of expected credit loss.

Under IFRS 9, the maximum period over which expected credit losses should be measured is the longest contractual period where an entity is exposed to credit risk. To the extent that loans are repayable on demand, the expected credit losses are based on the assumption that repayment of the loans is demanded in full at the reporting date. Following the credit rating downgrades by Moody's and S&P in April 2024, the Company is now subject to a 'cash lock-up' under its licence, which limits certain payments including dividends to associated companies without prior approval from Ofwat. Following Trigger Events under the WBS in July 2024, the Company is also in a cash lock-up under the Whole Business Securitisation financing which also restricts payments to its holding companies. This limits the ability of TWUHL to gather sufficient funds to repay these receivables when due. As a result of the significant increase in credit risk during the year, the loan is considered to be in 'stage 2' of the IFRS 9 assessment and a lifetime expected credit loss was recognised.

As required by IFRS 9, the Group determined the expected credit loss of the receivable loan by estimating the expected recoverability based on different scenarios under which the Group expects repayment will or could be made. A range of scenarios resulting in the outcomes of the Final Determination, CMA appeal, Restructuring Plan and in an event that TWUL enters a Special Administrative Regime have been used in the assessment and estimating the ability for TWUHL to receive equity investment and future dividends which will be available to repay the principal and interest of its receivables. Management judgment and assumptions made for the going concern assessment has been used to determine the probability weightings applied to each scenario.

As a result of this assessment the Group has recognised a £429.8 million (31 March 2024: £118.9 million) expected credit loss on the intercompany loan receivable, which is recognised in the Statement of Financial Position, with a corresponding movement in the expected credit losses of £310.9 million recognised in the Income Statement as an exceptional item, as these losses are not as a result of the ordinary course of business. Whilst the multi factor analysis required by IFRS 9 has resulted in an expected credit loss, and there is an unlikely scenario where in the event that TWUL enters a Special Administrative Regime, no amounts will be recoverable; it is expected that there will be an equity injection into the Group and over the long term TWUL's ability to distribute dividends would be restored whereby future Final Determinations are assumed to be deliverable, financeable and investible.

9. Intercompany loans receivable (continued)

This would allow TWUHL to continue to service the intercompany loan owed to TWUL. Such final determinations would also facilitate the receipt of equity funding which TWUHL could also use to service or repay the intercompany loans and therefore management believe that the most likely outcome is that the receivable will be fully recovered in due course.

10. Trade and other receivables

Non-current

As at	30 September 2024			31 March 2024		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Prepayments	-	547.1	547.1	-	493.4	493.4
Insurance claims receivable	36.7	-	36.7	38.1	-	38.1
Other receivables	0.4	-	0.4	1.9	-	1.9
Total[1]	**37.1**	**547.1**	**584.2**	**40.0**	**493.4**	**533.4**

Current

As at	30 September 2024			31 March 2024		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Gross trade receivables	896.2	49.8	946.0	523.8	30.4	554.2
Less expected credit losses provision	(131.2)	(4.9)	(136.1)	(150.0)	(4.7)	(154.7)
Net Trade receivables[2]	**765.0**	**44.9**	**809.9**	**373.8**	**25.7**	**399.5**
Contract assets	318.1	6.2	324.3	288.6	7.5	296.1
Prepayments	83.1	-	83.1	45.2	-	45.2
Other receivables	47.0	-	47.0	44.0	-	44.0
Insurance claims receivable	15.6	-	15.6	18.5	-	18.5
Amounts owed by group undertakings	1.0	-	1.0	0.2	-	0.2
Total	**1,229.8**	**51.1**	**1,280.9**	**770.3**	**33.2**	**803.5**

[1] Non-current prepayments at 30 September 2024 of £547.1 million (31 March 2024: £493.4 million) relate 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.

[2] The TWUL billing cycle means that the timing of bills for unmeasured customers results in a large increase in the net trade receivables balance of £410.4 million to £809.9 million (31 March 2024: £399.5 million; six month period to 30 September 2023 £713.8 million). This balance will reduce over the second half of the year.

Net contract assets at 30 September 2024 include £243.9 million (31 March 2024: £217.2 million) of unbilled services provided to metered household customers. Included within this amount is £10.5 million of bad debt provision (31 March 2024: £9.3 million). The remaining amount is for accrued non-household income, accrued capital contributions and accrued income from the BTL arrangement.

11. Contract liabilities

The TWUL billing cycle means that the timing of bills for unmeasured customers results in a large increase in the deferred income at the interim balance sheet date, being the primary driver for the increase in current contract liabilities of £435.1 million to £568.5 million (31 March 2024: £133.4 million). This balance will reduce over the second half of the year. Additionally, within this balance there is a decrease in receipts in advance from customers for water and wastewater charges of £44.0 million to £27.9 million (31 March 2024: £71.9 million).

Non-current contract liabilities have increased by £45.5 million to £1,084.6 million (31 March 2024: £1,039.1 million). The main driver is an increase in nil cost "adopted" assets and infrastructure charges received in the year.

12. Borrowings

As at	30 September 2024 £m	Restated[1] 31 March 2024 £m
Secured bank loans and private placements	5,504.3	5,004.8
Bonds	11,082.2	11,101.2
	16,586.5	**16,106.0**
Interest payable on borrowings	280.4	242.5
Total	**16,866.9**	**16,348.5**
Disclosed within non-current liabilities[2]	15,837.5	15,426.5
Disclosed within current liabilities	1,029.4	922.0
Total	**16,866.9**	**16,348.5**

[1] The prior year current / non-current classification of borrowings has been restated due to the impact of the amendments to IAS 1 'Presentation of Financial Statements' as discussed on pages 38 to 40.
[2] Included within non-current liabilities are £2,030.7 million of Class A revolving credit facilities (Restated 31 March 2024: £1,060.0 million) and £nil Class B revolving credit facilities (Restated 31 March 2024: £220.7 million) that have a right to roll over the obligations for at least 12 months. Refer to pages 38 to 40 for management's judgement relating to the current / non-current classification of borrowings, specifically relating to revolving credit facilities.

During the six months ended 30 September 2024, the Group drew down £1,170.8 million debt under its revolving credit facilities and loan facilities (Six months ended 30 September 2023: £370.7 million), and repaid £632.4 million debt (Six months ended 30 September 2023: £681.7 million) including £490.7 million revolving credit facilities (Six months ended 30 September 2023: £370.7 million) and £141.7 million relating to bonds and loans (Six months ended 30 September 2023: £311.0 million).

The Company, its wholly owned financing subsidiary TWUF and its immediate parent, Thames Water Utilities Holdings Limited ("TWUHL") are the Obligors within a whole business securitisation group. Secured bank loans, private placements and bonds are in 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, TWUHL guaranteed the obligations of each other Obligor under the finance agreements. Additionally, the Company, and TWUF, have guaranteed the obligations of each other under the finance agreements, in each case to the Security Trustee. Following the transition to IFRS 17, the Group made the election to apply the requirements in IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments' to these financial guarantee contracts.

The capital structure of the Group consists of net debt and equity as follows:

As at	30 September 2024 £m	31 March 2024 £m
Secured bank loans and private placements	(5,504.3)	(5,004.8)
Bonds	(11,082.2)	(11,101.2)
Lease liability	(49.7)	(53.0)
Bank overdraft	-	(126.7)
Interest payable on borrowings	(280.4)	(242.5)
	(16,916.6)	**(16,528.2)**
Cash and cash equivalents	1,118.5	1,281.2
Net debt (statutory basis)	**(15,798.1)**	**(15,247.0)**
Reconciliation to net debt (covenant basis):		
Interest payable on borrowings	280.4	242.5
Unamortised debt issuance costs and discount	(90.7)	(92.2)
Relevant derivative financial liabilities (Accretion and FX)	(1,409.1)	(1,122.8)
Unamortised IFRS 9 transition adjustment	22.1	22.5
Unamortised IFRS 9 fair value adjustment	(4.1)	(4.3)
Bank overdraft not relevant for covenant	-	126.7
Cash relevant for covenant	2.4	3.3
Net debt (covenant basis)	**(16,997.1)**	**(16,071.3)**
Equity attributable to owners of the Group	**1,604.2**	**1,779.2**

12. Borrowings (continued)

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment; and 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 adjusted for covenants (which is based on cash and investments whereas the accounting definition adjusts for other items).

13. Fair value of 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	30 September 2024 £m	31 March 2024 £m
Fair value through profit and loss:		
Cross currency swaps	50.6	92.1
Interest rate swaps	162.9	247.6
Index-linked swaps	23.5	48.6
Cash and cash equivalents – money market funds	1,110.3	1,266.2
	1,347.3	**1,654.5**
Amortised cost:		
Intercompany loans receivable	926.2	1,200.6
Trade and other receivables (excluding non-financial assets)	827.1	483.7
Cash and cash equivalents – short term investments	6.0	-
Cash and cash equivalents – cash at bank and in hand	2.2	15.0
	1,761.5	**1,699.3**
Total	**3,108.8**	**3,353.8**

Financial liabilities:

As at	30 September 2024 £m	31 March 2024 £m
Fair value through profit and loss:		
Cross currency swaps	(125.0)	(107.4)
Interest rate swaps	(193.3)	(288.9)
Index-linked swaps	(1,259.8)	(1,339.6)
	(1,578.1)	**(1,735.9)**
Amortised cost:		
Trade and other payables (excluding non-financial liabilities)	(923.1)	(958.8)
Borrowings	(16,866.9)	(16,348.5)
Lease liabilities	(49.7)	(53.0)
Bank overdraft	-	(126.7)
	(17,839.7)	**(17,487.0)**
Total	**(19,417.8)**	**(19,222.9)**

Notes to the condensed consolidated financial statements (continued)

13. Fair value of financial instruments (continued)

Fair value measurements

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

IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps using observable inputs as well as management estimation. As at 30 September 2024, an additional 150 basis points differential has been applied to the difference between the two ITRX indices used in determining the super seniority adjustment as a management estimate of the overall difference in spread for super senior versus senior instruments. This seeks to address the inherent uncertainty in valuation methodology, given a lack of a more appropriate data point in determining the spread for the Group's super senior instruments. As at 31 March 2024 the differential was calculated by reference to corporate bonds with a two notch investment grade credit rating differential, which was appropriate at the time, given that the Group's debt was rated Baa1 (Moody's) and BBB (S&P), i.e. investment grade and so a high correlation would be expected. The change in methodology and use of significant unobservable inputs, means these interest rate swaps and index-linked swaps are classified as level 3 whereas at 31 March 2024 they were level 2. Cross currency swaps continue to be classified as level 2 as they rank equally to Class A debt, where observable spreads are available. The net total of derivative financial assets and liabilities as at 30 September 2024 was a liability of £1,341.1 million (31 March 2024: a liability of £1,347.6 million). Refer to accounting policies on pages 40 to 41 for more information on the key assumptions.

Notes to the condensed consolidated financial statements (continued)

13. Fair value of financial instruments (continued)

Fair value measurements (continued)

As at	Level 2/3[1][2] 30 September 2024 £m	31 March 2024 £m
Financial assets – derivative financial instruments		
Cross currency swaps	50.6	92.1
Interest rate swaps	162.9	247.6
Index-linked swaps	23.5	48.6
	237.0	**388.3**
Financial liabilities – derivative financial instruments		
Cross currency swaps	(125.0)	(107.4)
Interest rate swaps	(193.3)	(288.9)
Index-linked swaps	(1,259.8)	(1,339.6)
	(1,578.1)	**(1,735.9)**
Net total	**(1,341.1)**	**(1,347.6)**

[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 of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties.
[2] Cross currency swaps are Level 2 (31 March 2024: Level 2), and interest rate swaps and index linked swaps are Level 3 (31 March 2024: Level 2)

During the six months ended 30 September 2024, £2.8 million (six-month period ended 30 September 2023: £9.3 million) was recycled from the cash flow hedge reserve to the income statement, see “Condensed consolidated statement of changes in equity” on page 26. The amounts recognised on cash flow hedge reserve are recycled to income statement as a phased release over the relevant hedging period and where the related debt has been issued and has not matured.

13. Fair value of financial instruments (continued)

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	30 September 2024		31 March 2024	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current:				
Intercompany loans receivable[1]	545.5	179.3	1,200.6	630.1
Derivative financial instruments				
Cross currency swaps	39.6	39.6	61.6	61.6
Interest rate swaps	162.1	162.1	245.1	245.1
Index-linked swaps	23.5	23.5	48.6	48.6
Other receivables (excluding non-financial assets)	0.4	0.4	40.0	40.0
	771.1	404.9	1,595.9	1,025.4
Current:				
Intercompany loans receivable[1]	380.7	125.1	-	-
Cash and cash equivalents	1,118.5	1,118.5	1,281.2	1,281.2
Trade and other receivables (excluding non-financial assets)	826.7	826.7	443.7	443.7
Derivative financial instruments				
Cross currency swaps	11.0	11.0	30.5	30.5
Interest rate swaps	0.8	0.8	2.5	2.5
	2,337.7	2,082.1	1,757.9	1,757.9
Total	3,108.8	2,487.0	3,353.8	2,783.3

[1] Intercompany loans receivable includes two floating rate loans and related interest. The fair value of the entire balance is valued in line with Class B bond trading level as there is no other indicator. This is a level 3 fair value as there are no observable inputs for the relevant credit risk.

Notes to the condensed consolidated financial statements (continued)

13. Fair value of financial instruments (continued)

Financial liabilities:

As at	30 September 2024		Restated[1] 31 March 2024	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Non-current				
Borrowings				
Secured bank loans and private placements[1]	(5,209.4)	(3,461.2)	(4,473.1)	(3,973.3)
Bonds	(10,628.1)	(7,394.5)	(10,953.4)	(9,002.8)
Derivative financial instruments				
Cross currency swaps	(121.3)	(121.3)	(107.4)	(107.4)
Interest rate swaps	(193.3)	(193.3)	(288.9)	(288.9)
Index-linked swaps	(1,015.8)	(1,015.8)	(1,094.2)	(1,094.2)
Lease liabilities	(42.9)	(42.9)	(45.2)	(45.2)
	(17,210.8)	(12,229.0)	(16,962.2)	(14,511.8)
Current				
Borrowings				
Secured bank loans and private placements[1]	(294.9)	(198.3)	(531.7)	(521.9)
Bonds	(454.1)	(346.7)	(147.8)	(144.7)
Interest payable	(280.4)	(280.4)	(242.5)	(242.5)
Derivative financial instruments				
Cross currency swaps	(3.7)	(3.7)	-	-
Index linked swaps	(244.0)	(244.0)	(245.4)	(245.4)
Trade and other payables (excluding non-financial liabilities)	(923.1)	(923.1)	(958.8)	(958.8)
Lease liabilities	(6.8)	(6.8)	(7.8)	(7.8)
Bank overdraft[2]	-	-	(126.7)	(126.7)
	(2,207.0)	(2,003.0)	**(2,260.7)**	**(2,247.8)**
Total	(19,417.8)	(14,232.0)	**(19,222.9)**	**(16,759.6)**

[1] The prior year current / non-current classification of secured bank loans and private placements, included within borrowings, has been restated due to the impact of the amendments to IAS 1 'Presentation of Financial Statements' as discussed on pages 38 to 40.
[2] Bank overdraft as at 31 March 2024 reflects the impact of £130 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024. This presentation follows our accounting policy, whereby committed payments are accounted for on the date the payment instruction is committed, which may be in advance of the cash settlement. Cash from money market funds and short term investments was sufficient to cover the cash outflows on the settlement date post year-end.

The fair value of borrowings represents the market value, and for the publicly traded liquid bonds the price is observable (level 1 inputs to valuation technique). For all other debt instruments the fair value is based on the outstanding nominal value (including accrued accretion for index-linked debt instruments) to which the weighted average price of publicly traded liquid bonds of the same ranking (Class A or Class B) is applied. Foreign currency values are translated at the spot rate. Accrued interest is then added. Intercompany loans receivable includes two floating rate loans and related interest. The fair value of the entire balance is valued in line with Class B bond trading level as there is no other indicator. This is a level 3 fair value as there are no observable inputs for the relevant credit risk. Note that management's expected credit loss analysis under IFRS 9 methodology results in a significantly lower expected credit loss on the intercompany loan assets than is implied by market fair valuations. Traded bond prices are not necessarily reliable indicators of a final outcome, given bond prices are inherently speculative, reflect credit risk and are not reflective of fundamental value during periods of forced selling by investment grade bond portfolios post a credit rating downgrade to sub-investment grade.

13. Fair value of financial instruments (continued)

IBOR reform

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

	Carrying Value at 30 September 2024		Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2024	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	-	(74.2)	-	(74.2)
Total assets and liabilities exposed to GBP LIBOR	-	(74.2)	-	(74.2)

[1] Consists of £74.2 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.

	Carrying Value at 31 March 2024		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2024	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	-	(98.3)	-	(98.3)
Amortised cost				
Borrowings[2]	-	(168.2)	-	(168.2)
Total assets and liabilities exposed to GBP LIBOR	-	(266.5)	-	(266.5)

[1] Consists of £98.3 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.

[2] Consists of £168.2 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The facility was amended in April 2024 to remove LIBOR references.

14. Retirement benefit obligations

Background

The Group operates two defined benefit pension schemes and one defined contribution pension scheme. The group note that they have a small number of members and are a participating employer within the Merchant Navy Officers Pension Fund, an industry scheme, however this is considered immaterial for disclosure within these accounts.

	What are they?	How do they impact the financial statements?
Defined Contribution Scheme 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.	In a defined contribution pension scheme, the benefits are linked to: • contributions paid; • the performance of the individual's chosen investments; and • the form of benefits.	A charge of £16.6 million (six-month period ended 30 September 2023: £16.3 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £0.1 million outstanding contributions as at 30 September 2024 (31 March 2024: £4.4 million) recognised in the statement of financial position. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes 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.	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	A charge was recognised in the income statement of £4.4 million (six-month period ended 30 September 2023: £5.5 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; • administrative expenses for the pension schemes; and • the net interest expense on pension scheme assets and liabilities An actuarial gain of £16.8 million (six-month period ended 30 September 2023: loss of £11.9 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 surplus of £29.2 million (31 March 2024: £33.0 million surplus) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £115.1 million (31 March 2024: £152.1 million) is recognised in the statement of financial position for the TWPS scheme. As at 30 September 2024, the net pension deficit is £85.9 million (31 March 2024: £119.1 million). Company contributions of £20.8 million (six-month period 30 September 2023: £20.9 million) were made during the period ended 30 September 2024. 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.

14. 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 six month period to 30 September 2024 these related payments amounted to £nil (30 September 2023: £nil).

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 was carried out as at 31 March 2022 for TWPS, and at 31 March 2022 for TWMIPS on behalf of the pension trustees by David Gardiner of Aon, actuary of the Schemes. The 2022 Valuations resulted in a combined funding deficit across the two schemes of £475.3 million (2019: £148.9 million) with the market value of the assets being £2,338.3 million (2019: £2,313.3 million). The triennial valuation as at 31 March 2022 for TWMIPS was signed off by the Scheme Actuary in March 2024, with the market value of the assets being £699.1 million and a funding deficit of £30.3 million. The triennial valuation as at 31 March 2022 for TWPS was signed off by the Scheme Actuary in August 2024, with the market value of the assets being £1,639.2 million and a funding deficit of £445 million. A schedule of deficit repair costs has been agreed that seeks to eliminate the deficit by April 2029 and the first payment of £20.0 million was paid in August 2024.

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 2022 to 30 September 2024. The 2022 funding valuation had been updated to an accounting valuation as at 30 September 2024 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.

We have disclosed a contingent liability related to a recent case involving Virgin Media around contracted out defined benefit pension schemes. See Note 17 for further information.

IAS 19 Assumptions

The approach used to set the IAS 19 assumptions is detailed below:

	Approach to set the assumptions
Discount rate	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 30 September 2024.
RPI inflation	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.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	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.
Pension increases	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.
Longevity	The mortality assumptions are based on standard mortality tables and the actual mortality experience of members within the schemes. In April 2024, the CMI published a new model (CMI 2023) that includes population experience up to 2023. As a result, new parameters have been introduced, to allow users to adjust the weighting given to 2020, 2021, 2022 and 2023 data and this model has been adopted as of 30 September 2024. The assumptions also allow for future improvements to mortality rates.

14. Retirement benefit obligations (continued)

Financial assumptions

The main assumptions used by the actuaries in the valuation of these schemes are as follows:

	30 September 2024		31 March 2024	
	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	3.10%	3.20%	3.20%	3.30%
Price inflation – CPI (Pre 2030)	1.00%	1.00%	1.00%	1.00%
Price inflation – CPI (Post 2030)	0.10%	0.10%	0.10%	0.10%
Rate of increase to pensions in payment – RPI	3.10%	3.20%	3.20%	3.30%
Rate of increase to pensions in payment – CPI (Pre 2030)	1.00%	1.00%	1.00%	1.00%
Rate of increase to pensions in payment – CPI (Post 2030)	0.10%	0.10%	0.10%	0.10%
Discount rate	5.10%	5.00%	4.85%	4.85%

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 2023 model. The table below illustrates the life expectancies of an average member retiring at age 60 at the period-end reporting date and a member reaching age 60 at the period-end reporting date in 20 years.

	30 September 2024		31 March 2024	
	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	26.6	25.7	26.7	25.8
Female	29.2	28.3	29.2	28.3
Life expectancy from age 60 currently aged 40:				
Male	27.6	26.9	27.7	27.0
Female	30.2	29.9	30.2	29.9

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, discount rate risk, inflation risk and longevity risk.

	Definition of risk
Investment risk	Assumptions are made about the returns expected from the schemes' investments. If the investmen underperform these assumptions in the long term then additional contributions will need to be made to tl schemes in order to fund the payment of future benefits.
Discount rate risk	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.
Inflation risk	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 Group'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.
Longevity risk	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.

14. Retirement benefit obligations (continued)

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below:

	30 September 2024		31 March 2024	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Changes in assumptions resulting in a (decrease)/increase in liabilities				
Change in discount rate (+ 1% p.a.)	(150.0)	(40.0)	(160.0)	(45.0)
Change in rate of inflation (- 1% p.a.)	(95.0)	(30.0)	(100.0)	(30.0)
Change in life expectancy (+ 1 year)	40.0	15.0	45.0	15.0

15. Capital commitments

As at	30 September 2024 £m	31 March 2024 £m
Property, plant and equipment	869.9	901.6
Intangible assets	14.1	9.9
Total contracted for but not provided	**884.0**	**911.5**

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 represent the value of orders committed to with our supply chain. Capital commitments have decreased in the six-month period to 30 September 2024 due to a number of projects with high commitments in the prior year now reaching the end of the project lifecycle, coinciding with the end of AMP7.

16. Provisions for liabilities and charges

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Environmental legal and regulatory provisions £m	Other provisions £m	Total £m
At 1 April 2023	97.5	12.7	11.5	78.7	27.3	227.7
Utilised during the period	(29.0)	(2.8)	(0.3)	(4.0)	(21.8)	(57.9)
Additional provisions recognised	41.5	9.7	0.6	29.1	43.1	124.0
Unused amounts reversed	-	-	(1.3)	(9.3)	(8.5)	(19.1)
At 31 March 2024	110.0	19.6	10.5	94.5	40.1	274.7
Utilised during the period	(10.0)	(1.4)	-	-	(8.0)	(19.4)
Additional provisions recognised	15.4	2.5	0.2	121.2	6.7	146.0
Unused amounts reversed	-	-	-	-	(8.2)	(8.2)
At 30 September 2024	115.4	20.7	10.7	215.7	30.6	393.1

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Environmental legal and regulatory provisions £m	Other provisions £m	Total £m
Disclosed within non-current liabilities	81.1	20.7	10.7	215.7	11.3	339.5
Disclosed within current liabilities	34.3	-	-	-	19.3	53.6
Total at 30 September 2024	115.4	20.7	10.7	215.7	30.6	393.1

Total provisions have increased by £118.4 million to £393.1 million as at 30 September 2024. This includes a single provision of £104.0 million related to Ofwat's investigation into non-compliance of our sewage treatment works. The value recognised is stated within Ofwat's consultation on the 6 August 2024 which proposed an enforcement order and financial penalty. This is deemed an exceptional cost in line with our accounting policy. The amount is classified as non-current due to the Company's ability to make an application to Ofwat for extended payment terms under industry regulations and its ability to appeal a penalty under the statutory process with the penalty not payable until the appeal is determined.

Notes to the condensed consolidated financial statements (continued)

17. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either possible but not probable or probable and cannot be measured reliably.

1. Ofwat Regulatory Investigations

Ofwat's regulatory enforcement powers include the potential imposition of an enforcement order, the acceptance of enforceable undertakings and/or the imposition of a financial penalty on the company of up to 10% of annual turnover of the relevant regulated business.

a. October 2023 Dividend

In October 2023, Thames Water Utilities Limited ("TWUL") paid interim dividends of £37.5 million to its immediate parent Thames Water Utilities Holdings Limited and informed Ofwat accordingly at that time. As requested by Ofwat, TWUL subsequently provided further information on this matter and the basis on which this decision was made by its board (the "Board").

On 10 May 2024, a draft 'minded to' letter was received stating that Ofwat has preliminarily found evidence of a potential breach of condition P(30) by TWUL of its licence. In particular, the draft 'minded to' letter alleges that: (i) TWUL has not satisfied Ofwat that it has a dividend policy which has been approved by the Board and which complies with the principles contained in Condition P30; and (ii) the Board gave insufficient weight to how the dividend payment could be justified given the Company's performance, including and beyond headline Performance Commitments performance, as it is required to do so under condition P(30).

In order to remedy the alleged breach, the letter contains a draft proposal to impose: (i) an enforcement order directing TWUL's compliance with condition P(30) of the Licence (pursuant to section 18 Water Industry Act 1991); and (ii) a penalty which, in line with the provisions in section 22A of the Water Industry Act 1991, would not exceed 10% of TWUL's relevant turnover for the preceding financial year.

TWUL firmly rejects these allegations and has responded to the draft 'minded to' letter in full setting out its arguments and evidence for the absence of any such breach. Ofwat is currently considering TWUL's submissions and if it is minded to take enforcement action it will publish a draft notice of enforcement stating its provisional conclusions. If Ofwat publishes a draft notice of enforcement, TWUL (and third parties) will be able to make representations and/or objections in relation to the allegations and the proposed enforcement approach at that time and under the statutory consultation process.

b. March 2024 Dividend

Separately, on 24 June 2024, TWUL received a request for information from Ofwat in relation to the March 2024 interim dividend and in particular the Company's decision to approve a dividend for the purpose of surrendering FY23 tax losses from TWUL. The Company responded to Ofwat's request on 5 July 2024. Ofwat is currently considering TWUL's response and if it is minded to take enforcement action it will publish a draft notice of enforcement stating its provisional conclusions. If Ofwat publishes a draft notice of enforcement, TWUL (and third parties) will be able to make representations and/or objections in relation to the allegations and the proposed enforcement approach at that time and under the statutory consultation process.

2. Environment Agency Wastewater regulatory investigation

The Group is subject to an ongoing investigation by the Environment Agency under the Environmental Permitting (England and Wales) Regulations 2016 into compliance with storm sewerage discharges in line with environmental permits. The Group is providing information requested by the Environment Agency to support with this ongoing investigation. The potential penalty for an environmental offence is a criminal conviction and an unlimited fine (in accordance with the Environmental Offences Sentencing Guidelines). The outcome of the investigation and the existence of any potential future financial obligations, or other consequences, cannot be reliably determined at this time.

17. Contingent liabilities (continued)

3. Collective proceeding in the Competition Appeal Tribunal

The Group is subject to a collective proceedings claim in the Competition Appeal Tribunal alleging a breach of competition law in relation to the historic reporting of pollution incidents. The estimated quantum of damages provided by the claimant is £159m. This is an industry-wide issue and five other defendants have had similar claims made against them. The certification hearing took place in September 2024. The Group considers the claim to be speculative and as the claim is still at a very early stage, it is not possible to determine merits or whether this would likely have any effect on the financial position of the Group.

4. DWI - Guildford loss of supply

DWI's regulatory enforcement powers include the potential imposition of an enforcement order, the acceptance of enforceable undertakings and/or the imposition of a financial penalty on the company of up to 10% of annual turnover of the relevant regulated business.

Widespread loss of supply was experienced across the Guildford area between 2 and 15 November 2023. This followed the extreme weather event (Storm Ciaran) in November 2023 which caused power outages across the Guildford area, including outages at eight of the Company's pumping and treatment sites.

The Company has committed to investing in significant improvements to resilience of the Guildford water supply system over the remainder of AMP7 and across AMP8.

On 13 August 2024, the Company was served with a Notice of Enforcement by the DWI under section 18 of the WIA 91. The notice is in respect of alleged breaches of SEMD as a result of the Guildford loss of supply issues. The Company was invited to submit to the DWI a draft s19 undertaking schedule in respect of the alleged breaches by 11 September 2024, subsequently extended until 27 September 2024.

The Company responded to the DWI on 1 October 2024 referring to an upcoming meeting between the Company, its creditors and Ofwat to discuss the Company's exposure to unfunded compliance costs and stating that it was not currently possible for the Company to make contractual commitments in the way of undertakings where it did not have a clear line of sight through to funding for the relevant commitment. On 4 October 2024, the Company wrote separately to the DWI, commenting on the recommendations contained in the DWI's August letter.

The DWI responded to the Company's letter of 1 October 2024 saying that it was not prepared to take into account the Company's submissions on finances but giving the Company until 20 November 2024 to enter into an undertaking, failing which the DWI stated that it would have no choice but to consult on making a final enforcement order against the Company.

On 20 November 2024, the Company wrote to the DWI, confirming it was prepared to enter into the undertaking and sending a draft of that undertaking to the DWI. No response has yet been received from the DWI. Consequently, the outcome of this matter and the existence of any possible future financial consequences of the investigation is not yet conclusive at this time.

5. Virgin Media Pensions Case

In June 2023, the High Court judged that amendments made to the Virgin Media scheme were invalid because the scheme's actuary did not provide the associated Section 37 certificate. The High Court's decision has wide ranging implications, affecting other schemes that were contracted-out on a salary-related basis, and made amendments between April 1997 and April 2016. The Thames Water Pensions Scheme and Thames Water Mirror Image Pension Scheme were contracted out from inception in 1989 to 2016 and amendments were made during the relevant period. As such the ruling could have implications for the Company. Following the Court of Appeal upholding the 2023 High Court ruling on 25 July 2024, the Trustees initiated the process of investigating any potential impact for the scheme. As the detailed investigation is in progress, the Company considers that the amount of any potential impact on the defined benefit obligation cannot be confirmed and/or measured with sufficient reliability at this time.

17. Contingent liabilities (continued)

Other contingent liabilities include 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 contingent liabilities.

As of the 30 September 2024 the following matters are no longer deemed to meet the criteria for disclosure as contingent liabilities:

- Ofwat's investigation into the Company's Wastewater Business and operation of its sewage treatment works. A £104.0 million provision (see note 16) has been recognised within these accounts following Ofwat's consultation on its proposal to impose an enforcement order and financial penalty.
- Claims under Environmental Information Regulations 2004 regarding property searches. On 3 October 2024, the High Court issued a Tomlin Order dismissing further proceedings in the claims between the Claimants and the Company, and as such, the case is at an end and the Company no longer deems that this matter meets the criteria for recognition of a contingent liability.
- DWI Physical security and emergency planning. The DWI made two final enforcement orders in September 2024 which set out the steps the Company needs to take. The Company no longer deems that this matter meets the criteria for recognition of a contingent liability.

18. Related party transactions

Transactions

For the six-month period ended 30 September	2024		2023	
	Services provided by the Group £'000	Services provided to the Group £'000	Services provided by the Group £'000	Services provided to the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	441	-	366	-
Immediate parent				
Thames Water Utilities Holdings Limited	36,434	-	33,645	-
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	503	-	468	-
Kemble Water Finance Limited	280	-	133	-
Kemble Water Eurobond plc	6	-	28	-
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	67	-	52	-
Thames Water Property Services Limited	-	70	-	86
Trinzic Operations Limited	13	-	1,388	-
Thames Water Pension Trustees Limited	807	-	-	-
Trinzic Connected Limited	147	-	-	-
Thames Water (Kemble) Limited	242	-	-	-
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	-	-	-	6
Water UK	-	-	-	726
SGN Commercial Services Limited	-	388	-	-
Southern Gas Networks Plc	-	3	-	-
Total	**38,940**	**461**	**36,080**	**818**

The Company provides support and payroll services to companies within the Kemble Group under arms length contractual agreements, these services are recharged and have been disclosed as related party transactions above.

18. 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:

	30 September 2024		31 March 2024	
	Amounts owed to the Group £'000	Amounts owed by the Group £'000	Amounts owed to the Group £'000	Amounts owed by the Group £'000
Immediate parent				
Thames Water Utilities Holdings Limited	1,355,982[1]	99,433[2]	1,319,548[1]	58,574[2]
Total	**1,355,982**	**99,433**	**1,319,548**	**58,574**

[1] This amount is the intercompany loan receivable to TWUHL, excluding expected credit loss provision of £429.8 million (31 March 2024: £118.9 million). Refer to Note 9 for further information.
[2] These amounts relate to provisional group relief payable balances.

The amounts outstanding are unsecured. No guarantees have been given or received.

19. Key management personnel

Key management personnel comprise the members of the Board and of the Executive Committee during the year.

The remuneration of the Directors for the six-month period ended 30 September 2024, and comparative period ended 30 September 2023, is included in the table below:

For the six-month period ended 30 September	2024 £'000	2023 £'000
Fees	212	255
Salary	1,680	2,207
Pension and pension allowance	173	199
Bonus[1,2]	1,850	888
Other benefits[1,3]	426	2,127
Total	**4,341**	**5,676**

[1] For the six month period to 30 September 2024, and the comparative period, a bonus for key management personnel was accrued based on 50% of expected year end outcome. The final bonus paid will be determined at year end by the Remuneration Committee. The increase in period is due to the new performance related pay scheme introduced in the second half of prior year within "bonus". This is offset by the ceasing of long-term incentives recognised in "other benefits" recognised in the previous period.
[2] Ofwat announced on the 21 November 2024 new rules on Executive bonuses which will prevent amounts being funded by customers
[3] Other benefits includes medical benefits, car allowances, relocation costs and other incentives.

Information regarding transactions with post-employment benefit plans is included in 'Retirement benefit obligations'.

20. Post Balance Sheet Events

In October 2024:

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

In November 2024:

- a total of £775.8 million Class A Revolving Credit Facilities due in November 2024 were rolled over and are now due in May 2025.
- Following a bondholder consent, debt service and operational & maintenance reserved cash is now available to be used and is intended to provide TWUL with a cash runway which expires during March 2025, enabling TWUL to continue with progressing its equity raise process and holistic recapitalisation transaction.

20. Post Balance Sheet Events (continued)

In December 2024:

- a total of £1,255.0 million Class A Revolving Credit Facilities due in December 2024 were instructed by the Group to be rolled over and so once rolled, will be due in June 2025.

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