Registered number 05819317 (England and Wales)

Kemble Water Finance Limited

Annual report and consolidated financial statements

For the year ended 31 March 2023

Contents

Introduction

Kemble Water Finance Limited ("the Company" or "KWF") is an intermediate holding company of the Kemble Water Holdings Limited Group of companies ("the KWH Group"). The Kemble Water Finance Limited Group of companies ("the Group") represents the consolidated results of Kemble Water Finance Limited and its subsidiaries. These consolidated financial statements are prepared as a requirement of the Kemble Water Finance Limited covenants, which govern the way the Group borrows funds.

The Company acts as an intermediate holding company within the KWH Group and also acts as the borrower of funds both directly and through its direct subsidiary Thames Water (Kemble) Finance plc ("TW(K)F") for use within the wider Group. Under these arrangements the Company has at 31 March 2023, £1,349.8 million (excluding unamortised discounts and issuance costs) of external debt of which £949.8 million (excluding unamortised discounts and issuance costs) has been raised directly by the Company and £400.0 million (excluding unamortised discounts and issuance costs) has been raised by its financing subsidiary TW(K)F and lent to the Company. This structurally subordinated secured debt is issued outside of the whole business securitisation group comprising the operating subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water"), its financing subsidiary Thames Water Utilities Finance plc ("TWUF") and its parent, Thames Water Utilities Holdings Limited ("TWUHL"). The KWF Group has £17,793.1 million (excluding unamortised discounts and issuance costs) of external debt at 31 March 2023 (excluding intercompany loan from parent).

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned indirect subsidiary TWUL, in accordance with TWUL's Licence of Appointment. References to "our" or "we" in this report relates to the activities of the Group including TWUL.

In addition, the Group operates a separately managed property business. The property business manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business.

As the performance of the Group is dependent largely on its appointed activities, this report makes reference to the performance of TWUL in order to provide appropriate explanation as to the performance of the overall Group.

The Group's management structure consists of Non-Executive Directors. With the exception of Sir Adrian Montague who was appointed on 10 July 2023 as Chairman of KWF and TWUL (in addition to a number of other KWH Group entities); the Non-Executive Directors have no role to play in the day-to-day running of the appointed business with TWUL. In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group.

Unless otherwise stated; all current year data included in this report is for the year ended 31 March 2023 ("2022/23").

Directors and advisors

Directors

P Noble
J Divoky
A Hall
S Deeley
C Pham
M Wang
G Tucker
D Wilkins
Y Deng
S Lowndes
T Mi
G Merchant
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Independent auditors

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Company secretary and registered office

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Vastern Road
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Strategic report

The Directors present their strategic report of the Kemble Water Finance Limited Group ("the Group") for the year ended 31 March 2023. This strategic report should be read in conjunction with the strategic report of Thames Water Utilities Limited, which does not form part of this report, which can be found at https://www.thameswater.co.uk/about-us/investors/our-results and provides a more detailed insight into the regulated business.

Business review

Principal activities

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned indirect subsidiary, TWUL in accordance with its Licence of Appointment.

The main functional areas to the TWUL business are:

Retail: comprises customer-facing activities, as well as billing and cash collection, including amounts relating to construction of the Thames Tideway Tunnel (TTT) which has also been shown separately in the financial statements. From 1 April 2017, this business function is also responsible for billing and cash collection of wholesale market charges to licensed non-household retailers for both water and wastewater, including amounts relating to construction of the TTT;

Capital delivery: comprises the management of water network assets, as well as the investment in and maintenance of the business' water and wastewater infrastructure to ensure it is sufficiently resilient to continue customer delivery, whilst also meeting the challenges of population growth and climate change;

Operations: responsible for all aspects of raw water abstraction, treatment as well as the distribution of high quality drinking water and wastewater collection, treatment and safe disposal for household and non-household customers; and

Support services: responsible for other areas including digital, asset management, regulation, strategy, finance, legal and HR.

Whilst the appointed supply of water and wastewater services provides approximately 98% of the Group's appointed gross revenue, TWUL also manages certain non-appointed activities including:

- property searches, including the provision of information required by property developers; sale of gravel and other aggregates extracted through day-to-day operations; and
- treatment of trade effluent and other septic waste.

In addition, the Group operates a separately managed property business. The property business manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business.

In March 2023, the ultimate parent company, Kemble Water Holdings Limited issued £515.0 million of Convertible Loan Notes to shareholders with net proceeds of £500.0 million after upfront fees. The net proceeds were cascaded to Kemble Water Eurobonds plc ("KWE") by way of an intercompany loan mirroring the key terms of the external instruments, plus a 10 basis point margin. KWE used £476.8 million of the proceeds to increase its investment into the equity of KWF and used £23.2 million to settle group relief liabilities owed to KWF. KWF then used the combined proceeds to settle £500.0 million of interest owed on its £3.1 billion intercompany loan from KWE, which KWE used to invest in a further £500.0 million of equity in KWF, resulting in a total increase of the share capital of KWF of £976.8 million. The net proceeds were further cascaded by KWF to Thames Water Utilities Limited via intermediate holding companies.

Business strategy

The Group's strategy is as follows:

- Deliver life's essential service, so our customers, communities and the environment can thrive. This means keeping customers' bills as low as possible whilst investing efficiently in assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they expect and require.

Principal risks and uncertainties

Changes to risk landscape

We have closely managed our principal risks through a year of considerable external and internal change. The external risk landscape continues to be dominated by the cost-of-living crisis, rising inflation, continued volatility in energy prices, and disruptions in global supply chains, including the availability of key chemicals.

In addition, rapid population growth and changing weather patterns are placing increasing pressure on our ageing infrastructure, while we strive to meet higher environmental standards. The ongoing delivery of our Turnaround Plan, including implementation of our new regional operating model and insourcing initiatives have impacted the internal environment and will continue to do so in the year ahead.

Changes to risk landscape (continued)

Despite the significant changes in our operating environment, there have been no new risks added this year, although the profile of the existing risks has changed. The table on this page provides detail of each.

Although our enterprise risk management process is robust, we cannot provide absolute assurance, and as such some risks may be affected by factors outside our control and unknown risks may manifest without warning. In these situations, we deploy our well-established incident management process to minimise the impact to Thames Water, our customers and our stakeholders.

Changes to emerging risks

Emerging risks are those that are newly developing or rapidly changing and therefore their extent and implications are not fully understood. As such they cannot be fully assessed in the same way as our contemporary risks however, they do have the ability to affect the future viability of Thames Water if appropriate steps are not taken to understand and respond accordingly. Therefore, as part of our risk management process, we regularly consider changes in our operating landscape and the subsequent emerging risks that could arise over the short, medium and long-term timescale.

We identify emerging risks using similar techniques to the standard risk assessment process, including workshops with key stakeholders, horizon scanning and insights from a variety of internal and external sources. Measures to monitor and respond to these risks are put in place as appropriate, including the creation of new principal risks when necessary.

An example of one of our emerging risks relates to potential changes in the structure of the water utilities sector – should government priorities or public opinion change in relation to the privatisation of utilities, then this could significantly alter the way in which we operate.

Changes to principal risks

We've fully reviewed our principal risk model this year and now have 18 principal risks that we are managing. These are categorised across five categories linked to our strategic focus: customer; environment/ operations; people/ safety; finance/ legal; trust and strategy. The directional trend over the year is summarised in the table below and further details on how the risks are being managed can be found below.

Principal risks and uncertainties

<table>
<tr><td colspan="2">1. Customer experience</td></tr>
<tr><td colspan="2">Unable to identify/ support customers in vulnerable circumstances</td></tr>
<tr><td>Trend
⇔</td><td>Explanation of trend

We have delivered a number of significant changes in FY23 to improve our service levels; insourcing our Billing Contact Centre and transforming our back-office services such that they offer a more data driven, customer-centric solution. These continuous improvements in our ways of working and enhanced digitised communications, including the launch of WhatsApp capability, are already delivering a marked improvement in complaints compared with prior year. This however is yet to translate into a C-MeX improvement.
As we continue to mobilise our new sourcing strategy and drive an increased customer focus, it is expected that this will manifest into a positive C-MeX change. Our developer customers will also benefit from our new sourcing strategy including the back-office transformation, and we expect to see this reflected in improving D-MeX scores. The trend to date has been positive.</td></tr>
<tr><td colspan="2">Risk impact

A key component of our Turnaround Plan is to improve customer service, however failure to adequately identify and support the needs of our customers will result in a poor experience. This in turn may lead to an increase in complaints, poor performance on our C-MeX and D-Mex measures, potential Ofwat investigations, penalties and failure to achieve the necessary customer advocacy and support to secure a PR24 plan that enables us to deliver our long-term ambitions.</td></tr>
<tr><td colspan="2">How we are managing the risk

• Mobilisation of the C-Mex Improvement and Customer Transformation plans to address customer dissatisfaction, including the delivery of our new sourcing strategy, bringing voice capability back in house and transitioning to new partners to provide improved digital contact and back-office services.
• Streamlining our systems to improve customer experience when moving house and automating Income and Expenditure online assessments to better support our customers who face challenging financial circumstances.
• Continuing to increase the number of customers on our Priority Services Register and advancing our inclusivity agenda by maintaining our British standards Institution (BSI) accreditation for our provision of inclusive services.
• Continued investment in a variety of channels through which customers can contact us.
• Ongoing roll-out of digital Smart Meters, allowing our customers to automatically track the amount of water they use, keep track of their bills and support us to find and fix leaks more quickly.
• Robust Customer Incident Management capability and regional based operational service model to build local customer and community relationships and inform local decision making.
• Redesigning our Developers customer service experience and replacing the systems that support them.</td></tr>
</table>

Principal risks and uncertainties (continued)

2. Collect revenues

Unable to bill or collect sufficient revenues from customers for prolonged periods

Trend ⇧

Explanation of trend

Despite the improvements made throughout the year, significant uncertainty remains surrounding the exogenous factors driving this risk, including when the impact from the cost-of-living crisis will peak and for how long it will endure. Across both the water and wider industries, opinion suggests that the impact is not yet being fully felt and is likely to increase should the energy price cap be raised, and Government support withdrawn.

Risk impact

External factors impacting both our household and non-household customers result in the risk that we are unable to effectively collect revenues for prolonged periods and/or support customers to pay their water bills. This could lead to a shortfall in recognised income and a strain on our cashflow and associated covenants.

How we are managing the risk

- We have organically grown the number of customers supported by social tariff schemes and have secured cross-subsidy funding to support more customers in financial hardship, with two new schemes being introduced in April 2023.
- An online affordability tool has been launched to undertake income and expenditure assessments for customers, with the objective of being able to offer customers affordable and sustainable payment plans. Further developments to this will be delivered during FY24.
- We continue to invest to deliver service improvements, including to our billing to payment journey, and building self-service capability and automation. These improvements focus on strengthening our systems and processes to ensure fair and consistent outcomes for our customers and to enable prompt payment.

3. Capital projects

Ineffective design, delivery and/or handover of capital projects.

Trend ⇧

Explanation of risk trend

Mitigation plans are becoming strained due to the strengthening inflationary headwinds and the business demand for additional projects to address compliance and drought risks. The programme delivery is larger than has been historically delivered within Thames Water and is scaling rapidly but is underpinned by robust and understood assumptions which are monitored and tracked by the Board and Executive. The assumptions consider required recruitment run rates, supply chain capacity and workload density, and outage management considerations.

Risk impact

We continue to deliver the sector's largest capital infrastructure renewal programme which is experiencing inflationary price pressures and project scope increases due to the underlying asset condition. There is a risk that we are not able to deliver our outcomes within our agreed cost and time targets. This may result in reputational and financial losses as well as potential delays to delivering our commitments to customers, communities and the environment.

How we're managing the risk

- We seek to optimise our portfolio of projects through the risk-based planning and investment business planning cycle. We are focused on our Turnaround Plan, which includes significant investment in people and processes for the efficient and effective delivery of our capital programme.
- We continue to insource capability and capacity and through targeted recruitment activities have been able to grow our headcount by over 150 Full Time Equivalents since April 2020. We are on track to have no more than 30% consultant support in our client management organisation by the end of AMP7 and have recruited over 20 Apprentices to date and will continue to recruit year on year.
- Our initial cohort of professional project management training through the Association for Project Management commenced in November 2022 and will continue through FY24.
- We are using an industry standard project methodology to measure and track our effectiveness of our people and processes which is driven through our Improvement Plan.
- Our Improvement Plan supports realising our annual internal efficiency targets for our client organisation and has achieved approximately 300 milestones in the past two years.
- We have been able to increase our capital delivery spend via our new insourced capital delivery model by nearly sixfold in the past two years and will continue to grow activity levels by a further 50% in the remainder of the regulatory period.

Principal risks and uncertainties (continued)

4. Biodiversity, climate change and population growth

- Long-lasting damage to biodiversity due to our operations
- Prolonged periods of no water due to drought
- Significant flooding events overwhelming the capacity of our assets.

Trend ⇔

Explanation of risk trend

During the year whilst we experienced several notable incidents, including a period of drought, more extreme flooding and temperature changes leading to system failures and adverse customer impacts, this risk remains stable as we continue to deliver on required improvements as part of our turnaround plan.
However, there is an increased need for our biodiversity habitats to become more resilient against the effects of accelerating climate change. Although we are taking action to manage our sites more effectively during these extreme events, there is increased risk exposure. Additionally, changing customer behaviour remains challenging.

Risk impact

Prolonged periods of drought, extreme weather events and the challenge of influencing customers to use less water, may result in failure to protect biodiversity and to mitigate the effect of climate change and population growth.

This could lead to irreversible damage and an increased frequency and severity of disruption to our customers. It could result in higher costs to operate as the headroom for water resources and the availability of water changes, which will also impact our ability to achieve our Net Zero Carbon 2030 (NZC) target. This could be further exacerbated by proposed changes in the industry standard Carbon Accounting method.

How we're managing the risk

- Ongoing work with the other water companies in the South-East and nationally to provide an overall Water Resources Management Plan (WRMP).
- The WRMP and Drainage and Wastewater Management Plan (DWMP) process both include climate change and population forecasts and form a key part of the PR24 process to secure future funding.
- Ongoing focus on demand reduction schemes to influence customer usage, including the continued roll-out of digital smart meters and water efficiency improvement plans.
- Development of new water supply options to manage how much water we abstract from rivers.
- Continuing to enhance biodiversity on our sites through a combination of changing grassland management and creation of new habitats such as wetlands, ponds and woodlands.
- Continued work with local partners on Smarter Water Catchment initiatives to nurture the water cycle, improve river quality and enhance ecosystems.
- Creation of cross business Net Zero Task force to identify and develop opportunities to further reduce our carbon emissions.

5. Legacy technology

- Loss/compromise of critical business systems/ data
- Prolonged information//operational technology outage.

Trend ⇔

Explanation of risk trend

The overall risk is stable due to having prepared our systems for hybrid working between home and office and the ongoing enhancements of our contact centre and work management systems to improve customer service. We are also continuing our shift to cloud services to offset aging physical technology risk.

Risk impact

Our continued focus on digitalising our business processes, and our increasing dependence on information technology (IT) systems for our core operations mean that we are heavily reliant on secure, affordable and resilient IT services. Any failure could have a significant impact on our reputation, ability to operate, and the resilience of our operational assets. A serious event could result in disruption to our corporate, operational and customer systems and services.

How we're managing the risk

- Upgrading critical systems used to manage leakage and test water quality to keep them current.
- Replacing out of date applications with modern platforms including the replacement of 3,500+ analogue telecoms lines with digital services by 2025, replacement of aging telemetry and control units from the London Water control system and continuous upgrades to our asset operational work scheduling systems.
- Continuing to move applications to the cloud and beginning the Operational Technology (OT) journey to the cloud to improve resilience and security posture.
  Upgrading networks, operating systems and servers to keep current and in support.

Principal risks and uncertainties (continued)

- Implementing commercial resilience by having two different suppliers for our on-premises data centres; one for production and one for Disaster Recovery (DR).
- Decommissioning hardware / software no longer required or as part of our modernisation plans.
- Performing DR tests on critical systems to ensure recoverability in the event of a severe outage.
- Ensuring PR24 plans continue to include funding to treat obsolescence going forward.

6. Employee and physical asset protection

Material loss or damage to key operational sites due to malicious third party action, that impact service to customers and the environment.

Trend ⇔

Explanation of risk trend

Whilst the overall terrorism threat to the UK has remained stable (unchanged since February 2022), we are seeing an increase in domestic threats, exacerbated by the use of disruptive social media and the likes of “urban explorers” who actively seek to breach our sites. In addition, protests unrelated to Thames Water taking place near our operational sites can result in security implications. We have experienced an increase in general criminality across our region, including the theft of diesel and metal cabling, but this has had minimal operational impact. Due to the efforts in place to manage this risk the overall outlook remains stable but is constantly reviewed to keep pace with changes in our internal and external environment.

Risk impact

A breach of our protective security arrangements could result in harm to our employees and the general public as well as material loss or damage to key operational sites, assets or services. This in turn could lead to interruption in the service provided to customers and/or potential environmental damage (through contamination or uncontrolled release of water) as well as substantial remediation costs.

How we’re managing the risk

- Annual mandatory Security Awareness training for all employees, re-enforced by regular communications, including a dedicated yammer group and security portal where updates, policies and guidance are readily accessible.
- Embedded dedicated security teams within our operational business act as both subject matter experts and educators to ensure we continue to develop the Physical Security awareness and culture across our business.
- Our dedicated Protective Security department is responsible and accountable for forward reviews, inspections and recommendations relating to meeting both our regulatory and internal security standards across our estate.
- We take a proactive approach to monitoring our security systems in compliance with Security Protective Guidance (PSG) and Water UK Security Standards (WUKSS). This is enhanced by working closely with the relevant government agencies and the sharing of best practice with other water and utilities companies.
- We conduct regular security risk assessments that follow industry best practice and National Protective Security Authority (NPSA) guidance and have introduced an Insider Threat Risk Assessment.
- Implementation of the Security and Emergency Measure Direction (SEMD) programme and associated audit programme.
- We have an established security incident reporting and response process to quickly and robustly manage incidents and is continuously improved through the use of ‘lessons learnt’.

7. Cyber security and data protection

- Loss/ compromise of critical business systems/ data
- Prolonged information/operational technology outage

Trend ⇧

Explanation of risk trend

The risk of cyber-attack is increasing as a result of the wider geopolitical climate and the complexity of our internal technology estate. Over the year we improved controls through our dedicated cyber security programme, and we continue to monitor the wider geo-political landscape carefully to respond to a deteriorating threat position.

Risk impact

At Thames Water we operate Critical National Infrastructure and hold large amounts of personal and payment data for our customers and employees. If we do not defend our data and assets against internal and external threats this could result in disruptions to our business operations with the loss of critical business systems or data. This could affect our ability to provide safe drinking water, protect the environment or respond to our customers' needs.

How we’re managing the risk

- We continue to invest in our cyber defences, rebuild our IT capability and to enhance our respond and recover capabilities.
- Specific areas of focus include, but are not limited to, deepening our detection capabilities, modernisation of our technology estate, strengthening access control and stress testing our respond and recover playbooks.

Principal risks and uncertainties (continued)

8. Asset integrity and resilience

Major event caused by aging assets, mains burst, sewer collapse or a Northern Outfall Sewer bridge failure.

Trend ⇔

Explanation of risk trend

The overall risk remains stable in the short term. The outlook is more uncertain in the medium term. Mitigating the impact of poor asset health and asset deterioration has been countered by macro-economic factors resulting in increased costs and subsequent pressure on investment plans. Work is ongoing to understand the impact of investment prioritisation will have on the ability to hold asset health stable through AMP8.

Risk impact

Failure to maintain asset integrity and resilience may result in a major event or an ongoing drag on operational performance, caused by water main bursts or sewer collapses, instances of water treatment or sewage treatment outage or structural failures to critical assets. This could have subsequent health, safety, environmental and financial impacts, and cause disruption to customers and to the efficiency of our operation and may result in failure to meet our regulatory obligations.

How we're managing the risk

- The Engineering and Asset function has been reorganised to focus on maturing our company-wide asset management capability, with clear focus on setting asset strategy, prioritising investment and developing the approaches needed to understand asset health and investment needs over the longer term.
- Strategic asset plans are being developed in collaboration with operational colleagues in London and Thames Valley, ensuring the investment portfolio is aligned to the operational priorities and key asset risks. This approach is underpinned by our ISO 55001:2014 certified Asset Management System.
- Our understanding of critical assets, asset health and system resilience continues to develop through the Critical Asset Improvement Programme, Asset Health Insight Programme and Water Supply Resilience Assessments. This insight enables more proactive identification of emerging trends and risks that have the potential to impact service, such that they can be considered as part of our planning and mitigation for future AMP periods.
- Targeted maintenance and inspection programmes based on asset criticality defined within our asset register support the proactive risk identification approach and reduce the likelihood of catastrophic failures.
- In the event of asset failure our Incident Management processes and governance structure ensure we respond quickly and robustly to minimise impact to customers and the environment.

9. Treat wastewater

Serious and/or long lasting adverse public health or environmental impact resulting from pollution incidents due to asset and/or process failure.

Trend ⇧

Explanation of risk trend

We've seen an increase in total pollutions to 331, from 271 in 2021 (calendar year measure) despite investing record sums in upgrading our sewer systems and treatment works and striving every day to reduce the discharge of untreated sewage into our rivers. We were the first water company to publish live sewage notifications at all our 468 overflow locations, demonstrating our commitment and determination to improve. However, there are no quick fixes. Population growth will increase the strain on our sewage network and treatment centres. And because of climate change, the Southeast of England is experiencing heavier downpours, which can overwhelm some sewage treatment works.

Risk impact

Enabling our natural environment to thrive is a key element of our Purpose. However, failure in our operational wastewater collection, treatment and/or recycling, or blockages and failures on the waste network could result in sewerage discharge to the environment, leading to serious pollution incidents with long lasting adverse public health or environmental impacts including to river health, disruption to business and domestic customers, reputational damage and regulatory action.

How we're managing the risk

- Ongoing delivery of our Pollution Incident Reduction Plan (PIRP).
- The PIRP is supported by our Smart Waste Digital Programme, to build an intelligent ecosystem of products that allows us to understand the operational performance of our wastewater assets so that we can apply the most cost-effective interventions, in the right place, at the right time.
- £1.6 billion investment pledged over the next two years to upgrade our sewage treatment works and waste networks, that will help to reduce pollution incidents and storm discharges.
- Ongoing delivery of the £100 million upgrade of our Mogden sewage treatment works, as well as currently increasing sewage treatment capacity at a number of our other sewage works across the Thames Valley, including Witney, Chesham and Fairford to be completed by 2025.
- £4 billion investment in the 'Super Sewer', Thames Tideway Tunnel to reduce discharges by around 95% in a typical year.

Principal risks and uncertainties (continued)

- Expansion of the Event Duration Monitors (EDMs) programme rollout to record the frequency and duration of any discharges to the environment, with live sewage notifications published.

10. Supply of wholesome water

- Prolonged periods of no water due to asset and/or process failure
- Water quality incident that results in widespread 'Do Not Use' or 'Do Not Drink' notices.

Trend ⇔

Explanation of risk trend

Overall risk is stable. Despite challenging supply chain and business issues the risk trend is stable, driven by significant business focus within this area.

Risk impact

As a water utility company, the supply of wholesome water is our number one priority. This could be compromised due to the failure of a water treatment process or a water quality incident that results in water unfit for consumption with potential public health concerns. Or we may fail to supply enough wholesome water to meet demand resulting in service disruptions for our customers and communities.

How we're managing the risk

- Our Water Resource Management Plan (WRMP) sets out how we will manage the water supplies in our region to meet current and future needs up to 2100.
- Implementation of the Thames Water risk based Public Health Transformation Programme, addressing key water quality and resilience risks, focusing on customers, people, investment and processes. It also includes the delivery of agreed Drinking Water Inspectorate improvement programmes.
- We continue to provide a programme of employee training and upskilling to reduce operational risk and improve resilience of supply to customers.
- Long term Industry leading Conditional Allowances programme to reduce risk at our large water production facilities and high-risk trunk mains, thereby improving the resilience of supply of potable water to customers
- Leakage reduction programme, including successful completion of our ambitious plans to insource the repair and maintenance activity of our potable water infrastructure.
- Delivering Smart Metering and Smart Water (SMART) proactive management of our potable water network, using data and insights to drive system-wide performance improvements from source through to our customers taps. These programmes include demand management, customer water efficiency, leakage targeting, improving real-time process and network data, and proactive programmes to manage pressure across our system to prevent bursts and reduce leakage.
- Accelerating our programme of critical asset maintenance, including the largest ever number of maintenance activities on our critical London Trunk Main and significant work at our large London Water Treatment Works.

11. Physical or mental harm

Fatality/serious life changing injury

Trend ⇔

Explanation of risk trend

The overall risk is currently stable. There have been no significant process or asset safety failures in year, however we continue to have a strong focus on improving our understanding of our risk profile and control environment in these areas. During the year we have completed a review of our biogas risk, with both internal and external inputs.

We have experienced an increase in lost time incidents, largely due to minor injuries that resulted in RIDDOR notifiable incidents, however there was continued focus on raising the importance of Situational Awareness throughout the year to increase personal hazard perception and attention. Incidents of damage to buried utility services has increased and management is focused on reducing these now that the repair and maintenance of our water networks has been insourced. There was a large increase in cases of stress and anxiety disorders linked to internal organisational changes and focus for the forthcoming year will be on managers and how they address issues at an early stage.

During FY23, one of our supply chain employees was fatally injured whilst undertaking a routine preparatory task involving a sewer jetting vehicle. The incident remains subject to investigation by the regulators and the root causes are still to be established, however Thames Water, it's supply chain partner and other interested organisations within the industry are working together to design out the need for manual interventions in the activity that was being undertaken.

Risk impact

Health, safety and wellbeing are a top priority for Thames Water and our aim is to protect our people, contractors and customers who live and work in the communities we serve. We ensure that Thames Water operations are carried out safely every single day. It is therefore imperative that we

Principal risks and uncertainties (continued)

have in place systems and measures to prevent physical and mental harm to ensure that no individual suffers serious life changing injury or there are any fatalities.

How we're managing the risk

- We are committed to our long standing Zero Incidents, Zero Harm, Zero Compromise approach. Supported by our corporate value of 'Take Care', this provides a framework for all colleagues and leaders to engage, communicate and improve our health, safety and wellbeing understanding, environment and culture.
- The Health & Safety Management System is externally accredited to ISO 45001. Our Health, Safety & Wellbeing (HSW) team provides advice, support and interventions across process safety, asset safety and occupational health & safety, to ensure we are continually evaluating our risks and their control effectiveness.
- We have processes in place to monitor and provide assurance across all business operations to ensure we continually to learn and improve. These are overseen by existing our governance committees at executive and divisional level. We also collaborate and benchmark externally through our stakeholder relationships with Water UK and our regulators, such as the Health & Safety Executive.
- We have an existing Board approved strategic Health, Safety and Wellbeing Improvement Programme, which is aligned with our Turnaround Plan. This programme is currently on track. Due to the wider Thames Turnaround Plan and resultant organisational changes, we continue to review and enhance our strategy to ensure it remains fit for purpose.
- Additional focus for 2023/24 will be building our HSW organisational capability to improve business partnering with the business and continuous improvement in how we manage all HSW risks, including our biogas risk exposures.

12. Attraction and retention of talent	
Industrial action or staff shortages	
Trend ⇔	Explanation of risk trend The overall level of this risk is remains stable. We are responding well to external economic challenges in the recruitment market following the pandemic as well as inflationary pressures on the cost of living. We have also managed internal attraction and retention against a backdrop of a wide range of structural changes in operations, retail and corporate functions, while simultaneously modernising our ways of working and pay and conditions arrangements.

Risk impact

The attraction, retention, and engagement of a diverse and inclusive workforce, with the right skills, is essential for us to be able to serve our customers, support our front-line operations and deliver our Turnaround Plan. We have aligned our People strategy to our Purpose to create a working environment where we can all perform at our best, provide good quality career opportunities, and deliver the skills we need now and for the future. However, there is a risk, exacerbated by external employment market conditions, that we fail to achieve this.

How we're managing the risk

- We have a comprehensive skills strategy focused on critical roles and the expertise required to build a diverse pipeline to address our current and future requirements in professional, technical and STEM roles.
- We engage with communities, local authorities, charities and the education sector to provide apprenticeships, employment opportunities to under-represented groups, internships, and graduate roles.
- We are rolling out competency frameworks aligned to professional bodies and investing in training and developing our people to ensure our technical competency meets current and future regulatory requirements. In addition, we are developing our leaders, including building coaching capability, to drive team performance and improve engagement.
- Living our Values sits at the heart of fulfilling our Purpose and we have reinvigorated our engagement activities to connect and inspire our colleagues with the future direction of the business.
- We work closely with our Trade Union Partnership to maintain good relationships and successfully manage change in the business.
- Our Executive team connect with front-line colleagues directly and regularly to brief on progress against our Turnaround Plan, listening to and responding to feedback.

Principal risks and uncertainties (continued)

<table>
<tr><th colspan="2">13. Values, behaviours, standards, legal and regulatory obligations</th></tr>
<tr><td colspan="2">Serious breach of Instrument of Appointment, water industry regulation and/or statutory legislation
Unlawful activity/behaviour by Thames Water or its partners.</td></tr>
<tr><td>Trend
⇧</td><td>Explanation of risk trend

The overall level of risk is increasing as we experience an increased level of scrutiny from regulators and stakeholders. We continue to focus on our ongoing Section 19 undertakings relating to leakage and have delivered on those undertakings and commitments relating to non-household market data and smart metering respectively. We also continue to co-operate fully with the ongoing Ofwat and Environment Agency investigations involving a number of companies within the sector, including Thames Water, into compliance with environmental permits at sewage treatment works.</td></tr>
<tr><td colspan="2">Risk impact

We are a high-profile company running a critical public service operating in a tightly regulated environment. Our Board is clear that we must maintain the highest standards of business conduct. This includes complying with our legal and regulatory obligations and meeting the obligations of the UK Corporate Governance Code.
Should we fail to comply with our values and behaviours or with our legal and regulatory obligations this could result in reputational harm including loss of customer and investor confidence, legal action and investigation by Regulators, significant financial penalties, and for the most serious of breaches potential loss of our Instrument of Appointment to operate (commonly referred to as our licence).</td></tr>
<tr><td colspan="2">How we're managing the risk
Our approach to achieving compliance with our ethical, legal and regulatory obligations is based on a framework of sound governance, risk management and systems of internal control.
We have rolled out mandatory training programmes in key areas (including competition law, bribery and corruption).
Our Regulatory Compliance Framework Standard is a key component of our internal control framework and is designed to maintain a robust control environment so that internal controls operate effectively to mitigate the principal risk of failure to comply with our regulatory obligations. We also conduct regular audits of compliance with key regulatory obligations.
We undertake regular horizon scanning to help increase awareness of changes in the legal and regulatory landscape.
We seek to set a strong tone-from-the-top and have clear Speak Up and whistleblowing procedures as well as processes for reporting any potential conflict of interest and offers of gifts and hospitality. Taken together, these controls help us identify and resolve any potential failure to comply with our values and standards as soon as possible.</td></tr>
</table>

<table>
<tr><th colspan="2">14. Liquidity</th></tr>
<tr><td colspan="2">Insolvency or insufficient resources to satisfy Instrument of Appointment obligations.</td></tr>
<tr><td>Trend
⇧</td><td>Explanation of risk movement

The overall risk is deteriorating. Geopolitical and macroeconomic are having an inflationary impact on financing and operational costs, with subsequent risk to the realisation of the full benefits of the Turnaround Plan.</td></tr>
<tr><td colspan="2">Risk impact

Weak financial resilience (real or perceived) due to operational performance or economic and market volatility that stresses financial covenants could result in Thames Water being unable to secure sufficient liquidity to meet our funding requirements, resulting in insolvency or insufficient resources to satisfy our Instrument of Appointment obligations. Kemble Water Finance relies on dividends from the operating company to service its debt obligations and if these are unavailable it could result in it being unable to secure sufficient liquidity to meets its requirements, resulting in insolvency.</td></tr>
<tr><td colspan="2">How we're managing the risk
Our treasury strategy covers funding, hedging and cash management to maintain a strong liquidity position supported by committed credit facilities.
Credit ratings and financial covenant headroom remains a key focus and we have robust investment governance processes in place.
We monitor the capital markets regularly, with a focus on de-risking funding plans where possible and remain alert to bank counterparty risk.
We set and maintain risk appetite levels for key covenant metrics to demonstrate financial resilience, and address material financings at the earliest opportunity to reduce risk from market exposures and maintain liquidity.
Our Capital structure will be reviewed alongside PR24 developments to identify possible changes to protect financial resilience.
We maintain robust performance management processes to analyse and initiate action to improve cost base and cash collection performance, and this year have enhanced our internal performance reporting to ensure adverse trends are highlighted earlier.
Close management of working capital and cash flows through financial year to raise the bar on liquidity performance and to improve forecasting.</td></tr>
</table>

Principal risks and uncertainties (continued)

15. Inflation and interest rates	
Breach of our financial covenants and / or material financial losses.	
Trend ⇔	Explanation of risk movement Price pressures are ongoing, with the high inflation rate and requests from suppliers to increase pricing, including power and chemicals. In addition, the ongoing economic pressures experienced by UK households increases the risk to cash collection and operating cashflow. Despite these headwinds, proactive and robust mitigations undertaken result in a stable overall risk outlook.
Risk impact Failure to adapt our cost base for changes in inflation or interest rates, or business inability to generate sufficient operating cashflow, could result in material financial losses or a breach of our financial covenants. This could lead to re-prioritisation of investment, impacts to operational performance and reduced service levels.	
How we're managing the risk • Delivery of our Treasury strategy, specifically optimising the liquidity position; funding requirements; interest, inflation and cross currency hedging. • Our ongoing Supplier Management programme ensures that we deliver supplier performance and cost at the levels agreed in our contracts. Additionally, it facilitates collaborative ways of working with suppliers to mitigate cost inflation pressure and improve performance. • Power hedging to provide cost certainty over a large portion of power costs. • Robust performance management processes to analyse and initiate action to improve cost base and cash collection performance. • Management focus and action taken on working capital to improve cash positions. • Debt Improvement programme is focused on optimising cash collections from our household customers.	

16. Regulatory, legislative and political developments	
Catapulted into non-compliant environment with new unfunded obligations	
Trend ⇔	Explanation of risk trend Political and regulatory scrutiny across the sector on environmental impacts remains high, with river health and leakage dominating the agenda. In addition, public stakeholders are requiring increased reassurance on the pace and progress of our Turnaround Plan.
Risk impact Failure to protect our business from developments in the regulatory, legislative or political environments could materially impact our business operations, leading to new unfunded obligations or non-compliance with regulatory or legal requirements and significant reputational damage. Potentially significant investment over that originally anticipated in the business plan could be required to address the unfunded obligations or non-compliances.	
How we're managing the risk • Potential changes to the regulatory, legal and political environments are identified through regular horizon scanning, supported by intelligence gathering on drivers for change. • We inform and contribute to the water sector public policy debate through working in partnership with other organisations such as Water UK, other water companies and industry bodies. • We also actively engage (including through public consultation) with regulators, politicians and regional and local stakeholders on a broad range of issues, including resilience, river water quality and delivery against our Turnaround Plan.	

Principal risks and uncertainties (continued)

17. Public value

- Unable to deliver our strategy
- Adverse PR24 outcome.

Trend ⇔

Explanation of risk trend

Overall risk is stable. Although public interest in some aspects of public value has increased (particularly those related to rivers and affordability), our pro-active messaging, ahead of the rest of the industry, on the unacceptability of discharging untreated sewage has been well-received, as has our commitment to transparency.

Risk impact

Our customers and stakeholders expect that we will provide public value (including customer value and environmental stewardship) in the way that we deliver our services, and it is core to our strategy. If we fail to do this, we will suffer reputational damage, negative stakeholder perception and it will undermine our ability to work in partnership. There is a potential for enforcement action with financial penalties, more investigations, adverse regulatory and public policy outcomes, and an adverse PR24 settlement.

The ultimate consequence would be loss of our Instrument of Appointment or being re-nationalised, possibly with little or no compensation.

How we’re managing the risk

- Ongoing pro-active messaging, commitment to transparency and an intensive programme of stakeholder engagement.
- Public Affairs and community and stakeholder engagement work to identify emerging issues and understand and address local concerns.
- Ongoing use of Customer Challenge Group to help us ground our work in customer and community engagement.
- Rollout of newly developed public value framework to embed public value in our decision making. Pilots are taking place this year, including how to embed this in our PR24 submission.

18. Engage stakeholders

Renationalisation, loss of our Instrument of Appointment without compensation.

Trend ⇔

Explanation of risk trend

Overall risk is stable, driven by the increased risk from the attention placed on untreated discharges and river pollution and our continued operational and performance challenges being offset by greater transparency and our Turnaround Plan.

Risk impact

We may be unable to secure the engagement, support and investment necessary to deliver our long-term ambitions which could result in renationalisation or loss of our Instrument of Appointment without compensation.

How we’re managing the risk

- Proactive and continuous engagement with customers and stakeholders on key business plans, 2050 Vision, Water Resources Management plan (WRMP), River Health Action Plan and Drainage and Wastewater Management Plan (DWMP).
- We have worked with a third party to measure and evaluate our reputation and assess key areas of interest and influence for our stakeholders.
- Extensive engagement with customers and with stakeholders at national, regional and local levels to understand their needs, expectations and preferences.
- Ongoing implementation of our Turnaround Plan to improve our performance and customer service.
- Ongoing delivery of the Public Value programme to support wider community engagement and environmental improvement.
- Regular dialogue with investors to support them in their investments and reflect their priorities in our plans.
- Working to ensure all commitments have been properly thought through and are tracked through to completion.

Financial review

Key financial performance indicators

Year ended 31 March	2023 Underlying	2023 BTL	2023 Total	2022 Underlying	2022 BTL	2022 Total
Revenue (£m)	**2,182.3**	**84.5**	**2,266.8**	2,092.1	84.9	2,177.0
Operating expenses (£m)	**(2,041.6)**	**(0.1)**	**(2,041.7)**	(1,867.4)	(0.1)	(1,867.5)
Operating profit (£m)	**249.9**	**84.4**	**334.3**	321.5	84.8	406.3
Net finance expense (£m)	**(1,331.5)**	**-**	**(1,331.5)**	(1,151.3)	-	(1,151.3)
Net gains/(losses) on financial instruments (£m)	**122.3**	**-**	**122.3**	(895.5)	-	(895.5)
(Loss)/profit before tax (£m)	**(959.3)**	**84.4**	**(874.9)**	(1,725.3)	84.8	(1,640.5)
(Loss)/profit after tax (£m)	**(805.3)**	**102.2**	**(703.1)**	(1,718.0)	68.7	(1,649.3)
Capital expenditure (£m)	**1,769.7**	**-**	**1,769.7**	1,354.0	-	1,354.0
Statutory net debt (£m)	**(22,990.2)**	**-**	**(22,990.2)**	(21,703.6)	-	(21,703.6)
Post maintenance interest cover ratio (PMICR) [1]	**1.1**	**-**	**1.1**	1.2	-	1.2
Gearing (%) [2]	**84.3**	**-**	**84.3**	88.0	-	88.0
Credit rating [3]	**-**	**-**	**Baa2 stable**	-	-	Baa2 stable

[1] As defined on page 61.
[2] Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 61.
[3] Representing the Corporate Family Rating ("CFR") assigned by Moody's for the operating subsidiary, TWUL. Moody's published an Issuer Comment on 29 June 2023, with no change to the rating. In May 2022 , Moody's completed a periodic review of KWF guaranteed debt which was unchanged at B1, with stable outlook. In March 2023, Fitch downgraded KWF's Long-Term Issuer Default Rating to B with negative outlook.

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 48.

Overall performance

Revenue

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

Our total revenue for the year ended 31 March 2023 increased by £90 million to £2,267 million (2022: £2,177 million). This increase was driven by higher allowed revenue set by our regulator Ofwat.

BTL revenue remained consistent at £85 million (31 March 2022: £85 million) due to the stable phasing of construction works.

Bad debt

We have a range of support options to help our financially vulnerable customers who cannot afford to pay their bill in full. The bad debt charge reflects our estimated risk exposure across our customer base of customers not paying their bill. During the year ended 31 March 2023, our overall bad debt cost increased by £23 million to £90 million (31 March 2022: £67 million). This increase was primarily due to the impact of a decline in real wages due to high inflation leading to lower cash collection rates and a refined methodology for our estimate of recoverability for unmeasured customers debts.

The bad debt charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £68 million (31 March 2022: £57 million), which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £22 million (31 March 2022: £10 million), which is shown as a cost within operating expenses. Our total bad debt charge equates to 4.0% (31 March 2022: 3.2%) of appointed revenue. We are working hard to reduce bad debt and have implemented several initiatives to reduce the overall charge as a percentage of appointed revenue.

Capital expenditure

During the year, we invested £1,770 million (2022: £1,354 million) in our assets, including £215 million related to capitalised borrowing costs. The material year on year increase reflected the planned increase in investment in our infrastructure to increase resilience in our network and help mitigate the dual impacts of climate change and population growth.

The record level of capital expenditure in the financial year included:

- £449 million invested through our in-house Capital Delivery vehicle, including: £54 million on Water distribution mains replacement and rehabilitation in London and the Thames Valley; £40 million on the installation of new Water Trunk mains, including the Faringdon to Blunsdon route; and £11 million on inspection and refurbishment of London's raw water transfer tunnels and Thames Water ring main;
- £250 million invested through our Infrastructure Alliance on our Water Network to reduce leakage and improve our trunk main network;
- £150 million on major projects, including £94 million on upgrading our major sewage treatment works at Beckton;

Overall performance (continued)

Capital expenditure (continued)

- £35 million on connecting our network to the Thames Tideway Tunnel, including £17 million on the Beckton Inlet Works;
- £77 million on our Metering Programme.

Financing our investment

As the Group is investing heavily in the business, we continue to focus on the importance of ongoing investor engagement to support our strategy of diversifying our sources of funding and maintaining a balanced debt maturity profile. Our strategy of adopting a prudent approach to liquidity has continued given the ongoing uncertainty the cost of living crisis has introduced. Our statutory net debt (as defined in the accounting policies section) has increased by £1,286 million to £22,990 million (2022: £21,704 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £2,304 million to £18,945 million (2022: £16,641 million). Overall gearing (on a covenant basis) was 84% (2022: 88%), below the covenant maximum of 95.0%. Additionally, our Post Maintenance Interest Cover Ratio (PMICR) in the current year is 1.1x (2022: 1.2x) and is above the covenant minimum of 1.05x. A breach of a financial covenant as reported in a compliance certificate would be an Event of Default.

Throughout the year, total new debt issuance and facilities of £3,550 million equivalent were completed in KWF Group, as follows:

- In April 2022 TWUL entered into a £150 million Class B loan agreement due 2029 which was fully drawn in September 2022;
- In May 2022 TWUL entered into a £100 million Class A loan agreement due 2029 which was fully drawn in August 2022;
- In May 2022 TWUL entered into a £50 million Class B loan agreement due 2025 which was fully drawn in September 2022;
- In August 2022 TWUL entered into a total of £623 million equivalent of US private placements with maturities ranging from 2029 to 2042 which was fully drawn in November 2022;
- In November 2022 TWUL entered into a £100 million and a £900 million Class A loan agreement due 2026 which remains undrawn;
- In December 2022 TWUL entered into a £65 million Class B loan agreement due 2029 which remains undrawn;
- In December 2022 TWUL entered into a £99 million Class A loan agreement due 2027 which remains undrawn;

In January 2023 TWUF issued £1,463 million equivalent of public debt through a €650 million bond due 2027 and a €1,000 million bond due 2031. In September 2021 TWUL had entered into a £100 million Class B loan agreement due 2028 which was fully drawn in September 2022.

In November 2022, a £110 million working capital facility entered into by the Company in 2018 was terminated early. At the same time, the Company entered into a new £150 million working capital facility, maturing in November 2027. This facility remains undrawn as at 31 March 2023.

Since 31 March 2023, TWUF repaid a total of £371 million Class B Revolving Credit Facilities and a £300.0 million Class B bond.

The associated net finance expense has increased by £181 million to £1,332 million (2022: £1,151 million), mainly reflecting a £231 million higher RPI accretion on borrowings, £60 million increase in interest in relation to external borrowings, £46 million increase in interest in relation to intercompany borrowings offset by £100 million increase in capitalised borrowing costs and £53 million increase in net interest income on swaps. Under the IFRS accounting framework we capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £215 million this year (2022: £115 million).

Furthermore, in March 2023, KWH issued £515.0 million of Convertible Loan Notes to its shareholders with net proceeds of £500.0 million after upfront fees. The net proceeds were cascaded to KWE by way of an intercompany loan mirroring the key terms of the external instruments, plus a 10 basis point margin. KWE used the proceeds to invest £476.8 million into the equity of the Company and settle £23.2 million of group relief liabilities owed to the Company. The Company used the proceeds to settle £500.0 million of interest owed on the £3.1 billion intercompany loan from KWE, which KWE then used to invest in a further £500.0 million of equity in the Company. This resulted in a total of £976.8 million share capital issued by the Company at par value. The Company used the proceeds to invest £500.0 million into the equity of TWL, resulting in TWL recognising share capital for the same amount. TWL then used the proceeds to invest £500.0 million into the equity of TWUHL, resulting in TWUHL recognising share capital for the amount. TWUHL then used these proceeds to repay a total of £500.0 million intercompany loans including £444.3 million principal and £55.7 million interest on intercompany loans with Thames Water Utilities Limited.

Operating expenses

Total operating expenses have increased by £174.2 million (2022: £103 million increase) in total.

The movement in total operating expenses (excluding depreciation and amortisation) reflected:

- a £42 million increase in our employment costs as we invested to improve our service to customers;
- a £53 million increase in our power costs driven by high power price inflation which has impacted industries globally as well as our customers;
- a £26 million increase in raw materials and consumables, driven by significant increases in chemical prices due to high energy costs; and,
- a £17 million increase in other operating expenses, principally reflecting the one-off impact of a rates rebate received in the prior financial year.

Overall performance (continued)

Financial instruments

Our borrowings, revenue and total expenditure ("totex") (as contained in the accounting policies) are exposed to fluctuations in external market variables such as changes in interest rates, inflation and foreign exchange rates. We manage these exposures by entering into derivative contracts in order to hedge against future changes in these external rates.

We have approximately £13.3 billion of derivative financial instruments (face value). A total gain on financial instruments of £122 million was recognised in the income statement during the year (2022: loss of £896 million). This is driven by £245 million net fair value gain on swaps, a £21 million loss on cash flow hedge transferred from reserves and £102 million net exchange losses on foreign currency borrowing. Note 7 to the financial statements provides detail of the amounts charged to the income statement in relation to financial instruments.

Credit rating

We retain investment grade credit ratings for TWUL Group, that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers. In May 2022, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating ("CFR") for TWUL continuing as Baa2 with a stable outlook (2022: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (2022: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (2022: Ba1 with stable outlook). Moody's published an Issuer Comment on 29 June 2023, with no change to the ratings. In March 2023, Moody's affirmed the rating of the Company's finance subsidiary, Thames Water (Kemble) Finance plc's, senior secured debt at B1 and changed the outlook to negative (2022: B1 with stable outlook).

In March 2023, Fitch downgraded the Company's senior secured debt rating to B (2022: B+) and Long-Term Issuer Default Rating to B with negative outlook (2022: B+ with negative outlook). In March 2023, Moody's affirmed the rating of the Company's finance subsidiary, Thames Water (Kemble) Finance plc's, senior secured debt at B1 and changed the outlook to negative (2022: B1 with stable outlook).

Dividends

The Company's dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected financial performance, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term ability to finance the Company's business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services

Pensions

We operate four pension schemes for our employees – three defined benefit schemes: the Thames Water Pension Scheme ("TWPS"), Thames Water Mirror Image Pension Scheme ("TWMIPS") and the SUURBS Arrangement ("SUURBS"), which are closed to new employees; and one defined contribution scheme.

During 2022/23, we contributed £29 million (2022: £27 million) to the defined contribution scheme.

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

In the 2019 financial year, we completed the triennial valuation dated 31 March 2019 for our two defined benefit pension schemes. The accounting valuation of these two schemes has been updated to 31 March 2023 on our behalf by an independent consulting actuary, Hymans Robertson LLP.

The total net retirement benefit obligation for the three schemes as at 31 March 2023 was £182 million (2022: net retirement benefit obligation of £253 million).This comprises a £182 million net deficit (2022: £257 million net deficit) in the TWPS, a further net deficit of £6 million (2022: £7 million net deficit) in the SUURBS pension scheme, and a surplus of £6 million (2022: surplus of £12 million) for the TWMIPS. The £71 million year-on-year decrease was due to changes in actuarial assumptions occurring across all industries, which included an increase in the discount rate for both

Overall performance (continued)

Pensions (continued)

schemes due to higher corporate bond yields, which has resulted in an actuarial gain. The next triennial review is due to be signed off in September 2023 after the financial statements have been published and therefore the update to the valuation of the pension will be taken into account in the next financial period.

We have been taking measures to reduce the overall deficit by making regular contributions and deficit repair payments. As part of the last triennial valuation dated 31 March 2019, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027. The Company decided, with the agreement of the trustees, to accelerate these payments and make an exceptional £70 million payment during the year ended 31 March 2021, which covered the remaining deficit payments agreed during AMP7.

Capital, financial and actuarial risk management policies and objectives

The Group's operations expose it to a variety of capital, financial and actuarial risks.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The key objectives of the funding strategy are to maintain customer bills at a level which is both affordable and sustainable, retain the Group's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations.

The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The capital structure of the Group consists of net debt and equity as disclosed in note 20. The Group's net debt is comprised of cash and cash equivalents, short-term investments, bank loans, lease liabilities and shareholder's loans.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Group against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used, where appropriate, to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

Financial risk management

(i) Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. Financial instruments entered into by the Group include RPI linked bonds, loans and swaps. These instruments are exposed to movements in the UK RPI index. The principal operating company of the Group, TWUL, is a regulated water company with RPI linked revenues. Therefore the Group's index-linked borrowings form a partial economic hedge as the assets and liabilities partially offset. The Group also uses derivatives to manage inflation risk on non-index-linked borrowings.

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of debt issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the Group. Further disclosures regarding financial instruments can be found in note 20.

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

TWUL has a statutory obligation to provide water and wastewater services to customers within its region. Due to the large area served by TWUL and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk, however, TWUL's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that

Capital, financial and actuarial risk management policies and objectives (continued)

manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Further details of this is discussed in the Going concern section of the Directors' Report and in the Accounting Policies, but without actions being taken during the year, there are material uncertainties which give rise to significant doubt about the company's ability to continue as a going concern. Details of the Group's borrowings and other financial instruments are disclosed in note 19 and 20, respectively.

Actuarial risks

The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. For further details of these risks, please refer to note 24.

The trustees continue to control the level of investment risk within the schemes by reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees also review the risk exposures taking into consideration the longer term objectives of the respective schemes.

s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

> "A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
>
> (a) the likely consequences of any decision in the long term;
> (b) the interests of the company's employees;
> (c) the need to foster the company's business relationships with suppliers, customers and others;
> (d) the impact of the company's operations on the community and the environment;
> (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
> (f) the need to act fairly as between members of the company."

On appointment, as part of their induction to becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group's main trading company, Thames Water Utilities Limited.

During the year, the Company has continued to act as the holding company of the Kemble Water Finance Limited group. Day-to-day running of the Company is managed by the Company's management team, consisting of employees from the Group's main trading company, Thames Water Utilities Limited.

In June 2022, the Board and shareholders of Thames Water approved a revised £11.5 billion business plan for the current regulatory period (ending 31 March 2025). This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed in our final determination for 1 April 2020 to 31 March 2025. In accordance with the commitment made by shareholders in June 2022, £500 million of new funding was drawn by Thames Water on 30 March 2023. Our shareholders have now agreed to provide a further £750 million of equity contributions across AMP7. This further funding is subject to satisfaction of certain conditions, including the preparation and approval of a business plan that underpins a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over the next three years and is supported by appropriate regulatory arrangements. Shareholders have also acknowledged that delivery of the Turnaround Plan will likely require the provision of further equity support in AMP8 significantly in excess of the current AMP7 commitment. Indicatively, the AMP8 equity support is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the business plan for the AMP8 period and the regulatory framework that will apply to the AMP8 period.

During the year, the Board of Directors have approved equity investments in Thames Water Limited, settlement of unpaid interest to Kemble Water Eurobond plc, various corporate policies and the approval of the Company's annual report and financial statements. The financial statements on pages 38 to 116 were approved by the Board of Directors on 15 July 2023 and signed on its behalf by Perry Noble. The Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Stakeholder management

The Company's stakeholders are considered to be external debt investors, shareholders, and other companies within the Kemble Water Holdings Limited Group, as well as the customers, employees and suppliers of the regulated subsidiary TWUL. The Company places considerable importance on communication with investors and through a Group-wide approach, regularly engages with them on a wide range of topics. The Kemble Water Holdings Group's Director of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and environment

The Board supports the Group-wide commitment to seeking to continually improve the delivery of water and wastewater services in the most sustainable way, which means complying with regulation, delivering public value and leaving the environment in a better state than we found it at the end of each regulatory period.

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group's annual report is available from the address shown in note 30.

Approved by the Board of Directors on 15 July 2023 and signed on its behalf by:

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8D

Directors' report

The Directors present their annual report and the audited financial statements of Kemble Water Finance Limited (the "Company") and the audited consolidated financial statements of its Group ("the Group") for the year ended 31 March 2023. These are the Group and Company's financial statements as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures required under the Companies Act 2006.

The Directors consider that the annual report and audited financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess both the Group's and Company's position and performance, business model and strategy.

The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and details of these risks and their management or mitigation can be found on pages 5 to 14.

The registered number of the Company is 05819317 (England and Wales).

Principal activity

The Group's principal activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

The Company's principal activity is that of a holding company.

Details of the associated and subsidiary undertakings of the Group at 31 March 2023 has been provided in the notes to these financial statements.

Future outlook

The future outlook of the Group is discussed in the business strategy section of the Strategic Report.

Directors

The Directors of the Company who held office during the year ended 31 March 2023 and to the date of this report were:

P Noble	
J Divoky	
A Hall	
S Deeley	
C Pham	
M Wang	
G Tucker	
D Wilkins	
Y Deng	
S Lowndes	(appointed 29 April 2022)
T Mi	(appointed 30 September 2022)
R Noble	(appointed 30 September 2022; resigned 23 March 2023)
G Merchant	(appointed 4 November 2022)
J Kim	(appointed 1 December 2022)
H Onarheim	(appointed 1 December 2022)
A Montague	(appointed 10 July 2023)
G Pestrak	(resigned 10 April 2022)
S Obozian	(resigned 29 April 2022)
F Sheng	(resigned 30 September 2022)
G Lambert	(resigned 1 December 2022)
M Bloch-Hansen	(resigned 1 December 2022)
M McNicholas	(resigned 23 March 2023)

During the year under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2022: none). Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	**Alternate Director**
P Noble	D Wilkins
A Hall	S Lowndes
C Pham	J Divoky
G Tucker	Y Deng
T Mi	M Wang
H Onarheim	S Lowndes

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval the Group has made qualifying third party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies of the Group and these remain in force at the date of this report.

Share capital

On 30 March 2023, the Company issued 976.8 million of allotted, called up and fully paid ordinary shares of £1 each. The total proceeds from the issuance amounted to £976.8 million. Refer to the financing our investment section on page 16 for information on transactions impacting share capital during the year.

Operations outside the United Kingdom

There are no active operations conducted outside the United Kingdom.

Going concern

The Directors have assessed Kemble Water Finance Limited's (KWF) ability to continue as a going concern, recognising it is a holding company with no material, direct business operations and is therefore mainly dependent on Thames Water Utilities Limited ("TWUL") which is the regulated entity used to generate the funds necessary for KWF and Thames Water (Kemble) Finance ("TW(K)F") (the Company's direct financing subsidiary) to meet their respective financial obligations.

Given the dependency on TWUL, the KWF Directors, as part of their assessment of the Group and Company, have considered the going concern assessment made by the TWUL directors as well as the actions taken by TWUL post the balance sheet date of 31 March 2023. The section below, "Summary of TWUL going concern assessment" outlines this assessment where the TWUL Board has concluded it is appropriate to prepare the financial statements for TWUL on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL 2022/23 Annual Report, copies of which may be obtained from the Company Secretary's Office at Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Summary of TWUL Group going concern assessment

In assessing the appropriateness of the going concern basis, the TWUL Directors have considered the following factors.

In June 2022, to support Thames Water in the delivery of its updated business plan, Shareholders provided a commitment letter where they agreed to contribute, or cause to be contributed, an aggregate £500 million of funding, available to be drawn in full by the Group in March 2023. This funding was received on 30 March 2023. There has been a continual and constructive engagement with Shareholders on further support in AMP7 to enable Thames Water to deliver its business plan. Consequently, on 10 July 2023 shareholders provided a letter setting out further support totalling £750 million during the remainder of AMP7. This support is subject to specific conditions including Investment Committee approval by each Shareholder and, consequently, it has not been considered in the liquidity assessment for the going concern review. For the purposes of assessing covenant compliance, the TWUL Board has sufficient confidence that it is the intention of the Shareholders to provide the additional funding and it is reasonable expectation to include the indicated level of support in the financial years ending 31 March 2024 and 31 March 2025 for the purposes of calculating forecast covenant metrics.

The TWUL Group's liquidity position and cash flow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The TWUL Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 31 March 2023, such liquidity consisted of £1.8 billion of cash and cash equivalents, access to £3.0 billion of committed credit facilities of which £2.6 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances).

The terms and conditions of the Whole Business Securitisation ("WBS") provide a stable platform for Thames Water to finance its activities in the debt capital markets:

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

For financial covenants, the TWUL Group has undertaken to maintain compliance with specific covenants covering several interest cover and gearing ratios. With headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cash flows.

Going concern (continued)

Given 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, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To mitigate the impact on operational cash flows, mitigations involving active working capital management and the release of contingencies embedded with the Business Plan have also been taken into account.

Under a severe but plausible downside scenario, the TWUL Group business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of at least 12 months from the date of signing of the financial statements.

The Directors have also considered the consequences of a Trigger Event, a feature of the TWUL Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing committed facilities. A Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the TWUL Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the TWUL Group's ability to trade. A cash lockup prevents distributions to protect the interests of creditors and customers.

Based on the above, the Board is satisfied that the Group has adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the TWUL Board considers it appropriate to adopt the going concern basis in preparing the TWUL Group financial statements.

The KWF Directors have assessed specific matters relating to the KWF's liquidity position and ability to comply with its financial covenants, which differ from that of TWUL Group.

In addition to available cash balances, KWF has in place a £150 million committed undrawn working capital facility that can fund at least 18 months of interest payments due on the external debt held by KWF and its special purpose financing subsidiary TW(K)F. The KWF Directors' assessment of available liquidity has also considered the ability of KWF to refinance a £190 million loan facility, due to be repaid in April 2024, where failure to do so results in a liquidity shortfall within the assessment period.

The KWF Directors are satisfied that TWUL is compliant with its financial covenants under a severe but plausible downside thereby giving TWUL the optionality to make dividend payments. As TWUL's business plan is underpinned by maintaining access to shareholder funding, the KWF Directors have a reasonable expectation that TWUL will continue to distribute dividends such that KWF has sufficient resources to service the interest on its external debt. Such an expectation would help support KWF's plans to refinance the £190 million loan facility.

This assessment also recognises the risk of a potential cash lock-up at TWUL which has been increased due to the actions: (i) modifications of TWUL's licence such that from 1 April 2025, the minimum credit rating needed to prevent a cash lock-up at TWUL has been strengthened; and (ii) S&P's actions on 30 June 2023 to place the credit rating of TWUL Class A and B debt on Credit Watch negative. The Directors are considering a range of refinancing actions which could include additional support from shareholders on a temporary basis.

The financial covenants for KWF incorporate the aggregate net debt outstanding as well as the operational cash flows and profits from KWF and its subsidiaries on a consolidated basis. The KWF Directors have considered forecast compliance with financial covenants during the assessment period. Under a severe but plausible downside scenario, the Post Maintenance Interest Cover Ratio is forecast to be non-compliant, mainly due to a combination of lower revenues and higher operating costs. Such non-compliance relates only to the financial covenants for a £200 million bilateral loan facility, due to be repaid in July 2025. The remedy for a covenant breach is available in the form of a prescribed equity cure, which allows capital to be injected into KWF during a financial year and to be included in the calculation of interest cover for that year. At the time of signing KWF Group Annual Accounts, KWF's parent companies do not have sufficient funds that would be available to be used as an equity cure if a severe but plausible scenario was to materialise. Alternative remedies include the amendment or refinancing of the £200m loan facility, both requiring the agreement and support of the loan counterparty. Contributions from shareholders which underpin TWUL's business plan can also be used as an equity cure and this gives rise to the KWF Directors' reasonable expectation that a remedy could be implemented in the event a severe but plausible scenario crystallises. Therefore, there are material uncertainties related to (i) the inability to refinance the £190 million loan facility with Kemble Water Finance Limited before April 2024 and (ii) the forecast breach of the interest cover covenant for KWF Group in the event of a severe but plausible downside scenario and the availability of or certainty of potential remedies.

These material uncertainties relating to refinancing requirements and covenant compliance may cast significant doubt about the ability of the Group and the Company to continue as a going concern. However, for the reasons above, the KWF Directors' have a reasonable expectation that the Group and Company will maintain adequate resources to continue in operational existence for a period of at least 12 months from the date of these financial statements and have therefore concluded that the financial statements should be prepared on a going concern basis. However, 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.

Corporate governance

The Kemble Water Holdings Board is responsible for the long-term success of the Kemble Water Finance Limited Group by providing leadership and strategic direction on the Group's culture, values and purpose. It provides governance oversight and ensures effective management of risk. It balances the interests of our shareholders with those of our wide range of other stakeholders including customers, employees, and suppliers of TWUL and the impact on local communities and the environment. The Board also serves as an Audit Committee for all entities with listed private placements that are not overseen by the TWUL Audit Risk and Reporting Committee. This includes Kemble Water Finance Limited. The Board is made up of Non-Executive Directors (NEDs), who are nominated and appointed by the Group's external shareholders, which is why they are not classified as independent. They provide strong experience of financial asset management and value creation, and constructively challenge and monitor the performance and delivery of the Group's strategy, as well as that of the TWUL Executive Board. The Kemble Board is not deemed to require a

Corporate governance (continued)

committee for Director Remuneration, Nomination, Regulatory Strategy, Customer Service, or the Health, Safety and Environment, as all such matters are closely monitored by committees reporting into the TWUL Board. The Board's system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Our management of risk supports this through a number of key company level internal controls and responses:

- Business planning, budgeting and forecasting. These activities support resilient operations and sustainable and robust finances. The annual budgeting exercise includes a detailed budget for the year and a view for the remainder of the asset management plan ("AMP").
- Performance reporting – the Board and shareholders receive monthly management reports, including an overview of key performance metrics.
- System of delegated authority – delegated levels of decision making authority are reviewed and approved by the Board;
- Insurance – insurance programme and insurance team in place. The Board review and approve the strategic approach being taken to level and type of cover;
- Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk;
- Code of conduct and Whistleblower hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

Our Enterprise Risk Management and Internal Audit teams also provide reporting and assurance over our management of key business risks.

Financial risk management

During the period the Company had access to the Chief Executive Officer and the Executive Team of TWUL, who also manage the wider Kemble Water Holdings Limited group ("KWH Group") on a day-to-day basis on behalf of the Directors of individual group companies. The KWH Board receives regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Group's operations expose it to a variety of financial risks and information on the use of financial instruments by the Group to manage these risks is disclosed in the strategic report.

Political donations

The Company has an agreed policy to not make any political donations. No political donations were made during the year (2022/23: £nil).

Charitable donations

Charitable donations of £3.2 million were made by the Group during the year (2022: £3 million).

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business. The development and application of new techniques and technology is an important part of the Company's activities. The Company is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management.

In addition, we carry out research and development in-house, including solutions to improve the resilience of our water supplies, developing insight into the deterioration of critical assets, novel approaches to tackle leakage and pollutions from our water and wastewater networks respectively, and wastewater treatment processes to allow us to meet increasingly stringent regulatory requirements. We have identified a number of opportunities to scale our research and development activities with the support of funding from Ofwat's innovation competitions. Expenditure on research and development totalled £12.9 million for the year (2022: £11.7 million). Included within research and development is £9.1 million (2022 £6.9 million) collected from customers as a contribution to Ofwat's innovation fund, which was established to help build up the water industry's innovation capacity.

Employee engagement

Around 80% of our employees took part in our annual survey which reported an overall engagement score of 69% (2021/22: 69%). This demonstrates that our employees are willing to express how they are feeling about working at Thames Water – both the good aspects and what we can do to improve.

Despite a significant amount of change throughout the business, engagement remained the same. Colleagues are more committed than ever to our purpose and values, with more of them also feeling a stronger sense of belonging and continue to believe their safety and wellbeing is valued. We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year.

Employee engagement (continued)

Ian Pearson continues to act as designated Non-Executive Director for Workforce Engagement, to take accountability for ensuring that workforce issues are appropriately considered by the Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities. This year, Ian visited an operational site every month, plus holding virtual sessions, providing employees with informal opportunities to meet with and be listened to by Board members.

Our Executive team reviews feedback from a variety of sources including our 'Hear for you' survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as internal Yammer communications and local feedback channels. Further details on our overall people strategy can be found in the Strategic Report on page 4.

Recruitment, employment and training of disabled people

We currently hold level 1 disability confident commitment status. This is the first step in our journey to securing level 2 which we aim to achieve in 2024. We have reviewed our recruitment processes and created new questions in our application process to ensure we are asking the right questions to identify candidates who may require adjustments. We have created guidance for hiring managers on guaranteed interviews which forms part of our inclusive hiring commitments to support wider under represented groups access careers within Thames Water. We are working closely with our resourcing partners to ensure the right practices are followed and they provide support to hiring managers.

We continue to raise awareness, educate, improve accessibility and nurture a culture of inclusion. This has included adaptation to deliver training virtually, using auto captions, voice overs and alternative formats. We have also ensured our access to work standards make the process more seamless for candidates and employees.

Finally as part of our wider skills commitments, to create a workforce inclusive of the communities we serve, we have signed the Ambitious About Autism covenant, making a number of commitments such as improving accessibility in the workplace, offer experiences of the workplace to autistic people in our communities, raise awareness of autism within the workplace and encourage meaningful conversations, enhance recruitment practices as an inclusive employer of choice, offer inclusive paid workplace opportunities for autistic people, share our experiences and encourage others to get involved including our supply chain.

Operational Greenhouse Gas Emissions and Energy Management

Thames Water calculates their Greenhouse Gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually and is reflective of carbon reporting and emissions guidance from the Department of Environment, Food and Rural Affairs (Defra). Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO2e").

The CAW calculations follow the Greenhouse Gas (GHG) Protocol's Carbon Reporting Standard. Under the GHG Protocol there are two distinct methods to account for Scope 2 emissions. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

1. Location-based. This method reflects the average emissions intensity of the grid on which energy consumption occurs (using a grid-average emission factor data).
2. Market-based. This method reflects emissions from electricity that companies have purposefully chosen, and it derives emission factors from contractual instruments.

As Thames Water sources renewable electricity accredited with renewable 'Guarantees of Origin' through a contract with our supplier, Thames Water uses a market-based accounting approach to report their Scope 2 emissions. The market-based approach has been used to determine Thames Water's operational plans and strategies for carbon management and performance reporting on our journey to meet Net Zero. For transparency, we have also disclosed the location-based data within this report for comparison.

Key trends

Our net operational emissions increased from 269.8 ktCO2e in 2021-22 by 52.1 ktCO2e to 321.9 ktCO2e in 2022-23. In 2022-23 we have reported additional scope 3 emissions of 64.3 ktCO2e from chemicals, waste to land, and energy & fuels Well to Tank (WTT). These emissions which were previously excluded from the Greenhouse Gas emissions reporting methodology.

- When using a like for like methodology our net operational emissions decreased by 12 ktCO2e to 257.6 ktCO2e in 2022-23.

As a result of the new reporting methodology, our gross operational emissions also increased from 277.3 ktCO2e in 2021-22 by 51.6 ktCO2e to 328.8ktCO2e in 2022-23.

- When using a like for like methodology our gross operational emissions decreased from 277.3 ktCO2e in 2021-22 by 12.7 ktCO2e to 264.5 ktCO2e in 2022-23, a 4.6 % reduction.

We have achieved numerous successes through a combination of actions including:
- We reduced our total energy consumption by 28 GWh, from 1,606 GWh to 1,578 GWh.
- And of that our total electricity consumption reduced by 8 GWh from 1,250 GWh to 1,242 GWh.
- We generated 285.5 GWh of renewable electricity at our operational sites (including renewable export).
- We used 267 GWh ourselves, covering 21.5% of our electricity needs from self-generated renewable electricity.

We have made the operational decision to prioritise biogas usage in the boilers instead of the CHPs – to a) reduce the cost and use of fossil fuels and b) to recover more heat from the boilers e.g.: in the case of THP systems; as well as prioritising biogas to be used for biomethane production.

Operational Greenhouse Gas Emissions and Energy Management (continued)

- As a result, our renewable electricity generation from sludge reduced by 35.5 GWh to 284 GWh;
- However, our renewable heat generation increased by 32 GWh to 211 GWh.
- We have commissioned our first biomethane plant and have produced 28.8 GWh renewable gas
- Together with our other renewables – Wind and Solar Photovoltaics (PV), we have produced 353.8 GWh renewable energy.
- We reduced our direct emissions from burning fossil fuels a further 41%, from 28.3 ktCO2e to 16.6 ktCO2e. This included:
    - 8.8 ktCO2e reduction from natural gas used on our sites for pumping and treatment, and
    - 3 ktCO2e reduction in diesel consumption
- Process and fugitive emissions decreased by 1.2 ktCO2e in 2022-23 to 190.3 ktCO2e.
    - – We have produced 4% less sludge compared to 2021-22, and
    - – Produced 4% less biogas from it.

(note– reporting methodology has also changed to removed emissions associated with Water treatment waste to lagoon due to not enough scientific evidence – 4ktCO2e)

Energy

Supported by our ISO50001-certified Energy Management System, we have delivered energy efficiency improvements across both Water and Wastewater business units.

The extended drought period in 2022-23 meant increased water demand and more energy intensive treatment to source and treat our water. The wet winter experienced in 2022/23 contributed to a reduction inefficiency in our wastewater systems.

As a result, the net electricity intensity for each megalitre of water and wastewater we supply and treat have increased marginally.

Water:	526 kWh/Ml	up 0.8%
Wastewater:	223 kWh/Ml	up 1.6%

Our carbon targets

We have made a commitment to reduce our net carbon emissions from our operations to zero by 2030 and to then become net negative by 2040. We have already reduced our Scope 1-3 net emissions by 62 % compared to our 1990 baseline level. That is a 517 ktCO2e absolute reduction.

We continue to work towards our target of being a net negative carbon business. Some of the key aims as part of this target include maximizing the energy and resource recovery from our sewage sludge, the electrification of our fleet of vehicles, and the increased efficiency of our assets.

In 2022-23, the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat – our emissions intensity ratio, increased as a result of change in calculation methodology:

1. Market based

Water:	40.2 kgCO2e per Ml
Wastewater:	182.2 kgCO2e per Ml

2. Location-based

Water:	169.8 kgCO2e per Ml
Wastewater:	241.8 kgCO2e per Ml

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions)
- Scope 2 (Indirect energy use emissions)
- Scope 3 (Emissions from purchased goods and services, business travel and energy and fuel WTT); and
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

Operational Greenhouse Gas Emissions and Energy Management (continued)

	Market-based		Location -based	
	2023 kTCO2e	2022 kTCO2e	**2023 kTCO2e**	2022 kTCO2e
Scope 1	220.3	231.6	220.3	231.6
Direct emissions from burning of fossil fuels	16.6	28.3	16.6	28.3
Process and fugitive emission	190.4	191.6	190.4	191.6
Transport: Company owned or leased vehicles	13.3	11.7	13.3	11.7
Scope 2*	0.0047	–	173.6	185.7
Purchased electricity	0.0047	–	173.6	185.7
Scope 3	108.7	45.5	150.2	45.5
Business travel for company business	1.0	1.0	1.0	1.0
Outsourced activities	27.4	28.1	27.4	28.1
Purchased electricity – WTT and T&D	19.7	16.4	61.2	16.4
Purchased fuels – WTT and T&D	11.5	N/A	11.5	N/A
Chemicals	10.3	N/A	10.3	N/A
Disposal of waste	38.8	N/A	38.8	N/A
Gross	329.0	277.1	544.1	462.8
Net-offs	(7.0)	(7.5)	(7.8)	(5.0)
Net	322.0	269.6	536.3	457.8

Funding

Throughout the year, total new debt issuance and facilities of £3,550 million equivalent were completed in TWUL Group, as follows:

- In April 2022 TWUL entered into a £150 million Class B loan agreement due 2029 which was fully drawn in September 2022;
- In May 2022 TWUL entered into a £100m Class A loan agreement due 2029 which was fully drawn in August 2022;
- In May 2022 TWUL entered into a £50 million Class B loan agreement due 2025 which was fully drawn in September 2022;
- In August 2022 TWUL entered into a total of £623 million equivalent of US private placements with maturities ranging from 2029 to 2042 which was fully drawn in November 2022;
- In November 2022 TWUL entered into a £100 million and a £900 million Class A loan agreement due 2026 which remains undrawn;
- In December 2022 TWUL entered into a £65 million Class B loan agreement due 2029 which remains undrawn;
- In December 2022 TWUL entered into a £99 million Class A loan agreement due 2027 which remains undrawn;
- in January 2023 TWUF issued £1,463 million equivalent of public debt through a €650 million bond due 2027 and a €1,000 million bond due 2031;

In September 2021 TWUL had entered into a £100 million Class B loan agreement due 2028 which was fully drawn in September 2022.

In November 2022, a £110 million working capital facility entered into by the Company in 2018 was terminated early. At the same time, the Company entered into a new £150 million working capital facility, maturing in November 2027. This facility remains undrawn as at 31 March 2023.

Since 31 March 2023, £371 million Class B Revolving Credit Facility has been repaid.

Disclosure of information to the auditor

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 15 July 2023 and signed on its behalf by

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's financial statements published on TWUL's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and

- the Strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

P Noble
Director
15 July 2023

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Kemble Water Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kemble Water Finance Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 March 2023; the Consolidated income statement, the Consolidated statement of other comprehensive income, the Consolidated and Company statements of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Kemble Water Holdings Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 2, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the accounting policies to the financial statements concerning the group's and the company's ability to continue as a going concern.

We note as at the date of approval of the financial statements there is a material uncertainty relating to going concern for the company arising from the company's liquidity position and its ability to comply with certain of its covenants, specifically relating to (1) the refinancing of a £190m loan facility which is due for repayment in April 2024, for which there is insufficient committed funds available as at the date of this report; and (2) The Company is forecasting to breach its Post Maintenance Interest Cover Ratio (PMICR) covenant in relation to a £200m loan owed by the company under a severe but plausible downside scenario.

The Directors believe that Kemble Water Finance Limited (KWF) will be able to refinance the £190m debt prior to April 2024. However, there is currently no commitment from a finance provider and therefore no certainty this loan will be refinanced prior to April 2024.

In the event that the Group's financial performance is in line with or below the severe but plausible downside scenario, the Group will breach the PMICR covenant as at 31 March 2024. In this situation, the Company would be able to "cure" the covenant breach via an injection of additional funding in the form of shareholder support or the receipt of dividend income originating from its primary trading subsidiary Thames Water Utilities Limited (TWUL).

The Directors of Kemble Water Holdings Limited ("KWH") received an Equity Support Letter on 10 July 2023 from their shareholders indicating their intention to provide future support to the group. However, the letter is not legally binding and there are no other firm commitments to refinance the £190m loan due for repayment in April 2024. Furthermore, the directors of KWF are also uncertain that Thames Water Utilities Limited ("TWUL") will be able to pay a dividend by way of "equity cure" due to the Whole Business Securitisation ("WBS") and regulatory ringfence.

These conditions, along with the other matters explained in the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. 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.

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

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

- Understanding and assessing the factors creating a material uncertainty and the consequences of an Event of Default (EOD).
- Assessing whether the directors' statement that they have a reasonable expectation that the potential mitigating actions to the material uncertainties will occur is reasonable.
- Obtaining and understanding the terms of the Group's financing and credit facilities, the Whole Business Securitisation, and in particular the financial covenants that the Group must adhere to. We have verified the existence of the facilities in place on which management has based its liquidity forecast for a period of in excess of 12 months from the date of the approval of the 31 March 2023 financial statements (the going concern period).
- Understanding the legal and regulatory differences and restrictions between the Group's regulated entity Thames Water Utilities Limited (subject to the Wholesale Business Securitisation (WBS) structure and regulatory ringfence) and the wider Kemble Water Finance Limited Group and the implications for KWF.
- Testing the mathematical integrity of the cash flow forecasts and the models supporting the forecasts used by management to support the underlying going concern assumption and reconciling these to Board approved budgets.
- Understanding the key assumptions management have applied in developing their base case and plausible and severe downside scenarios. These can be split as those that are more judgemental in nature and those that are less judgemental. For those less judgemental assumptions such as revenue growth, we verified this to published tariffs for FY24 in compliance with Ofwat's guidance. For those more judgemental assumptions such as power costs which is a largely non-discretional cost subject to volatility, we understood the basis on which management had made these assumptions. We challenged various aspects of management's base case and downside scenarios, including how management have created their severe but plausible downside case as a combination of various individual scenarios. We concluded that the base case was reasonable and the downside case appropriately severe but plausible.
- Performing a comparison of budget versus actual for the year ended 31 March 2023 and understanding where variances had arisen. Through this testing we obtained reasonable assurance over management's ability to forecast accurately.
- Verifying liquidity forecasts to the Board approved budget and testing that contractual debt principal and interest payments had been appropriately included within the forecasts. We validated management's conclusion that there is insufficient available committed funding without any refinancing or raising of new debt or receipt of the shareholder funding to repay the £190m loan facility held by the company that matures in April 2024.
- Obtaining covenant compliance certificates, confirming that all the key covenants that impact the continued access to finance have been considered over the relevant time periods and verifying the mathematical accuracy, and testing inputs back to either the year-end financial numbers or for forecasted information to the Board approved budget.
- Performing enquiries and reviewing correspondences with Regulators and various stakeholders to corroborate management's position and assess if there is any contradictory information in light of increasing media attention and regulatory scrutiny.
- Assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

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

Our audit approach

Overview

Audit scope

- Two significant components within the group are subject to a full scope audit; Thames Water Utilities Limited and Thames Water Utilities Finance Plc.
- Kemble Water Finance Limited, Kemble Water Eurobond Plc and Thames Water (Kemble) Finance Plc, were considered in scope for certain financial statement line items, to obtain sufficient coverage of the cash, borrowings and finance expenses of the group.
- For the company only accounts and the significant components we tested both the design and operation of relevant business process controls and performed substantive testing over material financial statement line items.

Key audit matters

- Material uncertainty related to going concern
- Valuation of financial derivatives (group)

- Valuation of provision for expected credit losses for trade receivables (household customers) (group)
- Valuation of retirement benefit obligation (group)
- Classification of costs between capital and operating expenditure (group)
- Valuation of metered sales accrual (group)
- Provisions for environmental matters (group)
- Investment in subsidiaries (parent)
- Valuation of goodwill (group)

Materiality

- Overall group materiality: £30,000,000 (2022: £30,000,000) based on 0.13% of total assets.
- Overall company materiality: £54,138,000 (2022: £51,301,000) based on 1% of total assets.
- Performance materiality: £22,500,000 (2022: £22,500,000) (group) and £40,603,500 (2022: £38,400,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Material uncertainty related to going concern and provisions for environmental matters are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial derivatives (group) The group derivative position as at 31 March 2023 was an asset of £449.1m (2022: £192.1m) and a liability of £1,991.8m (2022: £2,341.7m). The net derivative fair value as at 31 March 2023 was a liability of £1,542.7m (2022: £2,149.6m). The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities. Refer to note 20 of the financial statements.	We obtained an understanding of the derivatives process and assessed the design and implementation of related financial controls. Our procedures included: Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Where confirmations were not obtained, alternative audit procedures have been performed to confirm existence and terms. Engaging with our valuations team who have performed independent testing of the pre and post-credit risk adjusted valuations for the full derivative population. Performing procedures to assess the validity of assumptions and calculations management have made in performing the credit risk component of fair value. Performing an analysis of the directional movement in the pre-credit risk adjusted derivative position relative to movements in inflation, exchange rates and interest rates. Testing management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation methodology and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.
Valuation of provision for expected credit losses on trade receivables (household customers) (group) The recoverability of customer debts is always a key issue for water companies as the calculation involves significant judgement and estimation. The provision for expected credit losses on trade receivables amounted to £157.2m (2022: £150.5m).	We obtained an understanding of the trade receivables provisioning process and assessed the design and implementation of related financial controls. We evaluated the model used to calculate the core provision and confirmed its consistency with prior years, specifically that the primary inputs relate to

Management primarily uses historical performance to determine the future collectability of trade receivables. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. Their model takes the closing household debtors balance and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains will be uncollectable, which forms the expected credit loss debt provision. The provision includes an additional overlay in the current year, consistent with prior year, to reflect the impact of macroeconomic factors, such as the cost of living crisis. This involves a high degree of estimation uncertainty. Management have also considered plausible downside scenarios in assessing the impact of macroeconomic factors on the receivable balance. Refer to note 16 of the financial statements.	the previous year's cash collection by ageing category applied to the ageing category as at 31 March 2023, with an overlay added to address the potential future credit loss related to factors over and above past performance. In the current year, this primarily related to the cost of living crisis. We consider the construct of the model appropriate and in line with the requirements of IFRS 9. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We re-performed the calculations used in the model, to ensure the accuracy of these calculations. We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to validate the aging classifications used in the model. We assessed management's considerations in respect of macroeconomic factors such as the cost of living crisis, and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of macroeconomic factors on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed our own sensitivity analysis on the downside scenarios considered by management, which included a greater impact on future cash collection driven by the impact of the cost-of-living crisis. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on the outcome of management's assessment. We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for expected credit losses and the impact of macroeconomic factors had on trade receivables. Overall, we consider that the provision and disclosure for expected credit losses as at 31 March 2023 is reasonable.
Valuation of retirement benefit obligation (group) Total scheme liabilities as at 31 March 2023 were £1,865.4m (2022: £2,591.6m). The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates and mortality expectations) could have a material impact on the calculation of the liability. The pension liability and disclosures are also an area of interest to key stakeholders. Refer to note 24 of the financial statements.	We obtained an understanding of the pensions process and assessed the design and implementation of related financial controls. We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used (e.g. discount rates, inflation rates and mortality expectations) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; and considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end. The latest approved triennial valuation took place as at 31 March 2019 and this has been used in the calculation of the defined benefit obligation, with the company's actuary taking information from the schemes actuary at this date in the form of underlying cashflows and key scheme statistics. The actuary has allowed for the estimated impact of higher than expected inflation over the period since this date and has allowed for information contained with preliminary triennial valuation as at 31 March 2022. In order to get comfortable with this approach and conclude that the accounting liabilities are reasonable, we have performed an independent roll forward from the valuation results to the accounting results and were able to agree to within materiality levels. Overall, we concur that the methodology and assumptions used by management at 31 March 2023 are reasonable.
Classification of costs between capital and operating expenditure (group) Additions to Assets under construction (AUC) and Assets In Development (AID) during the year amounted to £1,729.7m (2022: £1,316.1m) which includes £241.0m (2022: £226.7m) of	We obtained an understanding and assessed the design and implementation of financial controls relating to the classification of costs between capital and operating expenditure.

own works capitalised and £215.2m (2022: £115.3m) of borrowing costs incurred with the remainder being external costs. There is a high degree of judgement applied when allocating costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Refer to notes 11 and 12 of the financial statements.	We have tested the controls regarding the assessment by management of whether a project is either operating or capital in nature. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements. We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately. We tested the borrowing costs calculation and the appropriateness of qualifying projects involved. Our procedures over own works capitalised included: We tested the control process over assessing the level of spend incurred by each cost centre that should be capitalised. We obtained management's assessments of what spend by cost centre should be capitalised and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias. We performed sample testing at a cost centre level and challenged management as to the nature of these costs and whether they meet the capitalisation criteria. Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2023 and the assumptions used in calculating relevant own costs to be capitalised to be appropriate.
Valuation of metered sales accrual (group) The metered sales accrual (MSA) for household customers amounted to £178.2m (2022: £183.8m) and represents the sales accrual for customers who have not been billed for their usage up until 31 March 2023. The valuation of the accrual depends on the volume of water and wastewater consumed between the date of the last bill and the year end, applied to the tariff rates effective for that period. The estimated water consumption for measured customers is primarily based on historical consumption data. The billing system calculates the accrual using the latest meter read data available in the billing system. Management also apply a manual adjustment to the system generated accrual to adjust the accrual for system limitations, for example lack of a recent meter read. Management consider factors such as consumption data from Smart meters, and also historic consumption levels along with considering macroeconomic drivers such as COVID-19 driven changes in consumption patterns in forming the final MSA. The manual adjustment requires increased levels of judgement from management in determining the most appropriate consumption rate to be used in their calculation. Incorrect estimates of water consumption could lead to a misstatement of revenue recognised for the year. The key audit matter is focussed on the judgments made by management in estimating consumption and the resulting manual adjustments which generate the MSA estimate. Refer to note 16 of the financial statements.	We obtained an understanding of the metered sales accrual process and assessed the design and implementation of related financial controls. We obtained and understood management's calculation for determining the level of adjustment applied to reflect actual consumption from customers in the year. We have reperformed management's calculation and tested its mathematical accuracy. We have performed a retrospective review of bills raised during 2022/23 related to the 2021/22 MSA balance to assess management's forecasting accuracy. We consider management's forecasting to be materially accurate. We have performed substantive analytical procedures comparing the increase in the number of metered properties, consumption and tariff changes to the increase in the overall MSA balance including the overlay adjustment. This did not result in a materially different amount to that recognised by management. We assessed and validated the average daily consumption (ADC) inputs being used by management and whether these were appropriate in the context of all available data points such as smart meter consumption data and actual meter read information of non smart meters. By using the billing listings we formed a range of reasonable adjustment values based on the alternative data points, and confirmed the management ADC rate fell within this range. We have validated the meter read values within the billing listings we used by agreeing a sample of reads back to the corresponding invoice. From our procedures performed, we concluded that the management's estimates in relation to the MSA as at 31 March 2023 is reasonable.
Provisions for environmental matters (group) The Group has provisions of £78.7m (2022: £53.6m) relating to environmental matters. These primarily relate to matters arising from TWUL's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016.	We obtained an understanding of the provisioning process for environmental matters and assessed the design and implementation of related financial controls. Our work over the completeness and valuation of environmental liabilities included the following:

The determination of the completeness and valuation of environmental provisions is subjective, requiring significant judgement and a high degree of estimation uncertainty. For each matter, management must assess whether there is a present obligation as a result of a past event, the probability that an outflow of economic resources will be required and whether a reliable estimate can be made. This assessment determines the accounting treatment as either a provision, contingent liability or neither. Where a provision is recognised, management consider all available information in order to estimate the provision, including estimates provided by external legal advisors, historic experience and previous settlements. Refer to note 22 of the financial statements.	We confirmed that the Group's external legal counsel have sufficient expertise, are appropriately qualified and are independent of the Group. In addition, we have held discussions with management's external experts covering significant environmental matters. We obtained estimates of potential penalties directly from the Group's external legal advisors and confirmed that these were used as the basis of the provisions recorded by management. Where relevant, we assessed the consistency of the estimates year on year and understood the reasons for any significant changes. We assessed management's methodology for estimating a provision for matters not yet prosecuted by the Environmental Agency ('EA'). We recalculated the historical prosecution rate and compared the estimated average fine level to actual previous fines issued by the EA for similar matters. The methodology used was applied consistently year-on-year and we consider it to remain appropriate. In respect of the Ofwat and EA investigations set out in note 26 of the financial statements, we reviewed the latest advice from the Group's external legal advisors and held discussions with them and management to further understand the matters. The evidence obtained supported the inclusion of these matters as contingent liabilities. Overall, we consider that the provision and disclosure of environmental matters as at 31 March 2023 to be reasonable.
Investment in Subsidiaries (parent) Investments at 31 March 2023 is £4,792.3m (2022: £4,292.3m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor or consortium would pay to purchase the TWUL group. Refer to note 33 of the financial statements.	We have obtained an understanding of management's methodology applied to assess impairment of the investment in subsidiaries. Our procedures included: Obtaining management's model and verifying the mathematical accuracy of calculations used. We have reviewed the assessment management have performed to determine the premium on RCV and determined that the assessment performed is reasonable. We have agreed the net debt used in management's assessment at 31 March 2023 to the audited financial statements. We have verified the RCV used by management to the latest Ofwat publication. Overall, we concur with the assessment that management have made and that there is no impairment at 31 March 2023.
Valuation of Goodwill (group) Goodwill at 31 March 2023 is £1,468.1m (2022: £1,468.1m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor or consortium would pay to purchase the TWUL group. Refer to note 9 of the financial statements.	We have obtained an understanding of management's methodology applied to assess impairment of goodwill. Our procedures included: Obtaining management's model and verifying the mathematical accuracy of calculations used. We have reviewed the assessment management have performed to determine the premium on RCV and determined that the assessment performed is reasonable. We have agreed the net debt used in management's assessment at 31 March 2023 to the audited financial statements. We have also verified the RCV used by management to the latest Ofwat publication. Overall, we concur with the assessment that management have made and that there is no impairment at 31 March 2023.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. Two legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes; Thames Water Utilities Limited due to holding the significant proportion of the group's total assets and all its trade and Thames Water Utilities Finance Plc due to holding a significant amount of the group's external debt.

Kemble Water Finance Limited, Kemble Water Eurobond Plc and Thames Water (Kemble) Finance Plc, were considered in scope for certain financial statement line items, to obtain sufficient coverage of the cash, borrowings and finance expenses of the group. We additionally obtained full coverage over the consolidation journal entries for the group.

The impact of climate risk on our audit

In planning our audit we have considered the impact that the Group has on the environment through its operations and the impact the environment, including the current and potential future impact of climate change, has on the Group's business and its financial statements. Consistent with being one of the United Kingdom's largest suppliers of water and wastewater services, planning for, reacting to and assessing the impact of current and future changes in environmental factors, for example the volume and intensity of rainfall and periods of drought, is an inherent part of the Group's day to day activities. The Group has set out its Climate Change targets with the goal of achieving net zero by 2030. The majority of the Group's carbon emissions are incurred in the treatment of water and wastewater during the normal course of its operations, and the Group continues to develop its assessment of climate change. Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to the potential to exploit the by-products of the sewage treatment process, operational and supply chain decarbonisation and emerging regulatory requirements such as carbon taxes. While the Group has set out its Climate Positive targets and Science Based targets, the Group continues to assess and develop the consequences of this in terms of capital expenditure, the useful economic lives of current in use assets (and those currently under construction), the cost base and impacts on cash flows. The Group considered the net zero 2030 targets in the preparation of the financial statements, including in the evaluation of critical accounting estimates and judgements. The Group concluded that based on the current plans in place to achieve the 2030 net zero target this commitment did not have a material effect on the consolidated financial statements, as described on page 63 as at 31 March 2023. As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks on the Group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets. We considered the group's climate change risk assessment and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We determined that no heightened audit risk arose in the year in respect of climate change. We have read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 25 to 27 and considered consistency with the financial statements and our audit knowledge.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	**Financial statements - company**
Overall materiality	£30,000,000 (2022: £30,000,000).	£54,138,000 (2022: £51,301,000).
How we determined it	0.13% of total assets	1% of total assets
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group, therefore group materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks, using the lower percentage of 0.13% of total group assets was deemed to be most appropriate.	Total assets has been determined to be the appropriate benchmark for the company as it is a holding company with no revenue of its own. For Public Interest Entities (PIE) a percentage of 1% of total assets is typical.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £25.5 million to £30.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £22,500,000 (2022: £22,500,000) for the group financial statements and £40,603,500 (2022: £38,400,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Kemble Water Holdings Board that we would report to them misstatements identified during our audit above £3.0 million (group audit) (2022: £3.0 million) and £5.4 million (company audit) (2022: £5.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations, Listing Rules and Pension legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK corporation tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year to create additional headroom for covenant compliance, specifically journals to increase revenue, decrease the bad debt provision and reclassify costs from the income statement to property, plant and equipment. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and inquiries of management, the internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments, including challenging management in relation to how they have considered climate risk in such critical estimates. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where available along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Performing unpredictable procedures by sampling non-standard payments, the set up of new suppliers, vendor detail changes, testing of dormant and non period-end bank accounts, and posting of journal entries from unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Kemble Water Holdings Board, we were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2019 to 31 March 2023.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
15 July 2023

Consolidated income statement

For the year ended 31 March 2023

		2023			2022		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	1	**2,182.3**	**84.5**	**2,266.8**	2,092.1	84.9	2,177.0
Operating expenses excluding impairment losses on financial and contract assets	2	**(2,019.3)**	**-**	**(2,019.3)**	(1,857.3)	-	(1857.3)
Impairment losses on financial and contract assets	2	**(22.3)**	**(0.1)**	**(22.4)**	(10.1)	(0.1)	(10.2)
Total operating expenses	2	**(2,041.6)**	**(0.1)**	**(2,041.7)**	(1,867.4)	(0.1)	(1,867.5)
Other operating income	4	**109.2**	**-**	**109.2**	96.8	-	96.8
Operating profit		**249.9**	**84.4**	**334.3**	321.5	84.8	406.3
Finance income	5	**178.2**	**-**	**178.2**	121.0	-	121.0
Finance expense	6	**(1,509.7)**	**-**	**(1,509.7)**	(1,272.3)	-	(1,272.3)
Net gains/(losses) on financial instruments	7	**122.3**	**-**	**122.3**	(895.5)	-	(895.5)
(Loss)/profit on ordinary activities before taxation		**(959.3)**	**84.4**	**(874.9)**	(1,725.3)	84.8	(1,640.5)
Taxation credit/(charge) on (loss)/profit on ordinary activities	8	**154.0**	**17.8**	**171.8**	7.3	(16.1)	(8.8)
(Loss)/profit for the year		**(805.3)**	**102.2**	**(703.1)**	(1,718.0)	68.7	(1,649.3)

The Group's 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 48.

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	Note	**2023** Underlying £m	**2023** BTL £m	**2023** Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
(Loss)/profit for the year		**(805.3)**	**102.2**	**(703.1)**	(1,718.0)	68.7	(1,649.3)
Other comprehensive income/(loss)							
Will not be reclassified to the income statement:							
Net actuarial income/(loss) on pension schemes	24	**70.6**	**-**	**70.6**	(22.9)	-	(22.9)
Deferred tax (charge)/credit on net actuarial income/(loss)		**(17.1)**	**-**	**(17.1)**	11.8	-	11.8
Impact of tax rate change in prior year in respect of net actuarial income/(loss)		**-**	**-**	**-**	31.1	-	31.1
May be reclassified to the income statement:							
Cash flow hedges transferred to income statement	20	**21.1**	**-**	**21.1**	31.1	-	31.1
Deferred tax charge on cash flow hedges including impact of tax rate change in prior year		**(4.0)**	**-**	**(4.0)**	(4.5)	-	(4.5)
Other comprehensive income for the year		**70.6**	**-**	**70.6**	46.6	-	46.6
Total comprehensive (loss)/income for the year		**(734.7)**	**102.2**	**(632.5)**	(1,671.4)	68.7	(1,602.7)

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 48.

Consolidated statement of financial position

As at 31 March 2023

		2023			2022		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Non-current assets							
Goodwill	9	**1,468.1**	**-**	**1,468.1**	1,468.1	**-**	1,468.1
Intangible assets	11	**263.4**	**-**	**263.4**	285.0	**-**	285.0
Property, plant and equipment	12	**18,418.9**	**-**	**18,418.9**	17,372.7	**-**	17,372.7
Investment property	13	**2.0**	**-**	**2.0**	50.0	**-**	50.0
Right of use asset	14	**39.8**	**-**	**39.8**	45.8	**-**	45.8
Prepayments	16	**-**	**377.9**	**377.9**	-	308.8	308.8
Insurance and other receivables	16	**66.0**	**-**	**66.0**	45.8	**-**	45.8
Pension asset TWMIPS	24	**6.0**	**-**	**6.0**	12.0	**-**	12.0
Derivative financial assets	20	**417.2**	**-**	**417.2**	169.2	**-**	169.2
		20,681.4	**377.9**	**21,059.3**	19,448.6	308.8	19,757.4
Current assets							
Inventories	15	**20.9**	**-**	**20.9**	13.0	-	13.0
Contract assets	16	**254.2**	**5.2**	**259.4**	251.7	8.5	260.2
Trade receivables	16	**315.9**	**16.8**	**332.7**	301.9	14.0	315.9
Prepayments	16	**48.9**	**-**	**48.9**	36.9	**-**	36.9
Other receivables and amounts owed by group undertakings	16	**338.0**	**(16.6)**	**321.4**	226.4	(35.2)	191.2
Cash and cash equivalents	17	**1,891.1**	**7.0**	**1,898.1**	697.3	5.2	702.5
Derivative financial assets	20	**31.9**	**-**	**31.9**	22.9	**-**	22.9
		2,900.9	**12.4**	**2,913.3**	1,550.1	(7.5)	1,542.6
Current liabilities							
Contract liabilities	18	**(130.1)**	**-**	**(130.1)**	(125.1)	(2.0)	(127.1)
Trade and other payables	18	**(824.2)**	**-**	**(824.2)**	(661.7)	(13.0)	(674.7)
Lease liabilities	14	**(7.3)**	**-**	**(7.3)**	(6.2)	**-**	(6.2)
Borrowings	19	**(2,305.5)**	**-**	**(2,305.5)**	(887.1)	**-**	(887.1)
Provisions for liabilities and charges	22	**(35.0)**	**-**	**(35.0)**	-	**-**	-
Derivative financial liabilities	20	**(67.1)**	**-**	**(67.1)**	(103.0)	**-**	(103.0)
		(3,369.2)	**-**	**(3,369.2)**	(1,783.1)	(15.0)	(1,798.1)
Net current (liabilities)/assets		**(468.3)**	**12.4**	**(455.9)**	(233.0)	(22.5)	(255.5)
Non-current liabilities							
Contract liabilities	18	**(921.5)**	**-**	**(921.5)**	(831.8)	**-**	(831.8)
Lease liabilities	14	**(49.7)**	**-**	**(49.7)**	(57.1)	**-**	(57.1)
Borrowings	19	**(22,523.5)**	**-**	**(22,523.5)**	(21,453.4)	**-**	(21,453.4)
Derivative financial liabilities	20	**(1,924.7)**	**-**	**(1,924.7)**	(2,238.7)	**-**	(2,238.7)
Deferred tax	21	**(1,111.8)**	**-**	**(1,111.8)**	(1,124.2)	**-**	(1,124.2)
Provisions for liabilities and charges	22	**(194.2)**	**-**	**(194.2)**	(186.3)	**-**	(186.3)
Pension deficit	24	**(187.8)**	**-**	**(187.8)**	(264.5)	**-**	(264.5)
		(26,913.2)	**-**	**(26,913.2)**	(26,156.0)	**-**	(26,156.0)
Net (liabilities)/assets		**(6,700.1)**	**390.3**	**(6,309.8)**	(6,940.4)	286.3	(6,654.1)
Equity							
Called-up share capital	23	**977.8**	**-**	**977.8**	1.0	**-**	1.0
Cash flow hedge reserve	23	**(16.1)**	**-**	**(16.1)**	(33.2)	**-**	(33.2)
(Accumulated losses)/retained earnings	23	**(7,661.8)**	**390.3**	**(7,271.5)**	(6,908.2)	286.3	(6,621.9)
Total equity		**(6,700.1)**	**390.3**	**(6,309.8)**	(6,940.4)	286.3	(6,654.1)

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 48.

The consolidated financial statements (which include the accompanying accounting policies and notes) for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 15 July 2023 and signed on its behalf by:

P Noble
Director

Company statement of financial position
As at 31 March 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investment in subsidiaries	33	**4,792.3**	4,292.3
Other receivables	34	**0.9**	0.3
Intercompany receivables	34	**302.3**	331.8
Deferred tax assets	35	**4.4**	6.1
		5,099.9	4,630.5
Current assets			
Intercompany receivables	34	**268.9**	265.6
Cash and cash equivalents	36	**45.0**	249.8
		313.9	515.4
Current liabilities			
Trade and other payables	37	**(0.6)**	(0.2)
Borrowings	38	**(25.2)**	(138.0)
		(25.8)	(138.2)
Net current assets		**288.1**	377.2
Non-current liabilities			
Borrowings	38	**(9,083.5)**	(8,909.3)
		(9,083.5)	(8,909.3)
Net liabilities		**(3,695.5)**	(3,901.6)
Equity			
Called-up share capital	23	**977.8**	1.0
Accumulated losses		**(4,673.3)**	(3,902.6)
Total equity		**(3,695.5)**	(3,901.6)

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent Company. For the year ended 31 March 2023 the Company generated a loss after taxation of £770.7 million (2022: loss after taxation of £626.6 million)

The financial statements (which include the accompanying accounting policies and notes) for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 15 July 2023 and signed on its behalf by:

P Noble
Director

Consolidated statement of changes in equity
For the year ended 31 March 2023

	Called-up share capital £m	Cash flow hedge reserve £m	Accumulated losses £m	**Total equity £m**
At 1 April 2021	1.0	(59.8)	(4,992.6)	**(5,051.4)**
Loss for the year	-	-	(1,649.3)	**(1,649.3)**
Cash flow hedges transferred to income statement	-	31.1	-	**31.1**
Deferred tax charge on cash flow hedges including impact of tax rate change	-	(4.5)	-	**(4.5)**
Actuarial loss on pension schemes	-	-	(22.9)	**(22.9)**
Deferred tax credit on net actuarial loss	-	-	11.8	**11.8**
Impact of tax rate change in respect of net actuarial loss	-	-	31.1	**31.1**
Total comprehensive (expense)/income	-	26.6	(1,629.3)	**(1,602.7)**
At 31 March 2022	1.0	(33.2)	(6,621.9)	**(6,654.1)**
Share capital issued	976.8	-	-	**976.8**
Loss for the year	-	-	(703.1)	**(703.1)**
Cash flow hedges transferred to income statement	-	21.1	-	**21.1**
Deferred tax charge on cash flow hedges including impact of tax rate change	-	(4.0)	-	**(4.0)**
Actuarial gain on pension schemes	-	-	70.6	**70.6**
Deferred tax charge on net actuarial gain	-	-	(17.1)	**(17.1)**
Total comprehensive (expense)/income	-	17.1	(649.6)	**(632.5)**
At 31 March 2023	977.8	(16.1)	(7,271.5)	**(6,309.8)**

Company statement of changes in equity
For the year ended 31 March 2023

	Called-up share capital £m	Accumulated losses £m	**Total equity £m**
At 1 April 2021	1.0	(3,276.0)	**(3,275.0)**
Loss for the year	-	(626.6)	**(626.6)**
At 31 March 2022	1.0	(3,902.6)	**(3,901.6)**
Issued share capital	976.8	-	**976.8**
Loss for the year	-	(770.7)	**(770.7)**
At 31 March 2023	977.8	(4,673.3)	**(3,695.5)**

Consolidated statement of cash flows

For the year ended 31 March 2023

	Note	**2023 Underlying £m**	**2023 BTL £m**	**2023 Total £m**	2022 Underlying £m	2022 BTL £m	2022 Total £m
Net cash generated by operating activities[1]	29	**1,138.0**	**1.8**	**1,139.8**	1,407.8	1.6	1,409.4
Investing activities:							
Interest received		**175.7**	**-**	**175.7**	110.0	-	110.0
Purchase of property, plant and equipment		**(1,554.8)**	**-**	**(1,554.8)**	(1,271.7)	-	(1,271.7)
Purchase of intangible assets		**(43.6)**	**-**	**(43.6)**	(72.3)	-	(72.3)
Proceeds from sale of property, plant and equipment		**(7.0)**	**-**	**(7.0)**	1.3	-	1.3
Net cash used in investing activities		**(1,429.7)**	**-**	**(1,429.7)**	(1,232.7)	-	(1,232.7)
Financing activities:							
Proceeds from issue of ordinary shares[2]		**976.8**	**-**	**976.8**	-	-	-
New loans raised[3]		**5,070.8**	**-**	**5,070.8**	3,585.4	-	3,585.4
Repayment of borrowings[4]		**(3,336.5)**	**-**	**(3,336.5)**	(3,321.5)	-	(3,321.5)
Interest paid		**(831.5)**	**-**	**(831.5)**	(554.7)	-	(554.7)
Fees paid		**(19.6)**	**-**	**(19.6)**	(0.9)	-	(0.9)
Repayment of lease principal		**(10.0)**	**-**	**(10.0)**	(9.9)	-	(9.9)
Proceeds from derivative settlement[5]		**48.1**	**-**	**48.1**	20.6	-	20.6
Payment for derivative settlement[6]		**(412.6)**	**-**	**(412.6)**	-	-	-
Net cash generated by/(used in) financing activities		**1,485.5**	**-**	**1,485.5**	(281.0)	-	(281.0)
Net increase/(decrease) in cash and cash equivalents		**1,193.8**	**1.8**	**1,195.6**	(105.9)	1.6	(104.3)
Net cash and cash equivalents at beginning of year		**697.3**	**5.2**	**702.5**	803.2	3.6	806.8
Net cash and cash equivalents at end of year		**1,891.1**	**7.0**	**1,898.1**	697.3	5.2	702.5

[1] Net cash generated by operating activities for the year ended 31 March 2023 includes £nil (31 March 2022: £nil) 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 upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2023 would be £1,115.1 million, which would have included a cash payment of £24.7 million.

[2] The issue of ordinary shares is a result of the updated business plan in TWUL as discussed in the Strategic report.

[3] New loans raised of £5,070.8 million includes £2,616.3 million of drawdowns relating to revolving credit facilities including £1,875.0 million Class A and £741.3 million Class B. The remaining amount includes £1,436.9 million (net of fees) relating to bond issuances and £1,017.6 million (net of fees) relating to loans raised.

[4] Repayment of borrowings of £3,336.5 million includes £2,616.3 million of repayments relating to revolving credit facilities including £1,875.0 million Class A and £741.3 million Class B. The remaining amount includes £188.8 million loan repayments and £531.4 million bond repayments.

[5] Proceeds from derivative settlement of £48.1 million includes £18.9 million (2022: £nil) relating to accretion received on index-linked swaps and £29.2 million (2022: £20.6 million) relating to settlement of cross currency swaps.

[6] Payment for derivative settlement of £412.6 million includes £408.4 million (2022: £nil) relating to accretion paydown on index-linked swaps and £4.2 million (2022: £nil) relating to settlement of cross currency swaps

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 48.

Company statement of cash flows

For the year ended 31 March 2023

	Note	**2023 £m**	2022 £m
Cash generated by operations	40	**39.0**	313.2
Net cash generated by operating activities		**39.0**	313.2
Investing activities:			
Investment in subsidiary		**(500.0)**	-
Loans repaid by group companies		**29.5**	
Interest received		**13.2**	0.5
Net cash (used in)/generated by investing activities		**(457.3)**	0.5
Financing activities:			
Proceeds from issue of ordinary shares		**976.8**	-
Repayment of borrowings		**(115.1)**	(31.5)
Interest paid		**(645.8)**	(317.7)
Fees paid		**(2.4)**	(1.2)
Net cash generated by/(used in) financing activities		**213.5**	(350.4)
Net decrease in cash and cash equivalents		**(204.8)**	(36.7)
Net cash and cash equivalents at beginning of the year		**249.8**	286.5
Net cash and cash equivalents at end of the year		**45.0**	249.8

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and Company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

Kemble Water Finance Limited ("the Company") is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose principal activity is to act as the holding company for the Kemble Water Finance Limited group of companies ("the Group"). The trading address and the address of the registered office of both the Company and the Group is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Group's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers, operating in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

Statement of compliance with International Financial Reporting Standards ("IFRS")

These consolidated and Company only financial statements have been 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.

Basis of preparation

The consolidated and Company only financial statements 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.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and incorporate the results of its share of joint ventures using equity accounting. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments have been made to the financial statements of subsidiaries to align the accounting policies used under the relevant IFRS standards into line with those used by the Group.

Going concern

The Directors have assessed Kemble Water Finance Limited's (KWF) ability to continue as a going concern, recognising it is a holding company with no material, direct business operations and is therefore mainly dependent on Thames Water Utilities Limited ("TWUL") which is the regulated entity used to generate the funds necessary for KWF and Thames Water (Kemble) Finance ("TW(K)F") (the Company's direct financing subsidiary) to meet their respective financial obligations.

Given the dependency on TWUL, the KWF Directors, as part of their assessment of the Group and Company, have considered the going concern assessment made by the TWUL directors as well as the actions taken by TWUL post the balance sheet date of 31 March 2023. The section below, "Summary of TWUL going concern assessment" outlines this assessment where the TWUL Board has concluded it is appropriate to prepare the financial statements for TWUL on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL 2022/23 Annual Report, copies of which may be obtained from the Company Secretary's Office at Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Summary of TWUL Group going concern assessment

In assessing the appropriateness of the going concern basis, the TWUL Directors have considered the following factors.

In June 2022, to support Thames Water in the delivery of its updated business plan, Shareholders provided a commitment letter where they agreed to contribute, or cause to be contributed, an aggregate £500 million of funding, available to be drawn in full by the Group in March 2023. This funding was received on 30 March 2023. There has been a continual and constructive engagement with Shareholders on further support in AMP7 to enable Thames Water to deliver its business plan. Consequently, on 10 July 2023 shareholders provided a letter setting out further support totalling £750 million during the remainder of AMP7. This support is subject to specific conditions including Investment Committee approval by each Shareholder and, consequently, it has not been considered in the liquidity assessment for the going concern review. For the purposes of assessing covenant compliance, the TWUL Board has sufficient confidence that it is the intention of the Shareholders to provide the additional funding and it is reasonable expectation to include the indicated level of support in the financial years ending 31 March 2024 and 31 March 2025 for the purposes of calculating forecast covenant metrics.

The TWUL Group's liquidity position and cash flow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The TWUL Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 31 March 2023, such liquidity consisted of £1.8 billion of cash and cash equivalents, access to £3.0 billion of committed

Accounting policies (continued)

Going concern (continued)

credit facilities of which £2.6 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances).

The terms and conditions of the Whole Business Securitisation (“WBS”) provide a stable platform for Thames Water to finance its activities in the debt capital markets:

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

For financial covenants, the TWUL Group has undertaken to maintain compliance with specific covenants covering several interest cover and gearing ratios. With headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cash flows.

Given 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, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To mitigate the impact on operational cash flows, mitigations involving active working capital management and the release of contingencies embedded with the Business Plan have also been taken into account.

Under a severe but plausible downside scenario, the TWUL Group business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of at least 12 months from the date of signing of the financial statements.

The Directors have also considered the consequences of a Trigger Event, a feature of the TWUL Group’s Whole Business Securitisation (“WBS”) structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing committed facilities. A Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the TWUL Group’s creditworthiness as such, it does not affect the Group’s continued access to its significant existing bank facilities nor would it disrupt the TWUL Group’s ability to trade. A cash lockup prevents distributions to protect the interests of creditors and customers.

Based on the above, the Board is satisfied that the Group has adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the TWUL Board considers it appropriate to adopt the going concern basis in preparing the TWUL Group financial statements.

The KWF Directors have assessed specific matters relating to the KWF’s liquidity position and ability to comply with its financial covenants, which differ from that of TWUL Group.

In addition to available cash balances, KWF has in place a £150 million committed undrawn working capital facility that can fund at least 18 months of interest payments due on the external debt held by KWF and its special purpose financing subsidiary TW(K)F. The KWF Directors’ assessment of available liquidity has also considered the ability of KWF to refinance a £190 million loan facility, due to be repaid in April 2024, where failure to do so results in a liquidity shortfall within the assessment period.

The KWF Directors are satisfied that TWUL is compliant with its financial covenants under a severe but plausible downside thereby giving TWUL the optionality to make dividend payments. As TWUL’s business plan is underpinned by maintaining access to shareholder funding, the KWF Directors have a reasonable expectation that TWUL will continue to distribute dividends such that KWF has sufficient resources to service the interest on its external debt. Such an expectation would help support KWF’s plans to refinance the £190 million loan facility.

This assessment also recognises the risk of a potential cash lock-up at TWUL which has been increased due to the actions: (i) modifications of TWUL’s licence such that from 1 April 2025, the minimum credit rating needed to prevent a cash lock-up at TWUL has been strengthened; and (ii) S&P’s actions on 30 June 2023 to place the credit rating of TWUL Class A and B debt on Credit Watch negative. The Directors are considering a range of refinancing actions which could include additional support from shareholders on a temporary basis.

The financial covenants for KWF incorporate the aggregate net debt outstanding as well as the operational cash flows and profits from KWF and its subsidiaries on a consolidated basis. The KWF Directors have considered forecast compliance with financial covenants during the assessment period. Under a severe but plausible downside scenario, the Post Maintenance Interest Cover Ratio is forecast to be non-compliant, mainly due to a combination of lower revenues and higher operating costs. Such non-compliance relates only to the financial covenants for a £200 million bilateral loan facility with KWF, due to be repaid in July 2025. The remedy for a covenant breach is available in the form of a prescribed equity cure, which allows capital to be injected into KWF during a financial year and to be included in the calculation of interest cover for that year. At the time of signing KWF Group Annual Accounts, KWF’s parent companies do not have sufficient funds that would be available to be used as an equity cure if a severe

Accounting policies (continued)

Going concern (continued)

but plausible scenario was to materialise. Alternative remedies include the amendment or refinancing of the £200m loan facility, both requiring the agreement and support of the loan counterparty. Contributions from shareholders which underpin TWUL's business plan can also be used as an equity cure and this gives rise to the KWF Directors' reasonable expectation that a remedy could be implemented in the event a severe but plausible scenario crystallises. Therefore, there are material uncertainties related to (i) the inability to refinance the £190 million loan facility with Kemble Water Finance Limited before April 2024 and (ii) the forecast breach of the interest cover covenant for KWF Group in the event of a severe but plausible downside scenario and the availability of or certainty of potential remedies.

These material uncertainties relating to refinancing requirements and covenant compliance may cast significant doubt about the ability of the Group and the Company to continue as a going concern. However, for the reasons above, the KWF Directors' have a reasonable expectation that the Group and Company will maintain adequate resources to continue in operational existence for a period of at least 12 months from the date of these financial statements and have therefore concluded that the financial statements should be prepared on a going concern basis. However, 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.

Bazalgette Tunnel Limited ("BTL") arrangement

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and disclosed our underlying performance separately, as required by some of our financial covenants.

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the 'pay when paid' principle.

Accounting standards require the Group to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable. This non-appointed revenue, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, a prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.

As part of the construction of the Thames Tideway Tunnel, 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. 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.

Revenue recognition

The core principle of IFRS 15 "Revenue from Contracts with Customers" requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. The Company has a variety of customers including, household customers (Directly billed or Indirectly billed by other Water Only Companies ("WOCs")) and non-household customers (retailers and NAVs "New Appointments and Variations").

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable at the time of billing based on historical experience is excluded from revenue, as it does not fall within the IFRS 15 criteria. This is to ensure that revenue is recorded at the amount which the Company expects to receive for providing its services to customers.

The Company considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions. For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the performance obligation is satisfied. When the Company identifies the occupants, the bill is sent out in the customer's name if known or if not in the name of the occupier. If the Company has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Accounting policies (continued)

Revenue recognition (continued)

Where a bill is cancelled and the property is made empty, for measured customers, the revenue cancellation is recognised immediately. Where the property is not empty, the cancelled bill will be replaced with an unbilled accrual. For unmeasured customers, the amount cancelled is recorded within contract liabilities (deferred income) and follows the apportionment stated. Upon rebilling, for measured customers the billed value is recognised immediately and for unmeasured customers the amount is recorded in contract liabilities (deferred income) and follows the apportionment stated in the paragraph above.

Revenue includes amounts that the Company billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the previous BTL arrangement section.

Refer to pages 62 to 63 for significant accounting estimates and judgements concerning revenue recognition.

Other operating income

The Company considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. The service connections charge levied includes the cost of excavating, connecting and reinstating (if needed) the new supply, including the installation of a stop valve, boundary box and external water meter as well as any associated pipework between the connection and the boundary box. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Deferred service connections income is recorded within contract liabilities (deferred income). Typically amounts received will be fully recognised within a year following receipt.

Requisitions & Diversions income is recognised over time in other operating income using the input method by estimating complete satisfaction of the performance obligation and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions and diversions income is recorded within contract liabilities (deferred income). These income streams encompass a wide variety of schemes, from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

Contributions received for infrastructure charges (which meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure) are initially held within contract liabilities (deferred income). The Company considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Company to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Company recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the consolidated income statement.

Contract assets

Contract assets are presented in the statement of financial position when the Group’s right to consideration is met in advance of billing. An example would be contract assets relating to revenue based on an estimate of the amount of mains water and wastewater charges unbilled at the period end. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the “Trade and other receivables (excluding prepayments)” section for more information.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

Accounting policies (continued)

Net gains/(losses) on financial instruments

The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net losses/gains on financial instruments. The following are also recognised in the income statement as net losses / gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in the case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/(losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 56 for more details.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the consolidated statement of other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome.

Investments in subsidiary undertakings

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company Income Statement only. An impairment review is performed on an annual basis.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, the carrying value of goodwill acquired in a business combination is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense within the income statement and is not subsequently reversed.

Accounting policies (continued)

Intangible assets (excluding goodwill)

Separately acquired intangible assets, and internally generated intangible assets once commissioned, are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement, within operating expenses excluding impairment losses on financial and contract assets, on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5-10

Assets in development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within “Purchase of intangible assets” within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Under the International Financial Reporting Interpretations Committee (IFRIC) legislation, the treatment of Software-as-a-service (SaaS) solutions customisation and configuration arrangements should be expensed unless they meet the criteria for being recognised as a separate asset under IAS 38. Whilst this is not a separate legislative instrument, the Agenda Decision is considered mandatory when complying with IFRS. Customisation costs are analysed through review of purchase order information, documentation held and discussion with Digital technical experts to ensure the correct amount is capitalised.

Property, plant and equipment

Property, Plant and Equipment (“PP&E”) is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Within Land and Buildings are assets acquired in relation to the Thames Tideway Tunnel project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed in line with the agreement with Ofwat.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of 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.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

Accounting policies (continued)

Property, plant and equipment (continued)

PP&E is depreciated to its estimated residual value on a straight-line basis over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows:

	Years
Network assets:	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
Non-network assets:	
Land and buildings:	
Buildings	15-60
Operational structures	30-100
Plant and equipment:	
Other operational assets	7-40
Fixtures & fittings	5-7
Vehicles	4-5
Computers	3-5
Fixed and mobile plant	4-60

Investment property

Investment property comprises of one building originally purchased in relation to the Thames Tideway Tunnel project to perform necessary works relating to the construction and integration of the tunnel into our network; however, the floor space in this building is being offered to external parties under short term leases and, therefore, the property meets the definition of Investment Property. Investment Property is accounted for under the cost method of IAS 40. The property is expected to have a residual value either equal or above that of the acquisition cost, therefore no depreciation is charged.

BTL arrangement

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at the sum of BTL prepayment and the present value of the future minimum contract payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

Trade receivables are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. Other receivables such as loans or insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable. IFRS 9 requires an entity to reduce the gross carrying

Accounting policies (continued)

Non-derivative financial instruments (continued)

amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. Write-offs are recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable where those assets may be subject to significant increase in credit risk for example due to the impact of cost of living increases. The Group's assessment for calculating expected credit losses is explained below. In addition, Management has considered the impact of cost of living increases, and has created a provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case.

(i) Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on actual performance in the year and age of debt. The amount that remains will be uncollectable and therefore needs to be covered by a bad debt provision. Debt that is older than 5 years is fully provided for. The model considers the impact on provisions for billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors; for instance, debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses. Refer to page 62 for explanations of judgement applied.

Directly Billed Write Off Policy

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

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

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

For debt to be written off there must be a legitimate charge against the debtor and no reasonable expectation of recovery.

(ii) Water Only Companies

A provision is also made against debts held by Water Only Companies ("WOCs") who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we use an average of two data points when calculating the provisions – WOC Statutory Accounts and TW directly billed ("DB") provision rates - taking a single data point is not appropriate as collection rates, write-off and provisioning policies, differ from company to company. Where provision rates have been provided by the WOCs this has been used as it accurately reflects the provision required to cover future write-offs. In addition, Management has considered the impact of cost of living increases, and has created a provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case.

We consider current performance and any information available to create the provision we then make management judgements in respect of future credit losses, in accordance with the requirements of IFRS 9.

(iii) BTL

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

(iv) Non-Household

The Group has assessed the risk of credit losses for non-household customers to be low and therefore no bad debt provision has been made. The Group has assessed specific debts held in respect of non-household customers which are subject to query by those customers, and made a revenue loss provision on those debts within accrued income based on historical collections experience or on latest negotiations related to specific invoice queries.

Accounting policies (continued)

Non-derivative financial instruments (continued)

Intercompany loans receivable

Interest bearing loans to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment.

The amortisation is included within finance income in the consolidated income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

For loans repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. The Group has considered the recoverability of the intercompany receivables as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany receivables, the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and in hand and deposits held at call with financial institutions, short-term investments, all of which are held at amortised cost, and money market funds held at fair value through profit or loss.

Included within cash and cash equivalents – money market funds are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Short-term investments

Short-term investments are held at amortised cost and include term deposits which are not readily convertible into cash.

Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest-bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred recognised as part of the gain or loss on the extinguishment. In the case of exchange or modification of interest-bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV").

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use.

Retirement and other employment benefits

Defined benefit schemes

The Group operates two, independently administered, defined benefit pension schemes, both of which are closed to new employees. One of these schemes, Thames Water Pension Scheme ("TWPS"), was closed to future accrual as of 31 March 2021. In addition, the Group operates one independently administered pension scheme, The SUURBS Arrangement ("SUURBS"), being a defined benefit scheme that is closed to new entrants

Accounting policies (continued)

Retirement and other employment benefits (continued)

and provides retirement benefits to a previous Director and their spouse based on final salary. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit) / surplus.

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the consolidated statement of other comprehensive income in the period in which they arise.

The Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Group considers that under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

Defined contribution schemes

The Group operates a Defined Contribution ("DC") pension scheme for employees. From 1 April 2011 the Group has offered DC pension schemes as the only schemes to which new employees of the Group are eligible. The assets of the DC pension schemes are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

Long-term incentive plans ("LTIP") and bonus

LTIP
Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company's performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Company's performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

LTIP 2021/24 is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. The targets for the LTIP have been set to deliver critical elements of the Group's stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customers, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollutions. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

LTIP 2020/23 (2022: 2019/2022) is a three-year LTIP scheme with a performance period from 1 April 2020 to 31 March 2023 (2022: 1 April 2019 to 31 March 2022). The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan and 80% of the targets are focused on delivery of key customer outcomes including the delivery of leakage and environmental targets. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

Accounting policies (continued)

Retirement and other employment benefits (continued)

Bonus
Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set and approved by the Remuneration Committee.

Provisions for liabilities and charges

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. Where the timing for the insurance claims is uncertain both the liability and receivable will be recognised as non-current; otherwise, if claims are within the next 12 months they will be recognised as current.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material. Provisions booked and released in the period are recognised through operating expenses.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2020 to 31 March 2025 is known as AMP7, and the prior period 1 April 2015 to 31 March 2020 was known as AMP6.

The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

Outcome delivery incentives ("ODIs") introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

The majority of our AMP7 performance commitments ("PCs") have financial ODIs and are subject to either an in-period or an end-of-AMP revenue adjustment. For PCs with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For PCs with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 20.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

The group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. At the inception of each designated hedge relationship the Group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The economic relationship between the hedged item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The Group uses the hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

Accounting Policies (continued)

Derivative financial instruments and hedging (continued)

There are currently no active hedge accounting relationships.

Cash flow hedges

The effective part of any gain or loss on a derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments.

The amounts recognised on the cash flow hedge reserve are recycled to the income statement as a phased release over the period where the related debt has been issued and has not matured. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

As at 31 March 2023, no embedded derivatives were recognised (31 March 2022: none).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently and in all circumstances an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Power prices forward contracts

Contracts are entered into to buy future power for a predetermined price. The power is for the Group's own use and the contract is not settled in cash and as such falls outside the scope of IFRS 9.

Financial guarantees

The Group's subsidiary companies, TWUHL, TWUL and TWUF are part of a Whole Business Securitisation ("WBS") group as described in note 19. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee and the amount can be reliably measured.

These arrangements also include the Guaranteed Secured Medium Term Note Programme where the Company guarantees the obligations of TW(K)F including the £400 million Notes issued under the Programme.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency and the functional currency of the Company, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Accounting Policies (continued)

Leases

Recognition of leases

As a lessee
The Group's leasing activities consist of rentals payable for office properties and other land and buildings. Other rentals are short term or of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

Right-of-use asset
Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

Lease liability
Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate "IBR". The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the income statement within 'finance expenses' so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature, however the Group has the ability to agree changes to the arrangement with the lessor if all parties agree.

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2%.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

The Group has one material lease for which it is a lessor, which relates to the acquisition of a long leasehold of an office building, Camelford House. The primary purpose of acquiring the building was to provide access to a construction site as part of the construction of the Thames Tideway Tunnel. It is incidental to our business that the Group is acting as a lessor with income received. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

Accounting Policies (continued)

Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be unusual by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals and provisions in relation to contractual settlements associated with significant disputes and claims.

The Directors consider that any individual gain or loss on disposal of greater than £30.0 million would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances. These will be explained in the notes of the accounts on a case-by-case basis where relevant.

Exceptional items recognised in the consolidated and Company only financial statements in the prior year related to transformation expenditure incurred from restructuring the business. These costs significantly changed how the Company operated and therefore are considered to be exceptional in nature and outside the ordinary course of business. The Group had additionally made a pension deficit repair payment of £69.7 million covering the financial periods from 2021/22 to 2024/25. This was treated as an exceptional cash flow in the period ended 31 March 2021 since this deficit repayment over the remaining AMP period is unusual by scale and of such significance that it would be beneficial to users of the financial statements to be disclosed separately in order to ensure our reporting cash flow movement reflects our ordinary business.

Segmental accounting

Segmental information is reported internally on a monthly basis to the KWF Board. In line with the Group's structure 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 Board 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. There is now a far smaller number of non-household customers, being retailers rather than the end user and we have one customer (Castle Water Limited) that accounts for more than 10% of our total revenue. Revenue is further disaggregated into the different products and services, as detailed in note 1. Due to there only being one assessed business unit, the segmental analysis matches the income statement and therefore has not been separately presented.

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 year ended 31 March 2024.

Refer to the IBOR reform section included in Note 20 Financial instruments on page 95 for details of all of the financial instruments that the Group holds at 31 March 2023 which contain references to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

Accounting Policies (continued)

Future standards and amendments

The Company is assessing the impact of the following new and amended standards, which have been issued:

IFRS 17 'Insurance Contracts' impact assessment

IFRS 17 'Insurance Contracts', which replaces IFRS 4 'Insurance Contracts', establishes new principles for the recognition, measurement, presentation, and disclosure of insurance and reinsurance contracts and is mandatory for annual reporting periods beginning on or after 1 January 2023. The Company will adopt IFRS 17 as at 1 April 2023 and apply the new rules retrospectively.

Management has conducted an assessment of the impact of IFRS 17 and is expecting the following impact:

Financial guarantee contracts

The Company is party to a number of financial guarantee contracts for the purposes of its principal activities that are currently not accounted for in the statement of financial position due to the likelihood of a payment in respect of the guarantee not being probable. These arrangements include the Guaranteed Secured Medium Term Note Programme where the Company guarantees the obligations of TW(K)F including the £400 million Notes issued under the Programme.

Financial guarantee contracts are currently treated as a contingent liability until such a time as it becomes probable that the Company will be required to make a payment under the guarantee. On transition to IFRS 17, the Company expects to make 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.

These requirements include recognising the financial guarantees at fair value on initial application in the company standalone accounts, and then assessing the fair value (less amortisation recognised) against IFRS 9 expected credit losses at each reporting period. The fair value on initial application is not currently reasonably estimable and management plans to make further progress on identifying the impact of IFRS 17 during the period to initial application.

IAS 12 Income Taxes

Amendments have been proposed by the IASB under IAS 12 to clarify the deferred tax accounting for leases and decommissioning obligations, with effect from 1 April 2023. We have considered the implications of this and have concluded that no changes will be required to amounts recognised on adoption.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Group, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible fixed asset additions in the financial year including capitalised borrowing costs (see notes 11 and 12 respectively).

Net debt

Net debt is presented in note 20 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing against the level stipulated in the covenants of the debt issued or guaranteed by Kemble Water Finance Limited. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to Kemble Water Eurobond plc, accrued interest, unamortised IFRS 9 transition costs, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 20.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt. Refer to note 20 for more information.

Alternative performance measures (continued)

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Group needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing

Gearing is the percentage of the Group's covenant net debt to RCV and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Credit rating

The Group must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement.

As required by some of our financial covenants, we disclose our underlying performance separately.

Bazalgette Tunnel Limited ("BTL")

BTL represents the financial performance of the Group from the arrangement with BTL. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance. Refer to page 48 for more information on the BTL arrangement.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2023 are contained in the sections below:

Revenue recognition

Accounting judgement – revenue recognition

Water and wastewater services
The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in underlying revenue for the current year of £68.3 million (2022: £57.1 million), with a corresponding decrease in receivables as shown in note 16.

Connections, requisitions and diversions

Management considers these types of income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer or other third party.

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and the Group will have a present right to payment for work performed to date.

The charges are standalone and are not reflective of the ongoing obligation to supply the occupants of the newly connected properties. Supply to the occupants is charged on a standalone basis. This supports the decision not to defer connections/requisitions charges beyond completion of the service to the developer.

Infrastructure charges
Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Accounting judgement and estimation – provision for expected credit losses

The directly billed model uses historical performance to determine the collectability of the debtors in the future. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The model takes the closing household debtors and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains will be uncollectable and will form bad debt provision. Using the 2022/23 performance ensures the most up to date information is used in determining the level of provision required. An adjustment was made in the model to remove any performance that will not repeat in the future. The judgement this year remains focused on the cost of living crisis.

Management has considered the future impact of increases in the cost of living on customers' ability to pay their water and wastewater bills and has increased the provision by £5.0 million across directly billed customers and WOCs. No adjustment has been made for non-household customers as management have assessed future cash flows and the risk of non-payment was not considered to be material.

Management believes that on balance, FY23 collection performance reflects the majority of the anticipated cost of living impact with economic indicators giving a more positive outlook at year end. However, some risks remain to the assumption that cash collection rates seen over the past 12 months will be sustainable throughout the remainder of the cost of living crisis, including the potential impact of inflation driven interest rate increases on homeowners, council tax, and level of business investment in the UK. Management therefore considers it appropriate to make an additional top up provision of £5m in recognition of the risks.This top up would represent a deterioration of future collection rates, being the proportion of collected cash from the opening debt and billing in the year, from 77.2% to 75.0%.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2023 was £157.2 million (2022: £150.5 million). The increase was due to an increase in the Directly Billed, WOCs and rebilled revenue provisions, primarily as a result of the impact of high inflation on real worker wages.

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

Revenue recognition (continued)

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers, which is based on cash collection performance in the year to determine the level of the provision required. For WOCs, the provision applied average of the information from their statutory accounts in relation to the level of bad debt provision held for billed and unbilled debtors and the provision rate applied to Directly billed customers. A decrease or increase of 1.9% to the rates is deemed a plausible sensitivity to apply given that the decline in cash collections at this rate would represent the lowest collections observed within a reasonable timescale. The sensitivity analysis is summarised below:

Directly Billed

Scenario	£ m	Outcome
Directly Billed All Up cash collection rates increase by 1.9%	(4.5)	Reduction in charge
Directly Billed All Up cash collection rates reduce by 1.9%	4.5	Increase in charge

WOCs

Scenario	£ m	Outcome
Reduction in WOC collection rates by 1.9%	(1.9)	Reduction in charge
Increase in WOC collection rates by 1.9%	1.9	Increase in charge

Property, plant and equipment and intangible assets

Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2023 were £1,724.9 million (2022: £1,281.7 million). Intangibles additions for the year ended 31 March 2023 were £44.8 million (2022: £72.3 million). Both figures include own works capitalised and capitalised borrowing costs.

Own works capitalised for the year ended 31 March 2023 of £289.0 million (2022: £226.7 million) includes employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangible assets for the year ended 31 March 2023 were £215.2 million (2022: £115.3 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods.

An assessment of the impact of climate change on accounting estimates was performed. This included assessment of the delivery plan to reach net zero carbon emissions by 2030. Initiatives include use of electric vehicles (and related infrastructure), producing renewable energy (biomethane) from wastewater for injection into the grid and use in powering our assets, generation of solar power and improved energy efficiency in operational processes. Procurement and construction of these investments will happen in future reporting periods and will replace assets which have reached the end of their useful lives. No impairment charges or changes in UELs were identified.

The total depreciation charge for the year ended 31 March 2023 was £658.7 million (2022: £645.8 million) and the total amortisation charge for the year was £66.0 million (2022: £55.6 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	**£m**	**Outcome for the year ended 31 March 2023**
5 year increase in average remaining useful life	(85.7)	Decrease in total depreciation and amortisation charge in the year
5 year decrease in average remaining useful life	114.0	Increase in total depreciation and amortisation charge in the year

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

Provisions for other liabilities and charges

Accounting judgement – recognition of environmental and legal provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are related to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters, how they will materialise in the financial statements (certain penalties are settled through future revenue adjustments, adjustments to Regulatory Capital Value or investment commitments to deliver better outcomes to stakeholders) and makes a judgement about whether or not a provision should be recognised.

Environmental and legal provisions, which are detailed in note 21, total £78.7 million as at the year ended 31 March 2023 (2022: £53.6 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2023 totalled £229.2 million (2022: £186.3 million). There is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided or disclosed as a contingent liability.

Investment in subsidiaries and goodwill

Accounting estimation – impairment of investments in subsidiaries and goodwill

Determining whether the Group's investments in subsidiaries or the carrying value of goodwill have been impaired requires estimations of the investment or cash generating unit's net realisable value. An enterprise valuation is derived through the application of an observable market multiplier uplift to the underlying entities' Regulatory Capital Value ("RCV"). The recoverable amount is thus most sensitive to the uplift multiplier used in the valuation model.

Retirement benefit obligations

Accounting estimate – actuarial assumptions

The Group operates three defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2019, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2019, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. Under UK regulations, the Group has 15 months to complete the triennial valuation from the valuation date of 31 March 2022. The next review will be completed and signed off after the financial statements have been published. The pension liability and net cost recognised under IAS 19 Employee Benefits are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and together represent a key source of estimation uncertainty. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- inflation.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the three schemes as at 31 March 2023 was £181.8 million (2022: £252.5 million), which includes a pension deficit of £182.0 million (2022: £257.3 million) for the TWPS scheme and £5.8 million (2022: £7.2 million) for the SUURBS scheme, offset by a pension surplus of £6.0 million (2022: £12.0 million) for the TWMIPS scheme. Refer to note 24 for more information on the key assumptions and sensitivities of the pension schemes.

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

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

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

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

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. 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. 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. The net total of derivative financial assets and liabilities as at 31 March 2023 was a liability of £1,542.7 million (31 March 2022 a liability of: £2,149.6 million). Refer to note 20 for more information on the key assumptions and sensitivities of the financial instruments.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change in the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During 2019/20, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, which continue to be significantly supported by observable inputs and hence it is appropriate for these index-linked swaps to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2023, £31.3 million (2022: £33.3 million) remained capitalised and £2.0 million had been recognised in the income statement (2022: £2.0 million). See note 20 to the consolidated financial statements "Financial Instruments" for more information.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement – principal vs. agent

BTL is the independent licenced utility company appointed by Thames Water to construct the Thames Tideway Tunnel. The appointment was subsequently approved by Ofwat in August 2015. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the Company's licence). Judgement has been exercised in assessing whether the Group is acting as principal or agent in its relationship with BTL.

Under IFRS 15 an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself, or to arrange for them to be provided by another party. The Group is deemed to have primary responsibility for providing the 'end to end' services relating to the disposal of waste from its wastewater customers from collection, transportation (through the existing infrastructure and the Thames Tideway Tunnel) to the processing in the Group's sewage treatment plants. The Group continues to charge its wastewater customers for the end-to-end waste management service.

Additionally, the Group, as the sole future user of the Tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the Tunnel). These risks include reputational risks. Management therefore consider the Group is operating as principal in the relationship with BTL.

Notes to the Group financial statements

1. Revenue

	2023			2022		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Gross revenue	**2,250.0**	**85.1**	**2,335.1**	2,149.2	84.9	2,234.1
Charge for bad and doubtful debts	**(67.7)**	**(0.6)**	**(68.3)**	(57.1)	-	(57.1)
Net revenue	**2,182.3**	**84.5**	**2,266.8**	2,092.1	84.9	2,177.0

We have presented a further disaggregation of our revenue below:

Gross revenue for the year ended 31 March	**2023 £m**	2022 £m
Household market		
Water services	**767.7**	754.1
Wastewater services	**903.3**	870.7
Retail services	**129.9**	135.9
Total gross revenue from household market	**1,800.9**	1,760.7
Non-household market		
Water services	**208.3**	177.7
Wastewater services	**193.3**	165.3
Retail services	**1.3**	1.3
Total gross revenue from non-household market	**402.9**	344.3
Gross revenue from principal services[1]	**2,203.8**	2,105.0
Other appointed revenue[2]	**22.3**	20.9
Total appointed revenue	**2,226.1**	2,125.9
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)[3]	**22.3**	23.3
Other group revenue	**1.6**	-
Total gross underlying revenue	**2,250.0**	2,149.2
Amounts billed for the Thames Tideway Tunnel	**85.1**	84.9
Total gross revenue	**2,335.1**	2,234.1

[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 United Kingdom.

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.

Notes to the Group financial statements (continued)

1. Revenue (continued)

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	2023 £m	2022 £m
Contract assets		
Current		
Accrued revenue for services provided to metered customers	**178.2**	183.8
Accrued income for other activities[1]	**81.2**	76.4
Total current contract assets	**259.4**	260.2
Contract liabilities		
Non-current		
Deferred revenue from infrastructure charges	**546.0**	529.2
Deferred revenue from other activities[2]	**375.5**	302.6
Total non-current contract liabilities	**921.5**	831.8
Current		
Advance payments received from unmeasured customers	**73.0**	73.9
Deferred revenue from infrastructure charges	**5.7**	5.5
Deferred revenue from other activities[2]	**51.4**	47.7
Total current contract liabilities	**130.1**	127.1
Total contract liabilities	**1,051.6**	958.9

[1] Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 48).
[2] Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities and how much relates to performance obligations that were satisfied in a prior period.

	2023 £m	2022 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Advance payments received	**73.9**	75.4
Deferred revenue from infrastructure charges	**5.5**	5.3
Deferred revenue from other activities	**47.7**	43.3
Total	**127.1**	124.0

Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

	2023 £m	2022 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Service connections	**9.3**	8.9
Requisitions and diversions	**153.5**	165.4
Infrastructure charges	**551.6**	534.6
Other	**4.8**	5.2
Total	**719.2**	714.1

Notes to the Group financial statements (continued)

1. Revenue (continued)

The Group considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Group considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total unamortised amount which will be recognised as income as the assets continue to depreciate.

For water and wastewater services, the Group has a right to consideration from customers to an amount that corresponds directly with the value to the customer of the entity's performance completed to date, being the provision of such services. As such revenue is recognised to the amount the Group has a right to invoice. Therefore, as allowed by the practical expedient set out in IFRS 15, these revenues are not included in the table above.

2. Operating expenses

	2023			2022		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Wages and salaries	**380.3**	**-**	**380.3**	344.0	-	344.0
Social security costs	**39.9**	**-**	**39.9**	35.1	-	35.1
Pension costs – defined benefit schemes	**3.1**	**-**	**3.1**	4.0	-	4.0
Pension costs – defined contribution schemes	**28.8**	**-**	**28.8**	27.1	-	27.1
Apprenticeship Levy	**1.7**	**-**	**1.7**	1.6	-	1.6
Total employee costs	**453.8**	**-**	**453.8**	411.8		411.8
Power	**228.9**	**-**	**228.9**	175.7	-	175.7
Raw materials and consumables	**80.7**	**-**	**80.7**	54.6	-	54.6
Rates	**118.1**	**-**	**118.1**	87.8	-	87.8
Research and development expenditure	**12.9**	**-**	**12.9**	11.7	-	11.7
Insurance	**62.8**	**-**	**62.8**	50.8	-	50.8
Legal and professional fees	**23.1**	**-**	**23.1**	21.8	-	21.8
Other operating costs[1]	**528.3**	**-**	**528.3**	552.7	-	552.7
Own work capitalised[2]	**(241.0)**	**-**	**(241.0)**	(226.7)	-	(226.7)
Net operating expenses before depreciation and amortisation	**1,267.6**	**-**	**1,267.6**	1,140.2	-	1,140.2
Depreciation of property, plant and equipment	**658.7**	**-**	**658.7**	645.8	-	645.8
Depreciation of right-of use assets	**8.8**	**-**	**8.8**	5.7	-	5.7
Amortisation of intangible assets	**66.0**	**-**	**66.0**	55.6	-	55.6
Impairment of property, plant and equipment	**18.2**	**-**	**18.2**	10.0	-	10.0
Net operating expenses excluding exceptional items	**2,019.3**	**-**	**2,019.3**	1,857.3	-	1,857.3
Net operating expenses	**2,019.3**	**-**	**2,019.3**	1,857.3	-	1,857.3
Impairment losses on financial and contract assets	**22.3**	**0.1**	**22.4**	10.1	0.1	10.2
Total operating expenses	**2,041.6**	**0.1**	**2,041.7**	1,867.4	0.1	1,867.5

[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] £48m of impairment of investment property has been capitalised within property, plant and equipment, see note 13

Notes to the Group financial statements (continued)

2. Operating expenses (continued)

Auditors remuneration

Amounts payable to the Group's auditors are shown below in respect of the following services to the Group:

	2023	2022
	£'000	£'000
Fees payable to the Group's auditors:		
Fees payable for the audit of the Company's financial statements	**37.5**	35.0
Fees payable for the audit of the financial statements of subsidiaries pursuant to legislation	**1,604.7**	1,652.3
Fees payable to the Group's auditors for other services:		
Audit related assurance services	**589.0**	722.7
Other assurance services	**103.0**	124.2
Total aggregate remuneration	**2,334.2**	2,534.2

Fees payable for the audit of the Group's financial statements in the current financial year exclude £12,000 (2022: £12,000) for out of pocket expenses incurred for delivery of the audit.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements for Ofwat.

3. Employees and Directors

Employees

All Group employees are based in the United Kingdom. The average number of persons employed by the Group during the year (including Executive Directors), analysed by category, was as follows:

	2023	2022
	Number	Number
Employed by Thames Water Utilities Limited:		
Operations	**3,936**	3,638
Retail	**1,474**	1,534
Support services	**1,236**	1,307
Digital, strategy and transformation	**313**	395
Delivery office	**283**	208
	7,242	7,082
Employed by other group companies:		
Property services	**3**	4
Total	**7,245**	7,086

The Company has no employees (2022: none).

Directors

During the year, the Company had twenty-one directors (2022: eighteen) who are all Non-Executive Directors of the Group and receive emoluments in respect of their services as Directors of Kemble Water Holdings Limited, the ultimate parent company. All of these costs are borne by the Company's subsidiary, Thames Water Limited. No other remuneration, pension and pension allowances, or other benefits are paid to the directors of the Company.

The Directors' emoluments were as follows:

	2023	2022
	£'000	£'000
Director's fees in respect of services to the Company	**-**	15.0
Director's fees in respect of services to the Company's ultimate parent	**550.3**	502.5
Director's fees in respect of services to the Company's subsidiaries	**29.5**	52.5
Total	**579.8**	570.0

Highest paid Director

Total emoluments of the highest paid Director in respect of services to the Company's ultimate parent during the year were £58,904 (2022: £60,000).

Notes to the Group financial statements (continued)

4. Other operating income

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

	2023 £m	2022 £m
Power income[1]	**17.8**	15.4
Requisitions and diversions charges	**48.4**	24.3
Service connection charges	**17.4**	18.4
Amortisation of deferred income recognised on adoption of assets at nil cost	**4.8**	4.1
Release from deferred income – infrastructure charges	**5.5**	5.3
(Loss)/gain on sale of property, plant and equipment	**(3.0)**	1.4
Rental income	**10.3**	9.6
Other income[2]	**8.0**	18.3
Total	**109.2**	96.8

[1] Power income comprises income from the sale of internally generated electricity.

[2] Other income includes £7.0 million relating to excess payments received from customers in the past and recognised during the current year (31 March 2022: £5.5 million)

5. Finance income

During the year ended 31 March 2023, the Group recognised finance income of £178.2 million (2022: £121.0 million) relating mainly to interest income on bank deposits, interest income on swaps and other finance income on swaps.

	2023 £m	2022 £m
Interest income on bank deposits	**15.3**	0.7
Interest income on swaps	**161.9**	108.7
Other finance income on swaps[1]	**-**	11.2
Trading interest income	**1.0**	0.4
Total	**178.2**	121.0

[1] In the prior year, £11.2 million other finance income on swaps was recognised relating to fees received on the novation or restructure of index-linked swaps.

Notes to the Group financial statements (continued)

6. Finance expense

The Group also recognised finance expenses of £1,509.7 million (2022: £1,272.3 million) relating mainly to interest and accretion on loans and other borrowings, interest on intercompany borrowings, leases and defined benefit pension obligations.

	2023 £m	2022 £m
Interest in relation to bank and other loans:		
Interest expense	**(521.5)**	(460.8)
RPI accretion on loans	**(460.9)**	(229.6)
Interest in relation to intercompany borrowings:		
Interest expense	**(742.2)**	(696.5)
Interest in relation to defined benefit obligation:		
Net interest expense on defined benefit obligation	**(6.7)**	(4.8)
Interest in relation to leases:		
Leases	**(1.4)**	(3.2)
Interest in relation to non-household business:		
Trading interest expense	**(0.1)**	-
Fees:		
Other finance fees	**(2.5)**	(3.1)
Gross finance expense	**(1,735.3)**	(1,398.0)
Amortisation	**10.4**	10.4
Capitalised borrowing costs	**215.2**	115.3
Total finance expense	**(1,509.7)**	(1,272.3)

7. Net gains/(losses) on financial instruments

The reconciliation to net gains/(losses) on financial instruments has been provided below:

	2023 £m	2022 £m
Net exchange losses on foreign currency borrowings	**(102.1)**	(42.3)
Net gains/(losses) arising on swaps where hedge accounting is not applied [1]	**245.5**	(822.1)
Losses on cash flow hedge transferred from equity [2]	**(21.1)**	(31.1)
Total	**122.3**	(895.5)

[1] In the current period the net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations and a depreciation of GBP against USD and EUR. The amount includes the fair value of £717.4 million (31 March 2022: £317.7 million) accreted on index linked swaps during the year. In March 2023, £296.9 million was paid to early settle £309.5 million accretion on index-linked swaps. The difference of £12.6 million reflecting the discount for early repayment.
[2] Refer to Note 20 Financial Instruments on pages 93 and 94 for more information on the losses on cash flow hedge transferred from equity.

Notes to the Group financial statements (continued)

8. Taxation on (loss)/profit on ordinary activities

Tax (credit)/charge in the income statement

	2023 Underlying £m	**2023** BTL £m	**2023** Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
Current tax:						
Current year amounts (receivable)/payable in respect of group relief	**(138.6)**	**-**	**(138.6)**	(148.3)	16.1	(132.2)
Adjustments in respect of prior periods	**18.1**	**(17.8)**	**0.3**	11.9	-	11.9
	(120.5)	**(17.8)**	**(138.3)**	(136.4)	16.1	(120.3)
Deferred tax:						
Origination and reversal of timing differences	**(25.6)**	**-**	**(25.6)**	(169.7)	-	(169.7)
Effect of tax rate change	**(2.1)**	**-**	**(2.1)**	297.0	-	297.0
Adjustments in respect of prior periods	**(5.8)**	**-**	**(5.8)**	1.8	-	1.8
	(33.5)	**-**	**(33.5)**	129.1	-	129.1
Tax (credit)/charge on (loss)/profit on ordinary activities	**(154.0)**	**(17.8)**	**(171.8)**	(7.3)	16.1	8.8

The total tax credit for the year ended 31 March 2023 is higher (2022: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 Underlying £m	**2023** BTL £m	**2023** Total £m	2023 Effective tax rate %	2022 Underlying £m	2022 BTL £m	2022 Total £m	2022 Effective tax rate %
(Loss)/profit on ordinary activities before taxation	**(959.3)**	**84.4**	**(874.9)**		(1,725.3)	84.8	(1,640.5)	
Corporation tax at 19% (2022: 19%) on (loss)/profit on ordinary activities before taxation	**(182.2)**	**16.0**	**(166.2)**	**19.0%**	(327.8)	16.1	(311.7)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.1**	**-**	**4.1**		3.9	-	3.9	
Impact of “super-deduction” allowance on capital expenditure [1]	**(5.2)**	**-**	**(5.2)**		(2.3)		(2.3)	
Disallowable expenditure [2]	**5.2**	**-**	**5.2**		8.5	-	8.5	
Interest expenses not allowable for tax [3]	**128.6**	**-**	**128.6**		9.6	-	9.6	
Deferred tax asset on disallowable interest expenses [3]	**(118.2)**	**-**	**(118.2)**		-	-	-	
Non-taxable income [4]	**(7.6)**	**-**	**(7.6)**		(5.4)	-	(5.4)	
Group relief not paid at standard rate [5]	**11.1**	**(16.0)**	**(4.9)**		(4.7)	-	(4.7)	
Other	**-**	**-**	**-**		0.2	-	0.2	
Tax (credit)/charge as adjusted for recurring items	**(164.2)**	**-**	**(164.2)**	**18.8%**	(318.0)	16.1	(301.9)	18.4%
Non-recurring items:								
Tax rate change	**(2.1)**	**-**	**(2.3)**		297.0	-	297.0	
Adjustments in respect of prior periods – group relief [5]	**18.1**	**(17.8)**	**0.3**		11.9	-	11.9	
Adjustments in respect of prior periods – deferred tax	**(5.8)**	**-**	**(5.8)**		1.8	-	1.8	
Total tax (credit)/charge	**(154.0)**	**(17.8)**	**(171.8)**	**19.6%**	(7.3)	16.1	8.8	(0.5%)

[1] The government introduced an accelerated capital allowance called a “super-deduction” which is available on some of the Group’s capital expenditure up to 31 March 2023. The allowance includes an additional 30% allowance in excess of expenditure on qualifying plant and machinery which results in a tax credit in the income statement.
[2] Disallowable expenditure includes fines included in operating expenses.
[3] Under Corporate Interest Restriction legislation, some interest payable by the Group is not allowable for tax, which results in a £128.6 million current tax charge in the income statement. Most of the disallowed amounts may be eligible for tax relief in future, so a deferred tax asset of £155.5 million has been recognised at the 25% corporation tax rate applicable in future periods (see note 21). In the income statement, the corresponding deferred tax credit of £155.5 million is reflected in the table above as (i) £118.2 million “Deferred tax asset on disallowable interest expenses” at the standard rate of corporation tax for the year of 19.0%, and (ii) the balance included within “Tax rate change”.
[4] Non-taxable income relates primarily to income from new service connections. This income is reflected in the financial statements as non-taxable income under IFRS principles, while cost of the new service connections fixed assets is not eligible for capital allowances.
[5] a) Tax losses arising in the underlying business of the Group are used to cover taxable profits of BTL. No payment is made for this as all amounts arise within the same company, TWUL. The adjustments in respect of prior periods include the reversal of some tax charges booked in prior years for BTL and associated tax credits booked for losses used from the underlying business. The net prior year current tax charge of £0.3 million arises on accounting for research and development tax credits.
[5] b) The Company bears the KWH Group's CIR disallowance, which reduces tax losses available for sale by the Company as group relief in those years. During the year, the Company has sold group relief to the Group’s immediate parent, Kemble Water Eurobond plc (”KWE”) for those years at a rate in excess of the corporation tax rate, to compensate the Company for bearing the element of the KWH Group's CIR disallowance that is attributable to interest on the shareholder debt in KWE. This results in an additional group relief credit of £4.9 million in respect of the current year, and £4.7 million in the prior year.

Notes to the Group financial statements (continued)

8. Taxation on (loss)/profit on ordinary activities (continued)

Tax (credit)/charge in the income statement (continued)

The effective tax rate in the current year, as adjusted for recurring tax items, of 18.8% is lower than the standard rate of corporation tax for the year of 19.0%, primarily because interest payable not allowable for tax, and in respect of which a deferred tax asset is not recognised, results in a lower tax credit on the loss before tax.

The Group is not currently in a cash tax paying position with HMRC (although companies within the Group do pay for group relief), primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs. The differences between the (loss)/profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below.

		2023			2022	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	**(959.3)**	**84.4**	**(874.9)**	(1,725.3)	84.8	(1,640.5)
Corporation tax at 19% (2022: 19%) on (loss)/profit on ordinary activities before taxation	**(182.2)**	**16.0**	**(166.2)**	(327.8)	16.1	(311.7)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.1**	**-**	**4.1**	3.9	-	3.9
Disallowable expenditure	**5.4**	**-**	**5.4**	8.5	-	8.5
Interest expenses not allowable for tax	**128.6**	**-**	**128.6**	9.6	-	9.6
Non-taxable income	**(7.6)**	**-**	**(7.6)**	(5.4)	-	(5.4)
Capital allowances, including "super deductions", for the year lower than depreciation[6]	**82.2**	**-**	**82.2**	81.6	-	81.6
Capitalised borrowing costs allowable for tax [7]	**(40.8)**	**-**	**(40.8)**	(21.9)	-	(21.9)
(Gains)/losses on financial derivatives [8]	**(159.3)**	**-**	**(159.3)**	110.9	-	110.9
Pension cost charge higher than/(lower than) pension contributions	**-**	**-**	**-**	0.5	-	0.5
Other short-term timing differences	**(4.0)**	**-**	**(4.0)**	(3.5)	-	(3.5)
Tax losses carried forward[9]	**24.1**	**-**	**24.1**	-	-	-
Group relief not paid at statutory tax rate	**11.1**	**(16.0)**	**(4.9)**	(4.7)	-	(4.7)
Adjustments in respect of prior periods	**18.1**	**(17.8)**	**0.3**	11.9	-	11.9
Current tax (credit)/charge for the year	**(120.3)**	**(17.8)**	**(138.1)**	(136.4)	16.1	(120.3)

[6] In the current year, capital allowances claimed were lower than depreciation in order to minimise tax losses arising in the year (see footnote 9). In the prior year, capital allowances claimed were lower than depreciation because of a reduction in taxable profits caused by accounting losses in that year.

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

[8] Accounting fair value profits and losses arising on our derivatives are non-taxable and non-deductible respectively, as instead they are taxed as the cash flows arise. Deferred tax is provided on these temporary differences.

[9] This year, the Group has a tax loss, most of which will be sold as group relief to group companies at the standard rate of corporation tax of 19%, resulting in a current tax credit. Some tax losses are being carried forward for use against future taxable profits; this reduces the current tax credit recognised in the year at 19%, and instead a deferred tax asset has been recognised at 25% on the losses carried forward (see Note 21).

Uncertain tax positions

At 31 March 2023 the total value of provisions for uncertain tax positions was £nil (2022: £nil).

Notes to the Group financial statements (continued)

8. Taxation on loss/(profit) on ordinary activities (continued)

Tax (charged)/credited directly to other comprehensive income

The deferred tax (charged)/credited directly to other comprehensive income during the year is as follows:

Year ended 31 March	2023 £m	2022 £m
Deferred tax (charge)/credit on net actuarial gain/(loss) in year	**(17.1)**	11.8
Impact of tax rate change in prior year on net actuarial losses	**-**	31.1
	(17.1)	42.9
Deferred tax charge on cash flow hedges in the year	**(4.0)**	(5.8)
Impact of tax rate change in prior year on cash flow hedges	**-**	1.3
	(4.0)	(4.5)
Total deferred tax (charged)/credited directly to other comprehensive income	**(21.1)**	38.4

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme, which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income as shown above.

9. Goodwill

The Directors have reviewed the carrying value of goodwill of £1,468.1 million (2022: £1, 468.1 million) in line with the accounting policy and do not consider there to be any impairment to this carrying value for the year ended 31 March 2023 (2022: £nil).

All purchased goodwill, which arose on acquisition of the Thames Water Utilities Limited in 2006, has been allocated to the regulated water and wastewater business. Impairment of this purchased goodwill occurs where the carrying value is in excess of the net realisable value, the expected sales value of the regulated business.

An equity valuation model has been used which takes an external, observable, market multiplier uplift to the Regulatory Capital Value ("RCV") of the regulated business. Ofwat, an external regulator, have developed the RCV as a measure of the capital value of the business. The multiple has been calculated from average RCV premiums for listed water companies as of 31 March 2023 and is aligned to recent private company transactions.

The critical assumption is thus the multiple of RCV used. As at 31 March 2023, for the carrying amount of goodwill to exceed the recoverable amount, a reduction of 11.46% (2022: 38.0%) to the multiplier used would be required.

10. Interests in joint venture

Thames Water Limited, a wholly owned subsidiary of the Group, controls 50% of the share capital of Foudry Properties Limited ("Foudry"), a property company incorporated in the United Kingdom. Foudry made a loss in 2023 of £0.5 million (2022: £0.2 million) and has net liabilities of £13.1 million (2022: £12.6 million). The Group's share of these losses relate solely to loan and associated interest balances owed to the Group, which have been fully provided for, and consequently no separate provision in respect of these losses has been recognised.

As at 31 March 2023 the joint venture did not have any significant contingent liabilities to which the Group was exposed and the Group did not have any significant contingent liabilities in relation to its interests in the joint venture (2022: £nil). The Group had no capital commitments in relation to its interests in the joint venture as at 31 March 2023 (2022: £nil).

Notes to the Group financial statements (continued)

11. Intangible assets

	Software £m	Other £m	Assets in development £m	**Total £m**
Cost:				
At 1 April 2021	405.6	1.3	45.7	**452.6**
Additions	-	-	72.3	**72.3**
Transfers between categories and from property, plant & equipment	78.5	-	(78.5)	**-**
Disposals	(12.6)	-	-	**(12.6)**
At 31 March 2022	471.5	1.3	39.5	**512.3**
Additions	-	-	44.8	**44.8**
Transfers between categories and from property, plant & equipment	66.3	-	(66.3)	**-**
Disposals	(1.2)	-	-	**(1.2)**
At 31 March 2023	**536.6**	**1.3**	**18.0**	**555.9**
Accumulated amortisation:				
At 1 April 2021	(174.9)	(1.2)	-	**(176.1)**
Amortisation charge	(55.6)	-	-	**(55.6)**
Disposals	4.4	-	-	**4.4**
At 31 March 2022	(226.1)	(1.2)	-	**(227.3)**
Amortisation charge	(65.9)	(0.1)	-	**(66.0)**
Disposals	0.8	-	-	**0.8**
At 31 March 2023	**(291.2)**	**(1.3)**	**-**	**(292.5)**
Net book value:				
At 31 March 2022	245.4	0.1	39.5	**285.0**
At 31 March 2023	**245.4**	**-**	**18.0**	**263.4**

The amount of borrowing costs capitalised as intangible assets is £nil (31 March 2022: £0.5 million). The effective rate of borrowing costs for the financial year ended 31 March 2023 was 10.5% (for the financial year ended 31 March 2022: 6.6%).

The gross carrying amount of intangible assets that was fully amortised at 31 March 2023 amounted to £124.0 million (31 March 2022: £114.5 million).

Notes to the Group financial statements (continued)

12. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	**Total £m**
Cost:					
At 1 April 2021	3,986.1	8,856.6	8,399.8	2,718.6	**23,961.1**
Additions	-	0.6	37.3	1,243.8	**1,281.7**
Transfers between categories	236.0	641.0	647.4	(1,524.4)	**-**
Disposals	(1.5)	(145.6)	(22.8)	-	**(169.9)**
At 31 March 2022	4,220.6	9,352.6	9,061.7	2,438.0	**25,072.9**
Additions	-	0.3	39.7	1,684.9	**1,724.9**
Transfers between categories	152.2	760.6	694.5	(1,607.3)	**-**
Disposals	-	(2.3)	(0.5)	-	**(2.8)**
At 31 March 2023	**4,372.8**	**10,111.2**	**9,795.4**	**2,515.6**	**26,795.0**
Accumulated depreciation and impairment:					
At 1 April 2021	(1,200.7)	(5,110.3)	(903.4)	-	**(7,214.4)**
Depreciation charge	(79.2)	(418.9)	(147.7)	-	**(645.8)**
Impairment loss	-	-	-	(10.0)	**(10.0)**
Disposals	1.5	144.9	23.7	-	**170.1**
At 31 March 2022	(1,278.4)	(5,384.3)	(1,027.4)	(10.0)	**(7,700.1)**
Depreciation charge	(81.7)	(425.2)	(151.8)	-	**(658.7)**
Impairment loss	-	(7.2)	-	(11.0)	**(18.2)**
Disposals	-	0.9	-	-	**0.9**
At 31 March 2023	**(1,360.1)**	**(5,815.8)**	**(1,179.2)**	**(21.0)**	**(8,376.1)**
Net book value:					
At 31 March 2022	2,942.2	3,968.3	8,034.3	2,428.0	**17,372.8**
At 31 March 2023	**3,012.7**	**4,295.4**	**8,616.2**	**2,494.6**	**18,418.9**

£215.2 million of borrowing costs were capitalised in the period (2022: £114.8 million). The effective annual capitalisation rate for borrowing costs was 10.5% (for the financial year ended 31 March 2022: 6.6%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2023 amounted to £2.9 billion (31 March 2022: £2.7 billion).

During the year the group disposed of no (31 March 2022: £169.9 million) property, plant and equipment assets which relate to assets with a nil Net Book Value.

Included within Transfer between categories in the year are capitalised costs classified to Land and Buildings (£7.5 million), Plant & Equipment (£13.9 million) and Network Assets (£48.9 million) asset categories, with a total balance of £70.3 million, which should have been commissioned in the prior year. The related depreciation charge to these assets, amounting to £2.3 million, are also presented in the current year of these financial statements.

Notes to the Group financial statements (continued)

13. Investment property

	Total £m
Cost:	
At 1 April 2021	50.0
At 31 March 2022	50.0
At 31 March 2023	**50.0**
Accumulated depreciation and impairment:	
At 1 April 2021	-
At 31 March 2022	-
Impairment of investment property	(48.0)
At 31 March 2023	**(48.0)**
Net book value:	
At 31 March 2022	50.0
At 31 March 2023	**2.0**

Investment Property is held at cost. In line with IAS 36 Impairment of Assets, an asset must not be carried in the financial statements at more than its net realisable value (the higher of value in use or sale value net of sales cost). As a result of an independent property valuation an impairment of £48.0 million has been recognised. The property was acquired to facilitate the building of interfaces to the Thames Tideway Tunnel, therefore the impairment charge has been disclosed as a cost within assets under construction within the property plant and equipment note.

14. Leases

(i) Amounts recognised in the statement of financial position

Right-of-use assets **As at 31 March**	**2023** **£m**	2022 £m
Land and buildings	**39.8**	45.8
Total	**39.8**	45.8

Additions to right-of-use assets during the year ended 31 March 2023 were £1.0 million as a result of new leases in the period and £2.4 million which arose as a result of lease modifications in the period (31 March 2022: £10.0 million additions).

Lease liabilities **As at 31 March**	**2023** **£m**	2022 £m
Current	**(7.3)**	(6.2)
Non-current	**(49.7)**	(57.1)
Total	**(57.0)**	(63.3)

(ii) Amounts recognised in the income statement

For the year ended 31 March	**2023** **£m**	2022 £m
Depreciation charge of right-of-use assets	**8.8**	5.7
Interest expense included in finance costs	**1.4**	3.2
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	**18.7**	9.0
Total	**28.9**	17.9

The total cash outflow for leases during the year ended 31 March 2023 was £10.0 million (31 March 2022: £9.9 million).The total leases repayments expected over the next year are £7.3 million (31 March 2022: £6.1 million), over the next 1-5 years are £19.0 million (31 March 2022: £20.7 million) and over more than 5 years are £30.7 million (31 March 2022: £36.5 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

Notes to the Group financial statements (continued)

15. Inventories

	2023	2022
	£m	£m
Raw materials and consumables	**20.9**	13.0
Total	**20.9**	13.0

16. Trade and other receivables

	2023			2022		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Non-current:						
Prepayments	**-**	**377.9**	**377.9**	-	308.8	308.8
Insurance claims receivable	**33.9**	**-**	**33.9**	35.4	-	35.4
Other receivables	**32.1**	**-**	**32.1**	10.4	-	10.4
	66.0	**377.9**	**443.9**	45.8	308.8	354.6
Current:						
Gross trade receivables	**468.9**	**21.0**	**489.9**	448.7	17.7	466.4
Less doubtful debt provision	**(153.0)**	**(4.2)**	**(157.2)**	(146.8)	(3.7)	(150.5)
Net trade receivables	**315.9**	**16.8**	**332.7**	301.9	14.0	315.9
Amounts owed by group undertakings	**3.4**	**-**	**3.4**	0.5	-	0.5
Group relief receivable	**284.8**	**(16.6)**	**268.2**	188.9	(36.2)	152.7
Prepayments	**48.9**	**-**	**48.9**	36.9	-	36.9
Other receivables	**49.9**	**-**	**49.9**	37.0	1.0	38.0
	702.9	**0.2**	**703.1**	565.2	(21.2)	544.0
Current:						
Contract assets	**254.2**	**5.2**	**259.4**	251.7	8.5	260.2
Total	**1023.1**	**383.3**	**1,406.4**	862.7	296.1	1,158.8

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertainties of macroeconomic factors including the rise in costs of living.

Non-current prepayments at 31 March 2023 includes £377.9 million (2022: £308.8 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. The prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to TWUL once construction is complete, against which this prepayment will be utilised. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

Contract assets at 31 March 2023 includes £178.2 million (2022: £183.8 million) of services provided to metered customers. Included within this amount is a provision of £8.0 million for bad debt (31 March 2022: £4.6 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

Expected credit loss provision

Movements in the expected credit losses provision were as follows:

	2023	2022
	£m	£m
At 1 April	**(150.5)**	(146.4)
Charge for bad and doubtful debts – charged against revenue[1]	**(65.5)**	(67.4)
Charge for bad and doubtful debts – included within operating expenses	**(22.4)**	(10.2)
Amounts written off (utilised)	**81.2**	73.5
Total at 31 March	**(157.2)**	(150.5)

[1] Included within this is a £2.8 million decrease (2022: £10.3 million increase) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The decrease (2022: increase) of the provision in the current financial year is credited (2022: debited) to gross revenue. The remaining amount relates to the £68.3 million (2022: £57.1 million) charge for bad and doubtful debts against revenue as seen in note 1.

Notes to the Group financial statements (continued)

16. Trade and other receivables (continued)

Expected credit loss provision (continued)

Ageing of gross receivables is as follows:

	2023 £m	2022 £m
Up to 365 days	**329.3**	311.3
1 – 2 years	**83.9**	87.0
2 – 3 years	**41.5**	34.1
More than 3 years	**35.2**	34.0
Total	**489.9**	466.4

The ageing of gross BTL receivables[1] is as follows:

	2023 £m	2022 £m
Up to 365 days	**15.1**	12.8
1 – 2 years	**4.0**	3.6
2 – 3 years	**1.9**	1.3
Total	**21.0**	17.7

[1] BTL receivables relates to the value of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

As at 31 March	**2023 £m**	2022 £m
Up to 365 days	**83.9**	84.4
1 – 2 years	**26.4**	25.3
2 – 3 years	**17.1**	12.1
More than 3 years	**29.8**	28.7
Total	**157.2**	150.5

The ageing of impaired BTL receivables is as follows:

	2023 £m	2022 £m
Up to 365 days	**2.8**	2.6
1 – 2 years	**0.9**	0.8
2 – 3 years	**0.5**	0.3
Total	**4.2**	3.7

17. Cash and cash equivalents

		2023			2022	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	**(2.0)**	**-**	**(2.0)**	17.5	-	17.5
Money market funds	**1,893.1**	**7.0**	**1,900.1**	679.8	5.2	685.0
Total	**1,891.1**	**7.0**	**1,898.1**	697.3	5.2	702.5

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

Notes to the Group financial statements (continued)

18. Trade and other payables

	2023			2022		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities	**921.5**	**-**	**921.5**	831.8	-	831.8
Current:						
Trade payables – operating	**302.0**	**-**	**302.0**	248.3	-	248.3
Amounts owed to group undertakings	**0.3**	**-**	**0.3**	-	-	-
Amounts owed to Bazalgette Tunnel Limited	**-**	**-**	**-**	-	13.0	13.0
Accruals	**408.5**	**-**	**408.5**	327.3	-	327.3
Other taxation and social security	**10.3**	**-**	**10.3**	8.9	-	8.9
Other payables	**103.1**	**-**	**103.1**	77.2	-	77.2
	824.2	**-**	**824.2**	661.7	13.0	674.7
Current:						
Contract liabilities	**130.1**	**-**	**130.1**	125.1	2.0	127.1
Total	**1,875.8**	**-**	**1,875.8**	1,618.6	15.0	1,633.6

Current contract liabilities at 31 March 2023 includes £73.0 million (2022: £74.0 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2023 includes £546.2 million (2022: £534.6 million) of deferred infrastructure charges and £375.5 million of deferred income for nil cost "adopted" assets (2022: £290.4 million).

Other payables at 31 March 2023 includes £74.0 million (2022: £45.9 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value as outlined in the "Comparison of fair value of financial instruments with their carrying amounts" section of Note 20 Financial Instruments.

19. Borrowings

	2023 £m	2022 £m
Secured bank loans and private placements	**5,370.9**	4,381.5
Bonds	**11,636.5**	10,330.8
Amounts owed to group undertakings	**3,100.6**	3,100.6
	20,108.0	17,812.9
Interest payable on secured bank loans, private placements and bonds	**207.7**	182.0
Interest payable on amounts owed to group undertakings	**4,513.3**	4,345.6
	4,721.0	4,527.6
Total	**24,829.0**	22,340.5
Disclosed within current liabilities	**2,305.5**	887.1
Disclosed within non-current liabilities	**22,523.5**	21,453.4

Secured bank loans refers to (i) the Group's secured bank loans under an Intercreditor Deed with the holding company's Security Trustee; and (ii) the secured bank loans under 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 operating company's Security Trustee. Pursuant to this arrangement, TWUHL has guaranteed the obligations of each other Obligor (TWUL and TWUF) under the finance agreement. Additionally, TWUL and TWUF have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Notes to the Group financial statements (continued)

19. Borrowings (continued)

Breakdown of secured bank loans and private placements:

	2023 £m	2022 £m
Thames Water Utilities Limited:		
£215.0m 0.460% index-linked loan due 2023 (a), (h)	**316.1**	278.7
£215.0m 0.380% index-linked loan due 2032 (a), (b), (h)	**198.7**	192.8
£100.0m 3.261% index-linked loan due 2043 (a), (d), (h)	**165.2**	145.6
£100.0m 0.790% index-linked loan due 2025 (a), (e), (h)	**139.9**	123.4
£125.0m 0.598% index-linked loan due 2026 (a), (e), (h)	**174.0**	153.4
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	**70.0**	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	**50.0**	50.0
£20.0m Class B floating rate loan due 2026 (a), (j)	**20.0**	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.7**	38.7
$55.0m 3.380% private placement due 2023 (a), (f)	**-**	41.8
$285.0m 3.570% private placement due 2025 (a), (f)	**230.4**	216.5
£216.0m 2.450% private placement due 2028 (a)	**215.6**	215.6
£210m 2.550% private placement due 2030 (a)	**209.5**	209.4
£40m 2.620% private placement due 2033 (a)	**39.9**	39.9
£50.0m Class B floating rate loan due 2025 (a), (j)	**49.9**	-
£100.0m Class B floating rate loan due 2028 (a), (j)	**99.2**	-
£150.0m Class B floating rate loan due 2029 (a), (j)	**148.6**	-
$95.0m 4.890% private placement due 2029 (a), (f)	**76.6**	-
£18.0m 4.890% private placement due 2029 (a)	**18.0**	-
$256.0m 5.010% private placement due 2032 (a), (f)	**206.5**	-
$81.0m 5.300% private placement due 2037 (a), (f)	**65.3**	-
£150.0m 4.940% private placement due 2037 (a)	**149.6**	-
£90.0m 5.120% private placement due 2042 (a)	**89.7**	-
£150.0m floating rate loan due 2024 (a), (j)	**149.9**	149.8
£125.0m floating rate loan due 2024 (a), (j), (k)	**124.9**	124.7
£50.0m floating rate loan due 2022 (a), (k)	**-**	50.0
£63.1m floating rate loan due 2027 (a), (j), (l)	**-**	62.9
£51.2m floating rate loan due 2029 (a), (j), (l)	**51.0**	62.9
£63.1m floating rate loan due 2031 (a), (j)	**62.9**	62.9
£100.0m floating rate loan due 2029 (a), (j)	**99.6**	-
Thames Water Utilities Limited total	**3,259.7**	2,309.0
Thames Water Utilities Finance plc		
$106.0m 4.070% private placement due 2026 (a), (f)	**85.7**	80.5
$131.0m 4.270% private placement due 2029 (a), (f)	**105.8**	99.3
€50.0m 2.100% private placement due 2030 (a), (f)	**43.8**	42.1
$200.0m 4.020% private placement due 2024 (f)	**161.8**	152.1
$250.0m 4.220% private placement due 2027 (f)	**202.3**	190.1
£200.0m Class B floating rate loan due 2026 (a)	**198.1**	197.3
£220.7m Class B floating rate loan due 2022 (c), (j)	**-**	220.7
£75.0m Class B floating rate loan due 2022 (i), (j)	**-**	75.0
£75.0m Class B floating rate loan due 2022 (j)	**-**	75.0
£220.7m Class B floating rate loan due 2023 (c), (g), (j)	**220.7**	-
£75.0m Class B floating rate loan due 2023 (g), (i), (j)	**75.0**	-
£75.0m Class B floating rate loan due 2023 (g), (j)	**75.0**	-
Thames Water Utilities Finance plc total	**1,168.2**	1,132.1
Kemble Water Finance Limited:		
£200.0m floating rate loan due 2025 (a), (j)	**198.3**	198.8
£4.5m 5.3% fixed rate loan due 2025 (a)	**4.4**	4.4
£5.5m 5.3% fixed rate loan due 2025 (a)	**5.4**	5.4
£100.0m 5.3% fixed rate loan due 2025 (a)	**99.0**	98.9
£200.0m 5.3% fixed rate loan due 2025 (a)	**198.1**	197.7
£149.8m 5.39% fixed rate loan due 2026 (a)	**149.7**	148.0
£190.0m floating rate loan due 2024 (a), (j)	**188.4**	188.2
£50.0m 5.26% private placement due 2027 (a)	**49.6**	49.6
£50.0m 5.27% private placement due 2028 (a)	**50.1**	49.4
Kemble Water Finance Limited total	**943.0**	940.4
Total secured bank loans and private placements	**5,370.9**	4,381.5

Notes to the Group financial statements (continued)
19. Borrowings (continued)

All TWUL and TWUF loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Group as assigned by both Standard and Poor's and Moody's and the Group's GRESB score.
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(g) In March 2023, the £370.7 million Class B revolving credit facilities were drawn in full. In April 2023, these Class B drawdowns were fully repaid.
(h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(i) The interest margin of this loan is based on a ratings grid and varies depending on the senior debt credit rating of the Group as assigned by both Standard and Poor's and Moody's.
(j) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
(k) These loans contain a circular economy adjustment that reduces the interest rate if certain key performance indicators are met.
(l) In April 2022, the Group early repaid the £63.1 million floating rate loan that was due to mature in 2027 and made a part-prepayment of £11.9 million of the £63.1 million (now £51.2 million) floating rate loan that matures in 2029.

Breakdown of bonds:	**2023 £m**	2022 £m
Thames Water Utilities Finance plc		
£330.0m 6.750% Fixed rate bond due 2028 (b), (g)	**363.2**	368.1
£200.0m 6.500% Fixed rate bond due 2032 (b), (c), (h)	**231.2**	234.0
£600.0m 5.125% Fixed rate bond due 2037 (b), (c), (i)	**645.1**	647.2
£300.0m 1.680% Index-linked bond due 2053 (b), (d)	**530.7**	472.4
£300.0m 1.681% Index-linked bond due 2055 (b), (d)	**530.7**	472.4
€113.0m 2.300% CPI index linked bond due 2022 (a), (c)	**-**	109.2
£300.0m 5.750% class B Fixed rate bond due 2030 (b), (e)	**-**	299.2
£300.0m 4.375% fixed rate bond due 2034 (b)	**296.5**	296.3
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	**121.5**	125.2
£50.0m 3.853% index linked bond due 2040 (f)	**76.8**	72.8
£500.0m 5.500% fixed rate bond due 2041 (b)	**490.9**	490.6
£50.0m 1.980% index-linked bond due 2042 (b), (d)	**86.6**	76.2
£55.0m 2.091% index-linked bond due 2042 (b), (d)	**92.7**	81.7
£40.0m 1.974% index-linked bond due 2045 (b), (d)	**51.8**	47.2
£300.0m 4.625% fixed rate bond due 2046 (b)	**293.8**	293.6
£100.0m 1.846% index-linked bond due 2047 (b), (d)	**173.0**	152.4
£200.0m 1.819% index-linked bond due 2049 (b), (d)	**345.5**	304.3
£200.0m 1.771% index-linked bond due 2057 (b), (d)	**345.1**	303.7
£350.0m 1.760% index-linked due 2062 (b), (d)	**603.4**	531.0
£500.0m 4.000% fixed rate due 2025 (b)	**498.4**	497.7
£40.0m 0.750% index-linked loan due 2034 (b), (d)	**55.5**	48.9
£45.0m 0.721% index-linked loan due 2027 (b), (d)	**62.4**	54.9
£300.0m 3.500% fixed rate loan due 2028 (b)	**298.0**	297.6
£400.0m 7.738% fixed rate bond due 2058 (b)	**417.4**	418.0
£250.0m 1.875% fixed rate bond due 2024 (b)	**249.6**	249.3
£250.0m 2.625% fixed rate bond due 2032 (b)	**248.1**	247.9
£300.0m 2.375% class B Fixed rate bond due 2023 (b)	**300.0**	299.6
£250.0m 2.875% class B Fixed rate bond due 2027 (b)	**248.3**	248.0
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**148.9**	151.5
£350.0m 2.375% fixed rate bond due 2040 (b)	**346.3**	346.1
£40.0m 2.442% fixed rate bond due 2050 (b)	**39.9**	39.9
£84.7m 0.875% fixed rate bond due 2023 (b)	**84.7**	84.5
€500.0m 0.190% fixed rate bond due 2023 (a), (b)	**439.3**	421.3
$57.0m 2.060% fixed rate bond due 2030 (a), (b)	**46.0**	43.2
$40.0m 1.604% fixed rate bond due 2027 (a), (b)	**32.3**	30.4
€575.0m 0.875% fixed rate bond due 2028 (a), (b)	**503.2**	482.6
€575.0m 1.250% fixed rate bond due 2032 (a), (b)	**498.9**	478.3
€650.0m 4.000% fixed rate bond due 2027 (a), (b)	**566.6**	-
€1,000.0m 4.375% fixed rate bond due 2031 (a), (b)	**875.3**	-
Thames Water Utilities Finance Limited total	**11,237.6**	9,817.2

Notes to the Group financial statements (continued)

19. Borrowings (continued)

Breakdown of bonds (continued):	**2023 £m**	2022 £m
Thames Water (Kemble) Finance plc		
£175.0m 5.875% fixed rate bond due 2022 (k)	**-**	115.0
£400.0m 4.625% fixed rate bond due 2026 (b)	**398.9**	398.6
Thames Water (Kemble) Finance plc total	**398.9**	513.6
Total secured bank loans and private placements	**11,636.5**	10,330.8

All TWUF bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(b) These bonds are shown net of issuance costs.
(c) The Group has entered into swap agreements that convert this debt into GBP (£) RPI-linked debt.
(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index (“RPI”).
(e) In September 2022 this Class B bond had a 'Step Up and Call' meaning the interest rate changed to 3 months LIBOR plus 7.97% at which point the issuer could exercise a call option to redeem the nominal value of the debt at par value. The call option was exercised and the bond redeemed in September 2022.
(f) This is a Limited Price Index (“LPI”) bond. Accretion is calculated using an adjusted UK Retail Price Index.
(g) This bond includes £34.9 million (2022: £40.0 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(h) This bond includes £32.8 million (2022: £35.8 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(i) This bond includes £48.0 million (2022: £50.3 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(j) This bond includes £nil (2022: £nil) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(k) During the year ended 31 March 2021, the Group repurchased £59.9 million debt (out of the £175.0 million external debt due in 2022) at a £2.7 million premium, with the tender price taking into account the above market interest rate on the bond and its trading price prior to the announcement of the tender. The remaining £115.1 million was repaid when due in July 2022.

The total carrying value of the fair value adjustment to the debt on acquisition of the Thames Water Group by Kemble Water Holdings Group is £115.7 million (2022: £126.1 million). Capitalised debt issuance costs in relation to the debt portfolio are £92.8 million (2022: £90.5 million).

Breakdown of amounts owed to group undertakings:

Kemble Water Eurobond plc	**2023 £m**	2022 £m
£3,100.6m fixed rate due on demand (a)	**3,100.6**	3,100.6
Total amounts owed to group undertakings	**3,100.6**	3,100.6

(a) This loan is repayable on demand, however the Directors confirm that there will be no repayment within 12 months and a letter of comfort has been obtained from the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing the financial statements. Therefore, amounts owed to group undertakings has been classified as non-current.

Notes to the Group financial statements (continued)

20. Financial instruments

Categories of financial instruments

The carrying values of the primary financial assets and liabilities of the Group are as follows:

Financial assets:	**2023 £m**	2022 £m
Fair value through profit or loss		
Cross currency swaps	**150.8**	82.1
Interest rate swaps	**257.4**	34.1
Index-linked swaps	**40.9**	75.9
Cash and cash equivalents – money market funds	**1,900.1**	685.0
	2,349.2	877.1
Amortised cost		
Trade and other receivables (excluding prepayments)	**720.2**	552.8
Cash and cash equivalents – cash at bank and in hand	**-**	17.5
	720.2	570.3
Total	**3,069.4**	1,447.4

Financial liabilities:		
Fair value through profit or loss		
Cross currency swaps	**(95.4)**	(125.1)
Interest rate swaps	**(316.3)**	(140.8)
Index-linked swaps	**(1,580.1)**	(2,075.8)
	(1,991.8)	(2,341.7)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(814.0)**	(665.7)
Cash and cash equivalents – cash at bank and in hand	**(2.0)**	-
Borrowings	**(24,829.0)**	(22,340.5)
Lease liabilities	**(57.0)**	(63.3)
	(25,702.0)	(23,069.5)
Total	**(27,693.8)**	(25,411.2)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into levels 1 to 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. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate and index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. The table below sets out the valuation basis of financial instruments (excluding cash and cash equivalents and money market funds which are classified as level 1) held at fair value as at 31 March 2023:

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Fair value measurements (continued)

	Level 2[1]	
	2023	2022
	£m	£m
Financial assets - derivative financial instruments:		
Cross currency swaps	**150.8**	82.1
Interest rate swaps	**257.4**	34.1
Index-linked swaps	**40.9**	75.9
	449.1	192.1
Financial liabilities - derivative financial instruments:		
Cross currency swaps	**(95.4)**	(125.1)
Interest rate swaps	**(316.3)**	(140.8)
Index-linked swaps	**(1,580.1)**	(2,075.8)
	(1,991.8)	(2,341.7)
Net total	**(1,542.7)**	(2,149.6)

[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.

During the year, £21.1 million (2022: £31.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 42. The amounts recognised on the cash flow hedge reserve are recycled to the income statement as a phased release over the relevant hedging period and where the related debt has been issued and has not matured.

In November 2019, the maturity date of three index linked swaps, with a total notional value of £400.0 million, were extended. These three index linked swaps are measured at fair value through profit or loss. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, which continue to be significantly supported by observable inputs and hence it is appropriate for these index-linked swaps to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2023, £31.3 million (2022: £33.3 million) remained capitalised and £2.0 million had been recognised in the income statement with net gains/(losses) on financial instruments (2022: £2.0 million).

Notes to the Group financial statements (continued)

20. 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.

	2023		2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Trade and other receivables (excluding prepayments)	**66.0**	**66.0**	45.8	45.8
Derivative financial instruments				
Cross currency swaps	**118.9**	**118.9**	78.5	78.5
Interest rate swaps	**257.4**	**257.4**	34.1	34.1
Index-linked swaps	**40.9**	**40.9**	56.6	56.6
	483.2	**483.2**	215.0	215.0
Current				
Trade and other receivables (excluding prepayments)	**654.2**	**654.2**	507.0	507.0
Cash and cash equivalents	**1,900.1**	**1,900.1**	702.5	702.5
Derivative financial instruments				
Cross currency swaps	**31.9**	**31.9**	3.6	3.6
Index-linked swaps	**-**	**-**	19.3	19.3
	2,586.2	**2,586.2**	1,232.4	1,232.4
Total	**3,069.4**	**3,069.4**	1,447.4	1,447.4
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(4,348.4)**	**(4,194.0)**	(3,902.1)	(4,175.5)
Bonds	**(10,561.2)**	**(9,763.7)**	(10,105.1)	(12,985.1)
Amounts owed to group undertakings	**(3,100.6)**	**(3,100.6)**	(3,100.6)	(3,100.6)
Interest payable	**(4,513.3)**	**(4,513.3)**	(4,345.6)	(4,345.6)
Lease liabilities	**(49.7)**	**(49.7)**	(57.1)	(57.1)
Derivative financial instruments:				
Cross currency swaps	**(81.7)**	**(81.7)**	(120.1)	(120.1)
Interest rate swaps	**(316.3)**	**(316.3)**	(140.8)	(140.8)
Index-linked swaps	**(1,526.7)**	**(1,526.7)**	(1,977.8)	(1,977.8)
	(24,497.9)	**(23,546.0)**	(23,749.2)	(26,902.6)
Current				
Borrowings:				
Secured bank loans and private placements	**(1,022.5)**	**(1,021.2)**	(479.4)	(480.2)
Bonds	**(1,075.3)**	**(1,059.0)**	(225.7)	(231.2)
Interest payable	**(207.7)**	**(207.7)**	(182.0)	(182.0)
Trade and other payables (excluding other taxation and social security)	**(814.0)**	**(814.0)**	(665.8)	(665.8)
Cash and cash equivalents	**(2.0)**	**(2.0)**	-	-
Lease liabilities	**(7.3)**	**(7.3)**	(6.2)	(6.2)
Derivative financial instruments:				
Cross currency swaps	**(13.7)**	**(13.7)**	(5.0)	(5.0)
Index-linked swaps	**(53.4)**	**(53.4)**	(98.0)	(98.0)
	(3,195.9)	**(3,178.3)**	(1,662.1)	(1,668.4)
Total	**(27,693.8)**	**(26,724.3)**	(25,411.3)	(28,571.0)

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds (level 1 inputs to valuation technique). For private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Group's credit spread, foreign currency values are then translated at the spot rate.

The fair value of floating rate debt instruments is assumed to be the nominal value of the loan adjusted for credit risk if this is significant. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion and interest expected to accrue to maturity, discounted using a risk-free rate plus the Group's credit spread. Amounts owed to group undertakings includes two floating rate loans and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Group's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group's subsidiary companies, TWUHL, TWUL and TWUF are part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (TWUF and TWUHL) guarantee the funding activity of TWUL, and TWUL and TWUHL guarantee the funding activity of TWUF, which raises debt finance in external debt markets through the issuance of secured bonds and the entry into loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

The Company and its financing subsidiary Thames Water (Kemble) Finance plc ("TW(K)F"), are party to an Intercreditor Deed and their debt is securitised. The Company is required to comply with certain covenants, which include, amongst others:

- interest cover ratios
- gearing ratios.

These requirements were complied with for the financial year.

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Capital risk management (continued)

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

	2023 £m	2022 £m
Secured bank loans and private placements	**(5,370.9)**	(4,381.5)
Bonds	**(11,636.5)**	(10,330.8)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and bonds	**(207.7)**	(182.0)
Interest payable on amounts owed to group undertakings	**(4,513.3)**	(4,345.6)
Lease liability	**(57.0)**	(63.3)
	(24,886.0)	(22,403.8)
Cash and cash equivalents[1]	**1,895.8**	700.2
Net debt (statutory basis)	**(22,990.2)**	(21,703.6)
Amounts owed to group undertakings[2]	**3,085.6**	3,085.6
Interest payable on secured bank loans, private placements and bonds	**207.7**	182.0
Interest payable on amounts owed to group undertakings	**4,513.3**	4,345.6
Unamortised debt issuance costs and discount	**(92.8)**	(90.5)
Relevant derivative financial liabilities (Accretion and FX)	**(831.7)**	(583.9)
Fair value adjustment on acquisition to loans	**115.7**	126.1
Unamortised IFRS 9 transition adjustment	**23.1**	23.8
Cash not relevant for covenant	**(9.7)**	(21.8)
Net debt (covenant basis)	**(15,979.0)**	(14,636.7)
Equity attributable to owners of the Group	**(6,309.8)**	(6,654.1)

[1] The cash and cash equivalents balance excludes £2.3 million (2022: £2.3 million) which is held as security for the SUURBS defined benefit pension scheme. The use of the cash is restricted for this purpose only.
[2] Includes £3,100.6 million payable to Kemble Water Eurobond plc which is removed for net debt (covenant) and £15.0 million payable to Thames Water Investments Limited which is included for net debt (covenant basis).

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment, cash not relevant for covenant based on covenant definitions, fair value adjustment made to the Thames Water Group's borrowings on acquisition by Kemble Water consortium; includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate to cross currency swaps.

A summary of the Group's net debt (covenant basis) by different types of debt is as follows:

	2023 £m	2022 £m
Securitised Class A debt	**(14,843.6)**	(12,157.2)
Securitised Class B debt	**(1,599.7)**	(1,599.7)
Holding company level debt[1]	**(1,364.8)**	(1,494.9)
Cash net of covenant cash adjustment	**1,886.1**	678.4
Lease liability	**(57.0)**	(63.3)
Net debt (covenant basis)	**(15,979.0)**	(14,636.7)

[1]Includes £15.0 million payable to Thames Water Investments Limited which is included for net debt (covenant basis).

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

	2023			2022		
	Borrowings £m	**Net derivative financial liabilities £m**	**Lease liabilities £m**	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m
Opening balance	**(22,340.5)**	**(2,149.6)**	**(63.3)**	(21,338.0)	(1,306.5)	(60.4)
Non-current	**(21,453.4)**	**(2,069.5)**	**(57.1)**	(20,191.9)	(1,318.8)	(52.9)
Current	**(887.1)**	**(80.1)**	**(6.2)**	(1,146.1)	12.3	(7.5)
Cash flows						
New loans raised	**(5,068.0)**	**-**	**-**	(3,585.4)	-	-
Repayment of borrowings	**3,336.5**	**-**	**-**	3,321.5	-	-
Repayment of lease principal	**-**	**-**	**10.0**	-	-	9.9
Proceeds from derivative settlement[1]	**-**	**(48.1)**	**-**	-	(20.6)	-
Payment for derivative settlement[2]	**-**	**412.6**	**-**	-	-	-
Interest paid[3]	**1,046.5**	**-**	**-**	669.8	-	-
Interest received[4]	**-**	**(165.1)**	**-**	-	(108.9)	-
	(685.0)	**199.4**	**10.0**	405.9	(129.5)	9.9
Non-cash changes						
Interest accrued / Fees amortised	**(1,251.6)**	**162.0**	**-**	(1,147.6)	108.5	-
Foreign exchange movement	**(102.1)**	**-**	**-**	(42.3)	-	-
Accretion	**(460.9)**	**-**	**-**	(229.6)	-	-
Unamortised IFRS 9 transition adjustment	**0.7**	**-**	**-**	0.7	-	-
Lease additions	**-**	**-**	**(2.3)**	-	-	(9.6)
Interest accrued on IFRS 16 leases	**-**	**-**	**(1.4)**	-	-	(3.2)
Fair value changes	**-**	**245.5**	**-**	-	(822.1)	-
Fair value amortisation	**10.4**	**-**	**-**	10.4	-	-
	(1,803.5)	**407.5**	**(3.7)**	(1,408.4)	(713.6)	(12.8)
Closing balance	**(24,829.0)**	**(1,542.7)**	**(57.0)**	(22,340.5)	(2,149.6)	(63.3)
Non-current	**(22,523.5)**	**(1,507.5)**	**(49.7)**	(21,453.4)	(2,069.5)	(57.1)
Current	**(2,305.5)**	**(35.2)**	**(7.3)**	(887.1)	(80.1)	(6.2)

[1] Proceeds from derivative settlement of £48.1 million includes £18.9 million (2022: £nil) relating to accretion received on index-linked swaps and £29.2 million (2022: £20.6 million) relating to settlement of cross currency swaps.

[2] Payment for derivative settlement of £412.6 million includes £408.4 million (2022: £nil) relating to accretion paydown on index-linked swaps and £4.2 million (2022: £nil) relating to settlement of cross currency swaps.

[3] Interest paid of £1,046.5 million (2022: £669.8 million) includes £215.2 million of capitalised borrowing costs (2022: £115.3 million) and excludes £0.2 million of bank charges (2022: £0.2 million).

[4] Interest received of £165.1 million (2022: £108.9 million) excludes £9.7 million interest received on bank deposits (2022: £0.6 million) and £0.9 million other interest income (2022: £0.5 million).

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk:

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Financial risk management (continued)

(a) Market risk (continued)

As at 31 March 2023:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	10,383.7	913.9	9,503.3	20,800.9
Total	**10,383.7**	**913.9**	**9,503.3**	**20,800.9**

As at 31 March 2022:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	9,759.3	739.3	7,748.3	18,246.9
Total	**9,759.3**	**739.3**	**7,748.3**	**18,246.9**

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

Year ended 31 March 2023:	Weighted average interest rate		Weighted average period until maturity	
	2023	2022	**2023**	2022
	%	%	**Years**	Years
Fixed	**5.8**	5.8	**10.1**	11.2
Index-Linked	**13.4**	8.1	**15.6**	17.3

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on pages 93 and 94.

The table below summarises the impact, on pre-tax profits, of a 1 % increase or decrease in GBP interest rates at 31 March 2023. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

	2023		2022	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**443.7**	**(497.4)**	473.1	(556.9)
Equity	**443.7**	**(497.4)**	473.1	(556.9)

(ii) Exchange rate risk sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2023. This analysis assumes that all other variables in the valuation remain constant.

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Financial risk management (continued)

(a) Market risk (continued)

	2023		2022	
	+10%	**-10%**	-10%	+10%
	£m	**£m**	£m	£m
(Loss)/profit	**(132.1)**	**101.0**	(25.6)	(11.2)
Equity	**(132.1)**	**101.0**	(25.6)	(11.2)

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2023. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2023		2022	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
(Loss)/profit	**(756.6)**	**660.6**	(911.0)	771.0
Equity	**(756.6)**	**660.6**	(911.0)	771.0

(b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2023, no collateral was held (2022: £nil).

The following table summarises amounts held on cash at bank and in hand, in money market funds and short-term investments by credit rating of counterparties

	2023	2022
	£m	£m
AAA	**1,295.1**	685.0
A+	**230.0**	-
A	**373.0**	17.5
Total	**1,898.1**	702.5

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk (continued)

Note: funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

The following table summarises fair value of derivative assets by credit rating of counterparties.

	2023 £m	2022 £m
AA-	**72.6**	27.8
A+	**339.7**	147.0
A	**36.8**	17.3
Total	**449.1**	192.1

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the nature and management of the Group's liquidity risk is provided on page 18.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

	2023 £m	2022 £m
Within one year	**2,097.8**	705.2
Between one and two years	**865.0**	1,653.9
Between two and three years	**1,260.9**	822.7
Between three and four years	**1,244.7**	1,174.9
Between four and five years	**1,793.6**	1,274.7
After more than five years	**12,846.0**	12,181.5
Total	**20,108.0**	17,812.9

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2023 £m**	2022 £m
Within one year	**(3,504.1)**	(1,856.1)
Between one and two years	**(1,420.3)**	(2,154.2)
Between two and three years	**(1,981.0)**	(1,283.6)
Between three and four years	**(1,512.7)**	(1,808.3)
Between four and five years	**(2,221.4)**	(1,457.0)
After more than five years	**(24,361.9)**	(24,348.6)
Total	**(35,001.4)**	(32,907.8)

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

Undiscounted amounts payable	**2023 £m**	2022 £m
Within one year	**144.4**	41.2
Between one and two years	**(199.5)**	(60.6)
Between two and three years	**110.9**	(226.6)
Between three and four years	**160.5**	50.0
Between four and five years	**30.5**	85.7
After more than five years	**(2,780.0)**	(2,272.6)
Total	**(2,533.2)**	(2,382.9)

Cash flow hedges

The Group has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 57.

In mid-2014 the Group executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2023, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the relevant hedging period.

During the year, £21.1 million (2022: £31.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 42. The amount recycled of £21.1 million related to the phased release of cash flow hedge reserve where the related debt has been issued and has not matured

The Group's cash flow hedge reserve disclosed on the statement of changes in equity on page 42 relate to forward starting interest rate swaps which have now commenced.

	£m
At 1 April 2021	(59.8)
Cash flow hedges transferred to income statement	31.1
Deferred tax charge on cash flow hedges including impact of tax rate change	(4.5)
At 31 March 2022	(33.2)
Cash flow hedges transferred to income statement	21.1
Deferred tax charge on cash flow hedges	(4.0)
At 31 March 2023	**(16.1)**

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Cash flow hedges (continued)

Following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

As at 31 March *Quantitative*	**2023** **£m**	2022 £m
Cash flow hedges transferred to income statement	**21.1**	31.1

As at 31 March *Qualitative*	**2023**	2022
Line item affected in income statement due to reclassification	Net gains/(losses) on financial instruments	Net losses on financial instruments

The table below shows phasing of amounts to be reclassed to income statement from the cash flow hedge reserve, which relates to the Group's forward starting interest rate swaps which have commenced:

As at 31 March	**2023** **£m**	2022 £m
Interest rate swaps		
Within one year	**(18.7)**	(21.1)
Between one and two years	**(2.8)**	(18.7)
Between two and three years	**-**	(2.8)
Between three and four years	**-**	-
Between four and five years	**-**	-
After more than five years	**-**	-
Total	**(21.5)**	(42.6)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where KWF Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

KWF Group has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as an early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2023 and 31 March 2022. The column 'net amounts' shows the impact on the consolidated statement of financial position if circumstances arose for set-off rights to be applied.

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

Offsetting financial assets and financial liabilities (continued)

As at 31 March 2023	Effects of offsetting on the Consolidated statement of financial position				
	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	**449.1**	**-**	**449.1**	**(301.9)**	**147.2**
	449.1	**-**	**449.1**	**(301.9)**	**147.2**
Financial liabilities					
Derivative financial instruments	**(1,991.8)**	**-**	**(1,991.8)**	**301.9**	**(1,689.9)**
	(1,991.8)	**-**	**(1,991.8)**	**301.9**	**(1,689.9)**
Total	**(1,542.7)**	**-**	**(1,542.7)**	**-**	**(1,542.7)**

As at 31 March 2022

Financial assets					
Derivative financial instruments	192.1	-	192.1	(126.8)	65.3
	192.1	-	192.1	(126.8)	65.3
Financial liabilities					
Derivative financial instruments	(2,341.7)	-	(2,341.7)	126.8	(2,214.9)
	(2,341.7)	-	(2,341.7)	126.8	(2,214.9)
Total	(2,149.6)	-	(2,149.6)	-	(2,149.6)

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 31 March 2023 and 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative benchmark interest rate benchmark:

	Carrying value at 31 March 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	**-**	**(111.4)**	-	**(111.4)**
Amortised cost				
Borrowings[2]	**-**	**(993.9)**	-	**(993.9)**
Total assets and liabilities exposed to GBP LIBOR	**-**	**(1,105.3)**	**-**	**(1,105.3)**

Notes to the Group financial statements (continued)

20. Financial instruments (continued)

IBOR reform (continued)

	Carrying value at 31 March 2022		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2022	
	Assets £m	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	**-**	**(199.8)**	-	**(199.8)**
Amortised cost				
Borrowings[2]	**-**	**(893.8)**	-	**(893.8)**
Total assets and liabilities exposed to GBP LIBOR	**-**	**(1,093.6)**	**-**	**(1,093.6)**

[1] Consists of £111.4 million (2022: £199.8 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 £993.9 million (2022: £893.8 million) relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation
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21. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Cash flow hedges £m	Other (see analysis below) £m	**Total £m**
At 31 March 2021	(1,319.8)	33.8	197.0	55.4	**(1,033.6)**
(Charged)/credited to income statement including impact of tax rate change	(315.7)	(14.8)	200.8	0.6	**(129.1)**
Credited/(charged) to other comprehensive income including impact of tax rate change	-	42.9	(4.5)	-	**38.4**
Other	0.1	-	-	-	**0.1**
At 31 March 2022	(1,635.4)	61.9	393.3	56.0	**(1,124.2)**
Credited/(charged) to income statement including impact of tax rate change	60.7	0.1	(206.6)	179.3	**33.5**
(Charged)/credited to other comprehensive income including impact of tax rate change	-	(17.1)	(4.0)	-	**(21.1)**
At 31 March 2023 (liability)/asset	(1,574.7)	44.9	182.7	235.3	**(1,111.8)**

Other deferred tax comprise of the following net deferred tax assets (all movements in the year were credited to the income statement):

	2023 £m	2022 £m
Tax losses carried forward	31.7	-
Disallowable interest expenses which may be eligible for relief in future (see in footnote 3 of Note 8)	155.5	-
Other short-term timing differences	48.1	56.0
Net deferred tax assets shown above as "Other"	**235.3**	56.0

Notes to the Group financial statements (continued)

21. Deferred tax (continued)

In the Spring Budget 2021, the government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income.

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of the Group's capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences normally increase every year. This year, capital allowances claimed are less than accounting depreciation so the deferred tax liability arising in respect of accelerated tax depreciation has reduced.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is recognised on the retirement benefit obligations booked in the financial statements. The £44.9 million deferred tax asset at 31 March 2023 is the net of an asset of £45.5 million (deficit on the TWPS pension scheme of £182.0 million at 25% tax rate) less a liability of £2.1 million (surplus on the TWMIPS pension scheme of £6.0 million at 35% tax rate) plus an asset of £1.5m (SUURBS deficit of £5.8m at 25% tax rate). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- Cash flow hedges: A deferred tax asset is recognised on certain fair values booked in respect of financial instruments in the financial statements. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Other: A deferred tax asset is recognised on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax relief is available in accordance with the legislation. A deferred tax asset is also recognised on the fair values of loans booked on consolidation; there will be no current tax impact in future but deferred tax charges will arise as these fair values are amortised in the financial statements. As shown in the table above, at 31 March 2023, deferred tax assets have been recognised in respect of tax losses carried forward for use against future taxable profits, and on interest expenses disallowed under the Corporate Interest Restriction rules, which may become eligible for relief in future.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered / settled after more than 12 months are as follows:

At 31 March	**2023** **£m**	2022 £m
Deferred tax assets	**462.9**	511.2
Deferred tax liabilities	**(1,574.7)**	(1,635.4)
Net deferred tax liabilities	**(1,111.8)**	(1,124.2)

In addition, the Group has unrecognised deferred tax assets, primarily in respect of disallowable interest expenses, on which no tax relief has been claimed to date and for which the Group does not anticipate tax relief in the future. The amount of deferred tax assets not recognised at 25% (2022: 25%) is as shown below:

At 31 March	**2023** **£m**	2022 £m
Deferred tax asset not recognised in respect of tax losses	**8.5**	8.5
Deferred tax asset not recognised in respect of restricted interest expenses	**46.7**	54.9
Total	**55.2**	63.4

Notes to the Group financial statements (continued)

22. Provisions for liabilities and charges

	Insured liabilities £m	Capital Infrastructure provision £m	Dilapidations £m	Environmental and legal provisions £m	Other provisions £m	**Total £m**
At 1 April 2022	75.9	13.7	11.3	53.6	31.8	**186.3**
Utilised during the period	(14.7)	(4.6)	(0.6)	(0.1)	(17.2)	**(37.2)**
Additional provisions recognised	39.1	3.6	0.8	25.2	29.3	**98.0**
Unused amounts reversed	(2.8)	-	-	-	(15.1)	**(17.9)**
At 31 March 2023	**97.5**	**12.7**	**11.5**	**78.7**	**28.8**	**229.2**

	Insured liabilities £m	Capital Infrastructure provision £m	Dilapidations £m	Environmental and legal provisions £m	Other provisions £m	**Total £m**
Disclosed within non-current liabilities	78.6	12.7	11.5	70.7	20.7	**194.2**
Disclosed within current liabilities	18.9	-	-	8.0	8.1	**35.0**
At 31 March 2023	**97.5**	**12.7**	**11.5**	**78.7**	**28.8**	**229.2**

The insured liabilities provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 16. The provision is split between current and non current based on management's based estimate of the timing in which claims will be settled.

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. The Group considers it appropriate to classify these as non-current as management do not consider it likely that these will settle in the next 12 months.

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our outsourced property advisor. During the year one additional site has been included, two leases were extended and the provision for two sites were utilised as the lease ended in the current financial year.

Environmental and legal provisions relate to legal claims including environmental and commercial matters. Environmental matters are in relation to the Company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016.

Other provisions relate to other claims and regulatory obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations. Unused amounts reversed relate to previously recognised provisions which were reassessed during the year and it was concluded there is no longer an obligation for these.

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. Contingent liabilities identified have been disclosed in note 25. Timing of settlement of provisions have been estimated based on the nature of the provision and informed by both timelines set and historical benchmarks. Amounts have been classified between current and non-current.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is a risk that the final outcome of legal claims could be materially different to amounts provided, further details can be found within our accounting policies under our significant accounting judgements and key sources of estimation uncertainty.

Notes to the Group financial statements (continued)

23. Share capital and other reserves

Called up share capital

	2023 **£m**	2022 £m
Authorised, allotted, called-up and fully paid:		
977,800,001 (2022: 1,000,001) ordinary shares of £1 each	**977.8**	1.0

The Group has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Group. On 30 March 2023, the Company issued 976.8 million of allotted, called up and fully paid ordinary shares of £1 each. The total proceeds from the issuance amounted to £976.8 million. Refer to the Strategic report for further detail of this transaction.

Other reserves

	2023 **£m**	2022 £m
Cash flow hedge reserve	**(16.1)**	(33.2)
Accumulated losses	**(7,271.6)**	(6,621.9)
Total	**(7,287.7)**	(6,655.1)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the Group financial statements (continued)

24. Retirement benefit obligations

Background

The Group operates four material pension schemes, one of which is a defined contribution scheme and the other three are defined benefit schemes.

<table>
<tr><th></th><th>What are they?</th><th>How do they impact the Group's financial statements?</th></tr>
<tr><td>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 Group that are not members of the defined benefit pension schemes.</td><td>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</td><td>A charge of £28.7 million (2022: £27.1 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 of outstanding contributions (2022: £3.5 million) at the year-end recognised in the statement of financial position.

The Group has no exposure to investment or other experience risks.</td></tr>
<tr><td>Defined Benefit Schemes

Defined benefit arrangements for the Group's eligible employees are provided through three defined benefit pension schemes:

• Thames Water Pension Scheme ("TWPS");
• Thames Water Mirror Image Pension Scheme ("TWMIPS"); and
• The SUURBS Arrangement ("SUURBS").

TWPS and TWMIPS 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.

The SUURBS Arrangement provides retirement benefits to a previous director, and their spouse, of Thames Water Limited, a subsidiary entity in the Group. The scheme is an unfunded arrangement but is secured against assets held by Thames Water Limited ("TWL")</td><td>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 Group</td><td>A charge was recognised in the income statement of £10.0 million (2022: £8.8 million) relating to the following:

• service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period;
• past service cost representing the increase in the defined benefit liability arising from GMP equalisation;
• administrative expenses for the pension schemes; and
• the net interest expense on pension scheme assets and liabilities.

An actuarial gain of £70.6 million (2022: loss of £22.9 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 asset of £6.0 million (2022: £12.0 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £182.0 million (2022: £257.3 million) is recognised in the statement of financial position for the TWPS scheme. A pension deficit of £5.8 million (2022: deficit of £7.2 million) is recognised in the statement of financial position for the SUURBS scheme. As at 31 March 2023, the net pension deficit is £181.8 million (2022: £252.5 million).

The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.</td></tr>
</table>

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2023 these related payments amounted to £nil (2022: £nil).

Notes to the Group financial statements (continued)

24. Retirement benefit obligations (continued)

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the trustees of the pension schemes and the Group. The purpose of this triennial valuation is to evaluate and, if necessary, modify the funding plans of the pension schemes to ensure the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the pension trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the three schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million). The next triennial valuation based on the 31 March 2022 position is currently under progress. Under UK regulations, the Group has 15 months to complete the triennial valuation from the valuation date of 31 March 2022. This review will be completed and signed off after the financial statements have been published and therefore the update to the valuation of the pension will be taken into account in the next financial period.

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 2019 to 31 March 2022. The 2019 funding valuation had been updated to an accounting valuation as at 31 March 2022 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 *Employee Benefits* and shown in this note to the financial statements.

Amounts included in the financial statements in respect of the defined benefit pension schemes

Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

	2023			2022		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Current service cost	**-**	**1.6**	**-**	-	1.5	-
Scheme administration expenses	**-**	**1.5**	**-**	1.3	1.2	-
Net interest cost/(income)	**7.0**	**(0.3)**	**0.2**	5.8	(1.1)	0.1
Total	**7.0**	**2.8**	**0.2**	7.1	1.6	0.1

The net expense is recognised in the following captions within the income statement:

	2023			2022		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Operating expenses	**-**	**3.1**	**-**	1.3	2.7	-
Net finance expense/(income)	**7.0**	**(0.3)**	**0.2**	5.8	(1.1)	0.1
Total	**7.0**	**2.8**	**0.2**	7.1	1.6	0.1

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

	2023 £m	2022 £m
Cumulative actuarial losses recognised at 1 April	**(544.7)**	(521.8)
Actual return less expected return on pension scheme assets	**(629.1)**	(122.4)
Experience (loss)/gain arising on scheme liabilities	**(84.7)**	(84.6)
Gain/(loss) arising due to change in assumptions	**751.4**	179.4
Gain arising due to change in demographic assumption	**33.0**	4.7
Total actuarial gain/(loss)	**70.6**	(22.9)
Cumulative actuarial losses recognised at 31 March	**(474.1)**	(544.7)

Notes to the Group financial statements (continued)

24. Retirement benefit obligations (continued)

Amounts included in the financial statements in respect of the defined benefit pension schemes (continued)

Statement of financial position

The net pension liability recognised within the statement of financial position is as follows:

	2023			2022		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Fair value of scheme assets	**1,145.5**	**538.1**	**-**	1,640.1	698.7	-
Present value of defined benefit obligations	**(1,327.5)**	**(532.1)**	**(5.8)**	(1,897.4)	(686.7)	(7.2)
(Deficit)/surplus	**(182.0)**	**6.0**	**(5.8)**	(257.3)	12.0	(7.2)
Net pension deficit			**(181.8)**			(252.5)

Reconciliation of defined benefit plan assets and liabilities

The movement in the present value of the defined benefit obligations were as follows:

	2023			2022		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,897.4**	**686.7**	**7.2**	2,008.0	713.0	7.6
Current service cost	**-**	**1.6**	**-**	-	1.5	-
Interest cost	**52.3**	**18.4**	**0.2**	41.6	13.9	0.1
Contributions from scheme members	**-**	**-**	**-**	-	-	-
Benefits paid	**(59.1)**	**(39.2)**	**(0.4)**	(55.2)	(39.2)	(0.4)
Actuarial (gains)	**(563.1)**	**(135.4)**	**(1.2)**	(97.0)	(2.5)	(0.1)
At 31 March	**1,327.5**	**532.1**	**5.8**	1,897.4	686.7	7.2

The movements in the fair value of scheme assets were as follows:

	2023			2022		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,640.1**	**698.7**	**-**	1,730.9	770.9	-
Interest income on scheme assets	**45.3**	**18.7**	**-**	35.8	15.0	-
Contributions by sponsoring employers	**7.1**	**2.6**	**-**	3.4	2.1	-
Contributions from scheme members	**-**	**-**	**-**	-	-	-
Administration costs paid from scheme assets	**-**	**(1.5)**	**-**	(1.3)	(1.2)	-
Benefits paid	**(59.1)**	**(39.2)**	**-**	(55.2)	(39.2)	-
Actuarial (gains)	**(487.9)**	**(141.2)**	**-**	(73.5)	(48.9)	-
At 31 March	**1,145.5**	**538.1**	**-**	1,640.1	698.7	-

Notes to the Group financial statements (continued)

24. Retirement benefit obligations (continued)

Analysis of assets

	2023				2022			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total (%)**	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	**16.6**	**-**	**16.6**	**1.0**	41.7	-	41.7	1.8
Rest of World	**103.0**	**-**	**103.0**	**6.1**	422.2	-	422.2	18.0
Bonds								
Government – UK	**52.7**	**-**	**52.7**	**3.1**	72.3	-	72.3	3.1
Government – Rest of World	**100.6**	**-**	**100.6**	**6.0**	101.8	-	101.8	4.4
Corporates – UK	**45.7**	**-**	**45.7**	**2.7**	49.6	-	49.6	2.1
Corporates – Rest of World	**236.2**	**9.8**	**246.0**	**14.7**	256.8	-	256.8	11.0
Property								
UK	**-**	**-**	**-**	**-**	-	-	-	-
Rest of world	**-**	**-**	**-**	**-**	-	-	-	-
Alternative assets								
Liability driven instruments	**914.9**	**-**	**914.9**	**54.3**	1,140.9	-	1,140.9	48.7
Other (including derivatives)	**150.6**	**-**	**150.6**	**8.9**	155.7	-	155.7	6.7
Cash	**53.5**	**-**	**53.5**	**3.2**	97.8	-	97.8	4.2
Total market value of assets	**1,673.8**	**9.8**	**1,683.6**	**100.0**	2,338.8	-	2,338.8	100.0

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Redington. 58.1% (2022: 51.9%) of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

In the current period, Index Linked Gilts amount to £345.2 million and Fixed Interest Gilts amount to £1,221.5 million of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

IAS 19 Assumptions

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

	Approach to set the assumptions
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 31 March 2023.
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 recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

Notes to the Group financial statements (continued)

24. Retirement benefit obligations (continued)

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

	2023			2022		
	TWPS	**TWMIPS**	**SUURBS**	TWPS	TWMIPS	SUURBS
Price inflation – RPI	**3.25%**	**3.30%**	**3.30%**	3.65%	3.85%	3.85%
Price inflation – CPI (Pre 2030)	**1.00%**	**1.00%**	**1.00%**	1.00%	1.00%	1.00%
Price inflation – CPI (Post 2030)	**0.10%**	**0.10%**	**0.10%**	0.10%	0.10%	0.10%
Rate of increase to pensions in payment – RPI	**3.25%**	**3.30%**	**3.30%**	3.65%	3.65%	3.65%
Rate of increase to pensions in payment – CPI (Pre 2030)	**1.00%**	**1.00%**	**1.00%**	1.00%	1.00%	1.00%
Rate of increase to pensions payment – CPI (Post 2030)	**0.10%**	**0.10%**	**0.10%**	0.10%	0.10%	0.10%
Discount rate	**4.80%**	**4.80%**	**4.80%**	2.75%	2.75%	2.75%

Mortality assumptions
The mortality assumptions were based on the post retirement mortality assumptions used for the previous financial year, but updated for the latest CMI 2020 model. The table below illustrates the life expectancies of an average member retiring at age 60 at the year-end reporting data and a member reaching age 60 at the year-end reporting date in 20 years.

	2023		2022	
	TWPS Years	**TWMIPS Years**	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**27.3**	**26.4**	27.7	26.8
Female	**29.6**	**28.8**	29.8	29.1
Life expectancy from age 60 currently age 40:				
Male	**27.9**	**27.6**	28.3	27.9
Female	**30.7**	**30.0**	30.9	30.2

Actuarial risk factors

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

	Definition of risk
Investment risk	Assumptions are made about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long-term then additional contributions will need to be made to the schemes in order to fund the payment of future benefits.
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 Company's contributions to the schemes are based on assumptions about the future levels of inflation, therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit.
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.

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

	2023			2022		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Change in discount rate (+ 1% p.a.)	**(210.0)**	**(50.0)**	**(0.4)**	(345.0)	(85.0)	(0.7)
Change in rate of inflation (-1% p.a.)	**(135.0)**	**(30.0)**	**(0.4)**	(235.0)	(65.0)	(0.7)
Change in life expectancy (-1 year)	**55.0**	**20.0**	**0.2**	75.0	35.0	0.3

Notes to the Group financial statements (continued)

24. Retirement benefit obligations (continued)

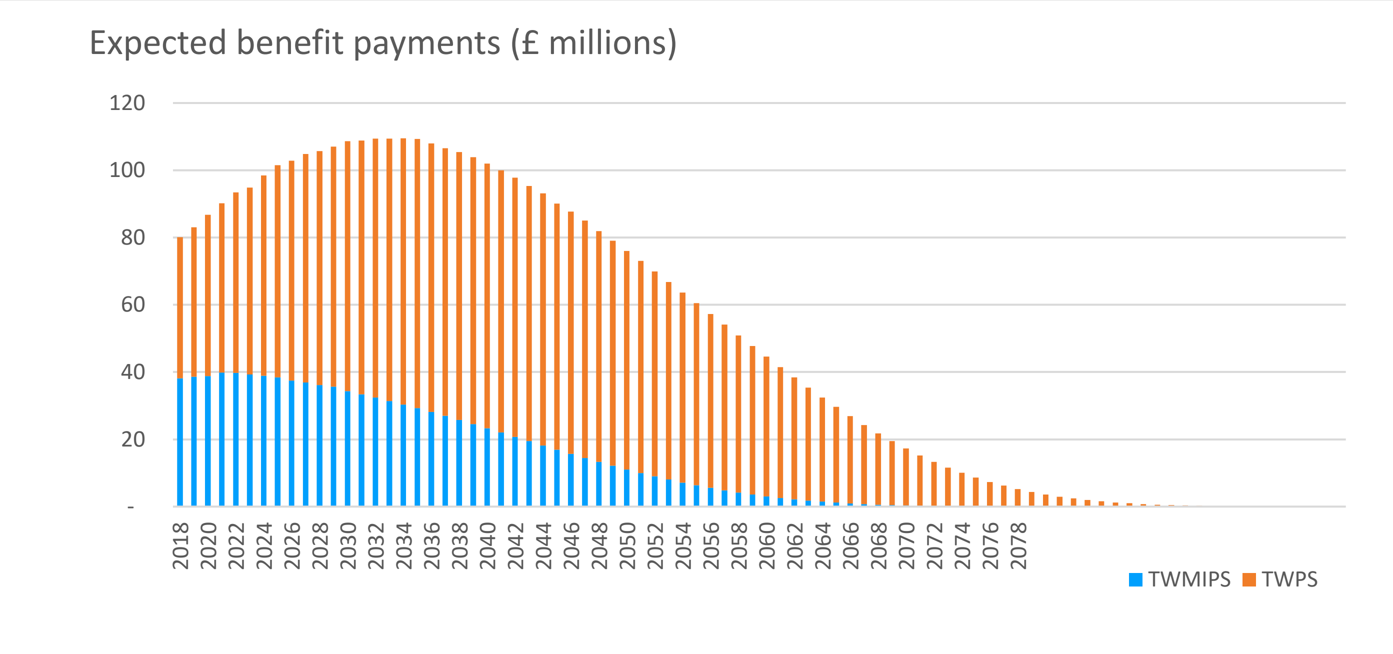
Future expected cash flows

The Group made a pension deficit repair payment of £69.7 million on 30 March 2021 covering the financial periods from 2021/22 to 2024/25, which was treated as an exceptional cash flow in the year ended 31 March 2021. The reduction in average duration of the benefit obligations is driven by rises in interest rates and yields leading to higher discount rates. The Group made a payment of £28.3 million on 1 April 2020 in relation to 2020/21. The average duration of the benefit obligation at the end of the year is 15 years for TWPS and 10 years for TWMIPS (2022: 19 years for TWPS and 13 years for TWMIPS).

In December 2020, the funding valuation as at 31 March 2020 was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	69.7	-	-	-	17.9	17.9	17.9

The expected cash flows payable from the schemes are presented in the graph below:



The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2019. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

25. Capital commitments

	2023 £m	2022 £m
Property, plant and equipment	**826.2**	652.8
Intangible assets	**10.8**	21.2
Contracted for but not provided	**837.0**	674.0

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments have increased during the year due to more investment being made in our infrastructure to help mitigate the challenge of ensuring resilience in our network from the impact of climate change and population growth.

Notes to the Group financial statements (continued)

26. Contingent liabilities

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

The Group is currently defending five sets of court proceedings commenced by different groups of Property Search Companies ("PSCs") seeking refunds of fees paid for property search data, including CON29DW and Commercial DW searches, from 18 December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, free of charge or for a smaller fee. The position is replicated across other Water & Sewerage Companies in England. These claims are considered still at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of the Group.

The Group is subject to investigations being separately led by Ofwat and the Environment Agency into compliance with conditions of environmental permits and sewer overflows. This impacts all Sewerage Companies in England and Wales per obligations set under Instruments of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The Group is providing information requested to support with these ongoing investigations. The outcome of these investigations and the existence of any possible future financial obligations, or other consequences, is unable to be determined at this time.

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 a contingent liability.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 20. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

These arrangements also include the Guaranteed Secured Medium Term Note Programme where the Company guarantees the obligations of TW(K)F including the £400 million Notes issued under the Programme.

27. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- leases not in the scope of IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Group's subsidiary companies, TWUHL, TWUL and TWUF are part of a whole business Securitisation Group. Thames Water Utilities Holdings Limited, the Company and its direct subsidiary, Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed ("STID"). Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt on a post swap basis as at 31 March 2023 was £16.4 billion (2022: £13.8 billion).

Kemble Water Finance Limited and its subsidiary, Thames Water (Kemble) Finance plc (the "Kemble Financing Group") have provided security by way of a debenture over each of their assets in relation to monies owed by the Kemble Financing Group under certain financing arrangements which accede from time to time as secured debt pursuant to an intercreditor agreement. Pursuant to the intercreditor agreement, Kemble Water Finance Limited also guarantees the obligations of its subsidiary, Thames Water (Kemble) Finance plc pursuant to any secured indebtedness it may raise.

Notes to the Group financial statements (continued)

28. Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of TWUL and TWUF. The guaranteed debt on a post swap basis at 31 March 2023 was £16.4 billion (2022: £13.8 billion).

At 31 March 2023 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £5.0 million (2022: £5.0 million). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8 million (2022: £0.8 million).

Kemble Water Finance Limited and its subsidiary, Thames Water (Kemble) Finance plc (the “Kemble Financing Group”) have provided security by way of a debenture over each of their assets in relation to monies owed by the Kemble Financing Group under certain financing arrangements which accede from time to time as secured debt pursuant to an intercreditor agreement. Pursuant to the intercreditor agreement, Kemble Water Finance Limited also guarantees the obligations of its subsidiary, Thames Water (Kemble) Finance plc pursuant to any secured indebtedness it may raise. The total amount of debt outstanding (face value) at the Kemble Water Finance Limited level at 31 March 2023 amounts to £949.8 million (2022: £949.8 million).

The total amount of guaranteed secured debt (face value) raised at the Thames Water (Kemble) Finance plc level outstanding at 31 March 2023 is £400.0 million (2022: £515.1 million).

29. Statement of cash flows

Reconciliation of operating profit to operating cash flows

		2023			2022	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	**(805.3)**	**102.2**	**(703.1)**	(1,718.0)	68.7	(1,649.3)
Less finance income	**(178.2)**	**-**	**(178.2)**	(121.0)	-	(121.0)
Add finance expense	**1,508.3**	**-**	**1,508.3**	1,269.1	-	1,269.1
Add interest paid on lease liability	**1.4**	**-**	**1.4**	3.2	-	3.2
Less net (gains)/add net losses on fair value of financial instruments	**(122.3)**	**-**	**(122.3)**	895.5	-	895.5
Add taxation on (loss)/profit on ordinary activities	**(154.0)**	**(17.8)**	**(171.8)**	(7.3)	16.1	8.8
Operating profit	**249.9**	**84.4**	**334.3**	321.5	84.8	406.3
Depreciation on property, plant and equipment	**658.7**	**-**	**658.7**	645.8	-	645.8
Impairment of property, plant and equipment	**18.2**	**-**	**18.2**	10.0	-	10.0
Depreciation on right of use assets	**8.8**	**-**	**8.8**	5.7	-	5.7
Amortisation of intangible assets	**66.0**	**-**	**66.0**	55.6	-	55.6
Loss/(profit) on sale of property, plant and equipment	**3.0**	**-**	**3.0**	(1.4)	-	(1.4)
Difference between pension charge and cash contribution	**(7.0)**	**-**	**(7.0)**	(1.9)	-	(1.9)
(Decrease)/increase in inventory	**(7.9)**	**-**	**(7.9)**	1.9	-	1.9
Increase in trade and other receivables	**(62.0)**	**(70.9)**	**(132.9)**	(3.9)	(82.1)	(86.0)
Decrease/(increase) in contract assets	**(2.5)**	**3.3**	**0.8**	(11.5)	(2.7)	(14.2)
Increase/(decrease) in trade and other payables	**52.5**	**(13.0)**	**39.5**	51.1	1.7	52.8
Increase/(decreased) in contract liabilities	**94.7**	**(2.0)**	**92.7**	77.7	(0.1)	77.6
Group relief received	**22.8**	**-**	**22.8**	215.9	-	215.9
Increase in provisions	**42.8**	**-**	**42.8**	41.3	-	41.3
Cash generated from operations	**1,138.0**	**1.8**	**1,139.8**	1,407.8	1.6	1,409.4

Non-cash transactions

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases. Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Notes to the Group financial statements (continued)

29. Statement of cash flows (continued)

Movement in cash and cash equivalents

	2023 **£m**	2022 £m
Movement in cash	**(19.5)**	11.1
Movement in money market funds	**1,215.1**	(115.4)
Total	**1,195.6**	(104.3)

30. Ultimate parent company and controlling party

Kemble Water Eurobond plc, a company incorporated in the United Kingdom, is the immediate parent company. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the only group in which the results of the Company are consolidated.

Copies of the financial statements of the above companies may be obtained from The Company Secretary's Office, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

31. Related party transactions

Key management personnel

Key management personnel comprise the members of the Board of Directors of the Company and the Executive Directors of the Group's principal trading subsidiary, Thames Water Utilities Limited, who have a direct impact on the Company's affairs during the year.

	2023 **£'000**	2022 £'000
Short-term employee benefits	**1,779.7**	2,907.2
Post-employment benefits	**144.0**	173.9
Termination benefits	**-**	111.1
Other	**744.0**	728.5
Total	**2,667.7**	3,920.7

Other benefits includes medical benefits, car allowances and other incentives.

The Group's borrowings include a £100.0 million fixed rate note due 2025 with a book value of £98.9 million. The noteholder is OCM Credit Portfolio LP. OCM Credit Portfolio LP is a member of the Ontario Municipal Employees Retirement System ("OMERS") group which, via a separately managed group of companies within the OMERS group owns, indirectly, 31.8% of the Company. The terms of the notes, including the coupon payable, are the same market rates as all fixed rate notes issued by the Company in 2018 and due in 2025, a total of £310.0 million.

32. Post balance sheet events

Since 31 March 2023, a total of £370.7 million Class B Revolving Credit Facilities and a £300.0 million Class B bond were repaid.

Notes to the Company financial statements

33. Investment in subsidiaries

	2023 £m	2022 £m
Cost of shares in subsidiary undertakings	**4,792.3**	4,292.3
Net book value	**4,792.3**	4,292.3

A full listing of direct and indirect subsidiary and associated undertakings has been included in note 42 to these financial statements. Investments in subsidiaries are stated at cost, less any provision for impairment. We have performed analysis on a fair value less costs to sell basis, this has been calculated using key inputs consisting of RCV as at 31 March 2023, RCV premium, gearing and expected interest settlements. This impairment would be recognised within the Company income statement only. An impairment review is performed on an annual basis.

In March 2023, Kemble Water Holdings Limited issued £515.0 million of Convertible Loan Notes to its shareholders with net proceeds of £500.0 million after upfront fees. The net proceeds were cascaded by Kemble Water Holdings Limited to Kemble Water Eurobond plc and then further cascaded to the Company which then used the proceeds to invest £500.0 million of equity in Thames Water Limited. The net proceeds were further cascaded by Thames Water Limited to TWUL via intermediate holding companies.

34. Other receivables

	2023 £m	2022 £m
Other receivables	**0.9**	0.3
Amounts owed by group undertakings	**405.9**	428.7
Amounts receivable in respect of group relief	**165.3**	168.7
	572.1	597.7
Disclosed within non-current assets	**303.2**	332.1
Disclosed within current assets	**268.9**	265.6

Included within amounts owed by group undertaking are 3 unsecured intercompany loans with Thames Water Limited, including:

- £249.8 million (2022: £249.8 million) with an interest rate of 5.47% repayable on demand
- £20.5 million (2022: £50.0 million) with an interest rate of 5.40% repayable on demand
- £32.0 million (2022: £32.0 million) with an interest rate of 5.46% repayable on demand

Separately there is an intercompany receivable owed by Thames Water Limited of which £50.0 million (2022: £50.0 million) remains outstanding at 31 March 2023 and is interest free and repayable on demand.

These loans are repayable on demand, however the Directors confirm that there will be no repayment within 12 months and letters of comfort have been provided to the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing the financial statements. Therefore, the principal amounts of these unsecured intercompany loans (listed above) included within amounts owed to group undertakings have been classified as non-current.

35. Deferred tax assets

An analysis of movements in the deferred tax assets recognised by the Company is set out below:

	Other short-term timing differences £m	**Total £m**
At 1 April 2021	6.7	**6.7**
Charged to income statement including impact of tax rate change	(0.6)	**(0.6)**
At 31 March 2022	6.1	**6.1**
Charged to income statement including impact of tax rate change	(1.7)	**(1.7)**
At 31 March 2023	4.4	**4.4**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are reflected in these financial statements.

Notes to the Company financial statements (continued)

35. Deferred tax assets (continued)

In addition, the Company has unrecognised deferred tax assets in respect of disallowable interest expenses on which no tax relief has been claimed to date and for which the Company does not anticipate tax relief in the future. The total amount of deferred tax asset unrecognised at 31 March 2023 was £202.2 million (2022: £35.8 million) which has been calculated at the 25% corporation tax rate (2022: 25%).

36. Cash and cash equivalents

	2023	2022
	£m	£m
Cash at bank and in hand	**0.1**	0.1
Money market funds	**44.9**	249.7
Total	**45.0**	249.8

37. Trade and other payables

	2023	2022
	£m	£m
Other payables	**0.6**	0.2
Total	**0.6**	0.2
Disclosed within non-current liabilities	**-**	-
Disclosed within current liabilities	**0.6**	0.2

38. Borrowings

	2023	2022
	£m	£m
Secured bank loans and private placements	**943.0**	940.4
Amounts owed to group undertakings	**3,619.4**	3,734.1
	4,562.4	4,674.5
Interest payable on secured bank loans and private placements	**18.3**	14.6
Interest payable on amounts owed to group undertakings	**4,528.0**	4,358.2
	4,546.3	4,372.8
Total	**9,108.7**	9,047.3
Disclosed within current liabilities	**25.2**	138.0
Disclosed within non-current liabilities	**9,083.5**	8,909.3

Notes to the Company financial statements (continued)

38. Borrowings (continued)

Breakdown of secured bank loans and private placements

	2023 **£m**	2022 £m
Kemble Water Finance Limited:		
£200.0m floating rate loan due 2025 (a), (b)	**199.2**	198.8
£4.5m 5.3% fixed rate loan due 2025 (a)	**4.5**	4.4
£5.5m 5.3% fixed rate loan due 2025 (a)	**5.5**	5.4
£100.0m 5.3% fixed rate loan due 2025 (a)	**99.1**	98.9
£200.0m 5.3% fixed rate loan due 2025 (a)	**198.2**	197.7
£149.8m 5.39% fixed rate loan due 2026 (a)	**148.4**	148.0
£190.0m floating rate loan due 2024 (a), (b)	**189.1**	188.2
£50.0m 5.26% private placement due 2027 (a)	**49.6**	49.6
£50.0m 5.27% private placement due 2028 (a)	**49.4**	49.4
Kemble Water Finance Limited total	**943.0**	940.4
Total secured bank loans and private placements	**943.0**	940.4

(a) These loans and private placements are shown net of issuance costs.
(b) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).

Breakdown of amounts owed to group undertakings

	2023 **£m**	2022 £m
Thames Water (Kemble) Finance plc		
£175.0m 5.75% fixed rate bond due 2022 (a)	**-**	115.0
£400.0m 4.625% fixed rate bond due 2026 (b)	**399.0**	398.7
Kemble Water Eurobond plc		
£3,100.6m 10.0% fixed rate loan due on demand (d)	**3,100.6**	3,100.6
Thames Water Investments Limited		
£15.0m floating rate loan due on demand (c), (d)	**15.0**	15.0
Thames Water Limited		
£136.3m floating rate loan due on demand (c), (d), (e)	**104.8**	104.8
Total unsecured amounts owed to group undertakings	**3,619.4**	3,734.1

(a) During the year ended 31 March 2021, £62.6 million was paid by the Company towards repayment of £59.9 million principal as early part repayment of a £175.0 million intercompany loan. The difference between the amount paid and the principal settled on the intercompany loan of £2.7 million was recognised as a loss on part settlement of amounts owed to group undertakings. The remaining £115.1 million was paid by the Company to TW(K)F when due in July 2022.
(b) This bond is on-lent at equivalent interest rate to the external borrowing rate, plus 0.10%.
(c) This loan incurred interest at SONIA+0.7766% (2022: LIBOR + 0.5%)
(d) These loans are repayable on demand, however the Directors confirm that there will be no repayment within 12 months and letters of comfort have been obtained from the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing the financial statements. Therefore, these amounts owed to group undertakings have been classified as non-current.
(e) In March 2022, the Company repaid £31.5 million of the £136.3 million floating rate loan.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies. The Company does not hold any derivative financial assets or liabilities (2022: none).

Notes to the Company financial statements (continued)

39. Financial instruments

The carrying values of the financial assets and liabilities are as follows:

	2023 £m	2022 £m
Financial assets:		
Fair value through profit or loss		
Cash and cash equivalents – money market funds	**44.9**	249.7
Amortised cost		
Trade and other receivables (excluding prepayments)	**572.1**	597.7
Cash and cash equivalents – cash at bank and in hand	**0.1**	0.1
Total	**617.1**	847.5
Financial liabilities:		
Amortised cost		
Trade and other payables (excluding other taxes and social security)	**(0.6)**	(0.2)
Borrowings	**(9,108.7)**	(9,047.3)
Total	**(9,109.3)**	(9,047.5)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Company's financial assets and financial liabilities are set out in the tables below:

	2023		2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Trade and other receivables (excluding prepayments)	**303.2**	**303.2**	332.1	332.1
Current				
Trade and other receivables (excluding prepayments)	**268.9**	**268.9**	265.6	265.6
Cash and cash equivalents	**45.0**	**45.0**	249.8	249.8
Total	**617.1**	**617.1**	847.5	847.5
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(943.0)**	**(903.5)**	(940.4)	(935.2)
Amounts owed to group undertakings	**(3,619.4)**	**(3,575.1)**	(3,619.1)	(3,606.3)
Interest payable	**(4,521.1)**	**(4,521.1)**	(4,349.8)	(4,358.3)
Current				
Borrowings:				
Amounts owed to group undertakings	**-**	**-**	(115.0)	(118.0)
Interest payable	**(25.2)**	**(25.2)**	(23.0)	(23.0)
Trade and other payables (excluding other taxes and social security)	**(0.6)**	**(0.6)**	(0.2)	(0.2)
Total	**(9,109.3)**	**(9,025.5)**	(9,047.5)	(9,041.0)

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Capital risk management

Details of the Group's capital risk management strategy can be found in note 20. The capital structure of the Company is as follows:

	2023 £m	2022 £m
Cash and cash equivalents	**45.0**	249.8
Secured bank loans and private placements	**(943.0)**	(940.4)
Interest payable on secured bank loans and private placements	**(18.3)**	(14.6)
Amounts owed to group undertakings	**(3,619.4)**	(3,734.1)
Interest payable on amounts owed to group undertakings	**(4,528.0)**	(4,358.2)
Net debt	**(9,063.7)**	(8,797.5)
Deficit attributable to the parent Company	**(3,695.5)**	(3,901.6)

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. Details of the nature of each of these risks along with the steps the Company has taken to manage them is described below. The Company's activities expose it to market, credit and liquidity risk.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates that could affect the Company's value of the financial instruments it holds. Below is the effective interest rate profile of the debt held by the Company:

As at 31 March 2023:	Total at fixed rates £m	Total at floating rates £m	**Total £m**
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	**4,054.4**	**508.0**	**4,562.4**
Total	**4,054.4**	**508.0**	**4,562.4**

As at 31 March 2022:	Total at fixed rates £m	Total at floating rates £m	Total £m
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	4,167.7	506.8	4,674.5
Total	4,167.7	506.8	4,674.5

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	Weighted average interest rate for fixed rate debt		Weighted average period until maturity for which rate is fixed for fixed rate debt	
	2023 %	2022 %	**2023 Years**	2022 Years
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	**8.8**	8.8	**11.8**	12.4
Total	**8.8**	8.8	**11.8**	12.4

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2023. This analysis considers the effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2023		2022	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(3.9)**	**3.9**	(3.9)	3.9
Equity	**(3.9)**	**3.9**	(3.9)	3.9

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, therefore the maximum exposure to credit risk at the year-end date was £617.1 million (2022: £847.5 million).

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in note 38.

The maturity profile of the Company's financial liabilities disclosed in the statement of financial position are given below.

	2023	2022
	£m	£m
Within one year	**-**	115.0
Between one and two years	**189.1**	-
Between two and three years	**506.5**	188.2
Between three and four years	**547.2**	505.2
Between four and five years	**49.7**	546.7
After more than five years	**3,269.9**	3,319.4
Total	**4,562.4**	4,674.5

Cash flows from non-derivative financial liabilities.

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2023**	2022
	£m	£m
Within one year	**(74.8)**	(185.9)
Between one and two years	**(255.3)**	(67.2)
Between two and three years	**(565.3)**	(250.9)
Between three and four years	**(568.4)**	(563.5)
Between four and five years	**(54.0)**	(568.4)
After more than five years	**(3,271.7)**	(3,325.7)
Total	**(4,789.5)**	(4,961.6)

Notes to the Company financial statements (continued)

40. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2023 **£m**	2022 £m
Loss for the financial year	**(770.7)**	(626.6)
Add finance expense	**820.7**	769.9
Less finance income	**(16.9)**	(17.9)
Decrease in intercompany receivables	**0.1**	35.1
Less taxation on loss on ordinary activities	**(33.5)**	(125.3)
Increase/(decrease) in intercompany payables	**0.4**	(2.8)
Group relief received	**38.9**	280.8
Cash generated in operations	**39.0**	313.2

41. Related party transactions

During the year, Kemble Water Eurobond plc ("KWE"), the Company's immediate parent, charged the Company interest of £742.2 million (2022: £696.5 million) in respect of the £3,100.6 million 10% fixed rate loan due on demand. Also during the year, the Company repaid interest of £574.5 million in respect of this loan (2022: £216.1 million). As at 31 March 2023, the amount payable to KWE, including loan principal and interest thereon, was £7,613.9 million (2022: £7,446.2 million).

The Company pays and receives interest to and from subsidiary undertakings in the normal course of business. Total net interest expense to and from subsidiary undertakings during the year was £6.3 million (2022: £8.5 million).

As at 31 March 2023 net amounts owed by the Company to subsidiary undertakings was £127.6 million (2022: £217.4 million). As at 31 March 2023 and 31 March 2022, no related party receivables or payables were secured and no guarantees were issued. Balances will be settled in accordance with normal credit terms.

Notes to the Company financial statements (continued)

42. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings

At 31 March 2023 the Company held the following principal interests, all of which are either wholly or jointly owned either directly or indirectly through its subsidiary investments.

	Principal activity	Country of incorporation	Country of tax residence	Class of shares held	Proportion of voting rights and shares held
Direct					
Thames Water (Kemble) Finance plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Indirect					
Thames Water Utilities Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Limited	Water & Wastewater Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Finance plc	Finance company	United Kingdom	United Kingdom	Ordinary	100%
Kennet Properties Limited	Property company	United Kingdom	United Kingdom	Ordinary	100%
Innova Park Management Company Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Property Services Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
PWT Projects Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Non-trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Investments Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Foudry Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	50%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Non-trading Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Senior Executive Pension Trustees Limited	Non-trading Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia Pte Limited	Legacy Investment	Singapore	Singapore	Ordinary	100%

The address of the registered office of all the above companies is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB with the exception of:

- Thames Water Asia Pte Limited (80 Robinson Road #02-00, Singapore, 68898)