Registered number: 05819317 (England & Wales)

Kemble Water Finance Limited

Interim report and financial statements

For the six month period ended 30 September 2023

Contents

Director's Report

Introduction

This report comprises a business and financial overview of Kemble Water Finance Limited for the six month period ended 30 September 2023 and constitutes unaudited key financial data and narrative review of performance over this period.

Kemble Water Finance Limited (the "Company" or "KWF") is an intermediate holding company in the Kemble Water Holdings Group of Companies (the "KWH Group"). The Kemble Water Finance Group of Companies (the "Group") represents the consolidation of Kemble Water Finance Limited and its subsidiaries.

The Company is party to various financing agreements which require the Group to prepare unaudited consolidated financial statements. This interim report and financial overview has been prepared to meet these requirements and has been approved by the Company's Board as fairly representing the Group's consolidated financial position as at 30 September 2023 and its performance for the six month period ended 30 September 2023.

Business review

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 together with TW(K)F have £1,350 million of external debt, £950 million of which has been raised directly by the Company and £400 million by TW(K)F.
Three companies within the Group, namely Thames Water Utilities Limited ("TWUL" or "Thames Water"), Thames Water Utilities Holdings Limited (TWUHL") and Thames Water Utilities Finance plc ("TWUF"), are part of a Whole Business Securitisation Group ("WBS Group"). The companies within the whole business securitisation group raise debt in external debt markets through the issuance of secured bonds and loans. The structurally subordinated debt issued by KWF and TW(K)F has been issued outside of the whole business securitisation group.

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

In addition, the Group operates a separately managed property business which manages the Group's property portfolio including the sale of land and property no longer required by the regulated business.

Consequently, the Group's performance is largely dependent on the performance of TWUL and, as such, this report should be read alongside the interim financial statements for this entity which details its operating and financial performance for the six month period ended 30 September 2023. These can be located on the Thames Water website at https://www.thameswater.co.uk/about-us/investors/our-results.

The Group's management structure separates the Directors of the Company, who are all Non-Executives, and have no role to play in the day-to-day running of the appointed business (although certain matters require the approval of the Company's board having regard to the interests of its shareholders). In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group.

Principal risks and uncertainties

On 10 July 2023 shareholders provided a letter setting out further funding support of £750 million during the remainder of AMP7, subject to specific conditions including Investment Committee approval by each shareholder. The Board continues to carefully monitor on a regular basis progress towards achieving the shareholder funding and satisfaction of the conditions for this and has undertaken prudent contingency planning to assess what options may be available to maintain services whilst seeking to restore financial resilience should this be required. In a scenario where the funding was not forthcoming, we would consider all options available at that time and could revise our business plan to fit within the then available funding. Implementing such a revised business plan would deliver less for customers, communities and the environment, and if that resulted in a failure to comply with relevant standards it could lead to enforcement action by regulators (including Ofwat).

On 2 October 2023, we submitted our business plan to Ofwat for AMP8 and this is now subject to their consideration. A draft determination is due in mid-2024, and in December 2024 we will receive the final determination which will confirm our funding allowances for AMP8. There is no assurance as to what funding will be allowed, although Ofwat is required to exercise and perform its duties in the manner which it considers is best calculated to ensure Thames Water is able to finance the proper carrying out of its functions.

The risk landscape remains challenging due to exposure to significant uncertainty and volatility due to concurrent macroeconomic and natural factors including energy prices, inflation (including construction prices), interest rates, currency exchange rates, and the possibility of extreme weather. The timing, volatility, unpredictability, and interaction of these factors alone and in combination creates uncertainty as well as additional stress on our water and wastewater networks. In particular, damage and flooding of the wastewater network and supply interruptions and visible leakage on our water network.

Looking ahead, from a commercial perspective, in current supply markets the biggest risk TWUL currently faces is around the sourcing of raw material and product shortages alongside inflation risks due to historically high energy and fuel costs. However, we continue to be exposed to inflationary pressures in FY24, which could impact our cost base and also increase the risk to cash collection rates.

Director's Report (continued)

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 almost entirely dependent on Thames Water Utilities Limited ("TWUL"), which is the regulated entity, 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.

Reflecting 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 30 September 2023. The section below, "Summary of TWUL going concern assessment" outlines the basis on which 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 for 2023/24 Interim 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 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. The Board continues at this time to have sufficient confidence that it remains the intention of the Shareholders to provide the additional funding and constructive discussions remain ongoing between Ofwat, Shareholders, Thames and other stakeholders, although the conditions have not yet been satisfied, Kemble Water Holdings Limited confirmed to Thames Water Utilities Limited on 1 December 2023 that the 10 July 2023 letter remains in effect subject to its terms and conditions. For the purposes of assessing covenant compliance, it is therefore reasonable to include the indicated level of support in the financial year ending 31 March 2024 for the purposes of calculating forecast covenant metrics.

The Board will continue to carefully monitor on a regular basis progress towards achieving the shareholder funding and satisfaction of the conditions for this and has undertaken prudent contingency planning to assess what options may be available to maintain services whilst seeking to restore financial resilience should this be required. The Board further notes that in the scenario where the funding was not forthcoming, Thames Water would consider all options available at that time and could revise its business plan to fit within the then available funding, and adjust total expenditure down accordingly. Implementing such a revised business plan would deliver less for customers, communities, and the environment and if that resulted in a failure to comply with relevant standards that could lead to enforcement action by regulators (including enforcement action by Ofwat). However, the Board considers even if the funding was not forthcoming the Group would continue to have adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due.

On 2 October 2023, TWUL submitted its business plan to Ofwat for AMP8 and this is now subject to consideration by Ofwat. In December 2024 Thames Water will receive its final determination which will confirm its funding allowances for AMP8, with a draft determination due in mid-2024. There is no assurance at this point in time as to what funding will be allowed. However, the Board notes that Ofwat is required to exercise and perform its duties in the manner which it considers is best calculated to ensure that Thames Water is able (in particular, by securing reasonable returns on its capital) to finance the proper carrying out of its functions and that Thames Water will need to secure a price control for AMP8 that, in the round, allows it to both deliver record levels of investment for the benefit of the customers, communities and environment it serves, and offer investors an opportunity to earn the returns required to finance it.

The TWUL Group's liquidity position and cashflow 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 30 September 2023, such liquidity consisted of £0.9 billion of available cash and cash equivalents, access to £3.1 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 Group to be clearly segregated from other parts of the Kemble Water Holdings Limited group and their financing arrangements
- There are controls on the Group's activities to ensure a focus is maintained on delivering its regulated business

Director's Report (continued)

Going Concern (continued)

Summary of TWUL Group going concern assessment (continued)

- 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 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 cashflows.

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 cashflows, 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 business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of 12 months from the date of signing of the financial statements.

The TWUL directors have also considered the consequences of a Trigger Event, a feature of the TWUL's 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 TWUL 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 from Thames Water Utilities Limited 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 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 Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Conclusion

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 potentially 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 would result 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 allowing TWUL the ability to make dividend payments at its discretion. 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: (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 obtaining additional short term support from shareholders, however there is no assurance that such support would be forthcoming.

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 forecasted to be compliant. In a scenario where forecasted to be non-compliant, KWF Directors may exercise an equity cure prior to the delivery of the compliance certificate which would therefore prevent an event of default taking place. The debt facilities at KWF and TW(K)F contain an equity cure provision which allows shareholders to inject capital into KWF to remedy financial covenants which were not compliant with the required thresholds. Exercising such an equity cure requires sufficient funds being in place at KWF's parent companies. Furthermore, an equity cure cannot be exercised in two successive periods.

Overall, there is a material uncertainty related to the ability to refinance the £190 million loan facility with Kemble Water Finance Limited before April 2024. This 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.

Director's Report (continued)

Financial review

The key measures of financial performance of the Group are detailed below, all of which are used by the Board of Directors in assessing performance.

	Six month period ended 30 September 2023		Six month period ended 30 September 2022	
	Underlying[1]	**Total**	Underlying	Total
Revenue (£m)	**1,211.8**	**1,270.6**	1,093.8	1,136.2
Operating expenses (£m)	**(1,065.3)**	**(1,065.6)**	(981.5)	(981.6)
Other operating income (£m)	**69.5**	**69.5**	51.4	51.4
Operating profit (£m)	**216.0**	**274.5**	163.7	206.0
Net finance expense (£m)	**(660.0)**	**(660.0)**	(680.8)	(680.8)
Net gains on financial instruments (£m)	**169.0**	**169.0**	580.0	580.0
(Loss)/profit before tax (£m)	**(275.0)**	**(216.5)**	62.9	105.2
Loss after tax (£m)	**(221.7)**	**(177.8)**	(61.9)	4.0
Capital expenditure including intangibles (£m)	**1,049.0**	**1,049.0**	808.3	808.3
Statutory net debt (£m)	**(24,188.1)**	**(24,188.1)**	(22,990.2)[2]	(22,990.2)[2]
Gearing (%)[3]	**86.4**	**n/a**	87.0	n/a
Credit rating[4]	**n/a**	**Baa2 stable / BBB watch negative**	n/a	Baa2 stable / BBB stable

[1] Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"), the independent company responsible for the construction of the Thames Tideway Tunnel. As this money is not retained by us, we exclude it from our underlying results, as required by some of our financial covenants

[2] The comparative for the statutory net debt figures is the year end balance as at 31 March 2023

[3] Ratio of covenant net debt to Regulatory Capital Value ("RCV")

[4] Representing the consolidated Corporate Family Rating assigned by Moody's to Thames Water Utilities Limited / S&P Class A debt of the securitisation group. Moody's published an Issuer Comment on 29 June 2023, with no change to the rating. On 30 June 2023 S&P put the securitisation group debt ratings on CreditWatch negative (previously stable). On 27 March 2023, Fitch downgraded TWKF's senior secured debt rating from B+ to B and maintained negative outlook. In March 2023, Moody's applied a negative outlook to the rating of TWKF's senior secured debt (previously stable), and on 21 July 2023 Moody's downgraded that rating from B1 to B2 and maintained negative outlook.

Group revenue

Underlying revenue for the six-month period ended 30 September 2023 has increased by £118 million to £1,212. This increase was predominantly driven primarily by inflation-linked tariff increases.

During the six-month period to 30 September 2023, we have seen a £12 million increase in our overall bad debt cost to £48 million. This reflects the impact of declining real wages on cash collections.

Operating expenses

Total operating expense has increased by £84 million to £1,066 million. The increase is primarily driven by:

- A £29 million increase in our employment costs as we invested to improve our service to customers by insourcing, and supported our employees through the cost-of-living crisis
- A £15 million increase in bad debt costs (excluding amounts deducted from revenue)
- £7 million increase in rates, driven by a new valuation period.
- £5 million increase in raw materials and consumables, driven by a continued increases in chemical prices due to previous higher energy costs.

Net finance expense

To keep our investment programme affordable for our customers, and to protect them from volatility in bills, we borrow from external institutions and through external debt capital markets. We are required to pay interest on these borrowings leading to a net finance expense. Our net finance expense for the first six months of the year was £660 million, excluding £97 million finance expense that is directly attributable to constructing specific assets included in the cost of the asset.

Our statutory net debt, essentially our borrowings plus lease liability less cash and cash equivalents and short-term investments, has increased by £1,198 million since 31 March 2023, to £24,188 million. This is primarily driven by a £381 million increase in intercompany loan interest payable to immediate parent, Kemble Water Eurobond plc and a £981 million reduction in cash and cash equivalents, partially offset by a £300 million reduction in bonds due to repayment of a maturity in May 2023, due to expenditure in the delivery of capital investment programme.

Director's Report (continued)

Financial instruments

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

We have £13,270 million of derivative financial instruments (notional value). For the purposes of our financial statements, we are required to "fair value" our portfolio as at the reporting date. We report these non-cash value movements within our Income Statement creating volatility in our reported profit before tax. During the six month period a net gain of £169 million on financial instruments has been recognised in the income statement.

This is primarily driven by a £142 million net gain arising on swaps where hedge accounting is not applied, a £36 million net foreign exchange gain on foreign currency borrowings, partially offset by a £9 million loss on a cash flow hedge transferred from equity.

Taxation

The total tax credit in the current period comprises a current tax credit of £98 million, arising from the sale of tax losses to companies in the KWH Group, and a deferred tax charge of £59 million reflecting movements in fixed assets and the fair value of derivatives.

Our tax position remains an area of focus for many. We continue to be transparent about our finances and seek to describe these in a simple and straightforward way. Our tax strategy is available on our website. All intercompany interest paid is due to group companies that are tax resident in the UK.

Capital expenditure

In the first six months of the year, we invested £1,049 million in our assets, including £97 million relating to capitalised borrowing costs. The £241 million year-on-year increase reflects the ramp up in our AMP7 investment programme to increase the resilience of our network and to help mitigate the impacts of climate change and population growth.

This included:

- £303 million invested through our in-house Capital Delivery vehicle, including: £41 million on water distribution mains replacement and rehabilitation in London and the Thames Valley; and, £20 million on the installation of new water trunk mains, including the Faringdon to Blunsdon route
- £125 million invested on our water network to reduce leakage and improve our trunk main network
- £77 million on major projects, including £34 million upgrading our major sewage treatment works at Beckton, Mogden, Greenwich and Crossness
- £16 million on connecting our network to the Thames Tideway Tunnel, including £8 million on the Beckton Inlet works
- £46 million on our metering programme

Group debt

TWUL, as the principal trading subsidiary of the Group, is the entity that generates substantially all of the cash needed by the Group to service borrowings made against the Regulatory Capital Value ("RCV"). For the debt held outside of the securitised group, TWUL's dividends are passed up the Group structure to provide funding to service debt held at the Group level.

Within the securitised group TWUL is an obligor, underwriting all the securitised debt. In addition to the debt that TWUL holds directly, TWUL also, through on-lending arrangements for borrowings in its financing subsidiary TWUF, services the debt held in that company. Structurally subordinated debt is issued outside the securitised group. The Group has adequate cash and available facilities outside of TWUL to enable it to service that debt for at least twelve months from the date of these financial statements.

Credit rating

In March 2023, Fitch downgraded the Company's senior secured debt rating to B and Long-Term Issuer Default Rating to 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, and then in July 2023 downgraded the rating to B2 and maintained the negative outlook.

There has been no change in our Moody's WBS Group credit ratings during the current financial year and those ratings remain: Baa2 with a stable outlook (Corporate Family Rating); Baa1 with a stable outlook (Class A); and Ba1 with a stable outlook (Class B) debt rating. In June, S&P put our credit ratings on negative watch but they are otherwise unchanged. Our S&P ratings are: BBB on CreditWatch negative (Class A); and BB+ on CreditWatch negative (Class B).

Under the terms of our Instrument of Appointment, we are required to maintain investment grade credit ratings, as assigned by external rating agencies. This supports our ability to access efficiently priced debt across a range of markets to fund our investment programmes, whilst keeping bills affordable for our customers.

Director's Report (continued)

Dividends

TWUL paid no dividends in the six months to 30 September 2023. TWUL paid a dividend in October 2023 of £37.5 million. Dividends paid in the prior period and in October 2023 were applied to the interest cost of third party debt at group level. The Board of Directors of the Company have not declared any dividends in the six months ended 30 September 2023. Consequently, the external shareholders of the KWH Group have not received any distributions for amounts relating to the current year.

Pensions

We operate four pension schemes for our employees – three defined benefit schemes and one defined contribution scheme. During the six-month period ended 30 September 2023, we contributed £16 million to our defined contribution scheme. We have three independently administered defined benefit schemes, both of which are closed to new employees. These three schemes are the Thames Water Pension Scheme ("TWPS"), Thames Water Mirror Image Pension Scheme ("TWMIPS") and SUURBS Arrangement pension scheme ("SUURBS"). TWPS was closed to future accrual as of 31 March 2021.

In the financial year 2019/20, we completed the triennial valuation dated 31 March 2019 for our three defined benefit pension schemes. The next triennial valuation based on the 31 March 2022 position is currently in progress. Our defined benefit schemes' accounting valuation has been updated to 30 September 2023 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net pension deficit for the three schemes as at 30 September 2023 was £178 million (31 March 2023: £182 million). The decrease in deficit was primarily due to the Internal Inflation Mechanism (IIM) payment made in April 2023 into both schemes, offset by changes in actuarial assumptions in this period.

Director's Report (continued)

Governance Changes

The Directors who have held office during the financial year to date, and to the date of this report, are as follows:

S Deeley	
Y Deng	(resigned 26 October 2023)
J Divoky	
A Hall	
P Noble	
C Pham	(resigned 11 May 2023)
G Tucker	
M Wang	
D Wilkins	
S Lowndes	
T Mi	
G Merchant	
J Kim	
Sir A Montague	(appointed 10 July 2023)
A Qureshi	(appointed 27 September 2023)
J Cogley	(appointed 26 October 2023)
H Onarheim	

The following Directors were formally appointed alternate Directors to represent them when they are unavailable:

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

Perry Noble
Director
4 December 2023

Condensed income statement

For the six month period ended

	30 September 2023			30 September 2022		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**1,211.8**	**58.8**	**1,270.6**	1,093.8	42.4	1,136.2
Operating expenses excluding impairment losses on financial and contract assets	**(1,039.0)**	**-**	**(1,039.0)**	(969.7)	-	(969.7)
Impairment losses on financial and contract assets	**(26.3)**	**(0.3)**	**(26.6)**	(11.8)	(0.1)	(11.9)
Total operating expenses	**(1,065.3)**	**(0.3)**	**(1,065.6)**	(981.5)	(0.1)	(981.6)
Other operating income	**69.5**	**-**	**69.5**	51.4	-	51.4
Operating profit	**216.0**	**58.5**	**274.5**	163.7	42.3	206.0
Finance income	**101.7**	**-**	**101.7**	56.7	-	56.7
Finance expense	**(761.7)**	**-**	**(761.7)**	(737.5)	-	(737.5)
Net gains on financial instruments	**169.0**	**-**	**169.0**	580.0	-	580.0
(Loss)/profit on ordinary activities before taxation	**(275.0)**	**58.5**	**(216.5)**	62.9	42.3	105.2
Tax credit/(charge) on (loss)/profit on ordinary activities	**53.3**	**(14.6)**	**38.7**	(124.8)	23.6	(101.2)
(Loss)/profit for the period	**(221.7)**	**43.9**	**(177.8)**	(61.9)	65.9	4.0

Condensed statement of other comprehensive income

For the six month period ended

	30 September 2023			30 September 2022		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
(Loss)/profit for the period	**(221.7)**	**43.9**	**(177.8)**	(61.9)	65.9	4.0
Other comprehensive income						
Will not be reclassified to the income statement:						
Net actuarial (loss)/gains on pension schemes	**(12.3)**	**-**	**(12.3)**	81.7	-	81.7
Deferred tax credit/(charge) on net actuarial (losses)/gains	**4.4**	**-**	**4.4**	(19.3)	-	(19.3)
May be reclassified to the income statement:						
Cash flow hedges transferred to income statement	**9.3**	**-**	**9.3**	11.5	-	11.5
Deferred tax charge on cash flow hedge	**(2.3)**	**-**	**(2.3)**	(2.2)	-	(2.2)
Other comprehensive (expense)/income	**(0.9)**	**-**	**(0.9)**	71.7	-	71.7
Total comprehensive (expense)/income	**(222.6)**	**43.9**	**(178.7)**	9.8	65.9	75.7

All of 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.

Condensed statement of financial position

As at

	30 September 2023 Underlying £m	30 September 2023 BTL £m	30 September 2023 Total £m	31 March 2023 Underlying £m	31 March 2023 BTL £m	31 March 2023 Total £m
Non-current assets						
Goodwill	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Intangible assets	**249.7**	**-**	**249.7**	263.4	-	263.4
Property, plant and equipment	**19,091.2**	**-**	**19,091.2**	18,418.9	-	18,418.9
Investment property	**2.0**	**-**	**2.0**	2.0	-	2.0
Right-of use asset	**36.5**	**-**	**36.5**	39.8	-	39.8
Prepayments	**-**	**429.8**	**429.8**	-	377.9	377.9
Insurance and other receivables	**87.4**	**-**	**87.4**	66.0	-	66.0
Pension surplus	**-**	**-**	**-**	6.0	-	6.0
Derivative financial assets	**524.9**	**-**	**524.9**	417.2	-	417.2
	21,459.8	**429.8**	**21,889.6**	20,681.4	377.9	21,059.3
Current assets						
Inventories	**28.6**	**-**	**28.6**	20.9	-	20.9
Contract assets	**282.5**	**10.0**	**292.5**	254.2	5.2	259.4
Trade receivables	**645.8**	**34.1**	**679.9**	315.9	16.8	332.7
Intercompany receivables	**-**	**-**	**-**	-	-	-
Prepayments	**66.9**	**-**	**66.9**	48.9	-	48.9
Other receivables and amounts owed by group undertakings	**423.4**	**-**	**423.4**	338.0	(16.6)	321.4
Cash and cash equivalents	**905.5**	**11.9**	**917.4**	1,891.1	7.0	1,898.1
Derivative financial assets	**34.6**	**-**	**34.6**	31.9	-	31.9
	2,387.3	**56.0**	**2,443.3**	2,900.9	12.4	2,913.3
Current liabilities						
Contract liabilities	**(510.6)**	**(20.6)**	**(531.2)**	(130.1)	-	(130.1)
Trade and other payables	**(807.1)**	**(31.2)**	**(838.3)**	(824.2)	-	(824.2)
Lease liabilities	**(6.9)**	**-**	**(6.9)**	(7.3)	-	(7.3)
Borrowings	**(2,351.3)**	**-**	**(2,351.3)**	(2,305.5)	-	(2,305.5)
Derivative financial liabilities	**(23.1)**	**-**	**(23.1)**	(67.1)	-	(67.1)
Provisions for liabilities and charges	**(40.7)**	**-**	**(40.7)**	(35.0)	-	(35.0)
	(3,739.7)	**(51.8)**	**(3,791.5)**	(3,369.2)	-	(3,369.2)
Net current (liabilities)/assets	**(1,352.4)**	**4.2**	**(1,348.2)**	(468.3)	12.4	(455.9)
Non-current liabilities						
Contract liabilities	**(975.5)**	**-**	**(975.5)**	(921.5)	-	(921.5)
Lease liabilities	**(46.7)**	**-**	**(46.7)**	(49.7)	-	(49.7)
Borrowings	**(22,698.4)**	**-**	**(22,698.4)**	(22,523.5)	-	(22,523.5)
Derivative financial liabilities	**(1,741.8)**	**-**	**(1,741.8)**	(1,924.7)	-	(1,924.7)
Deferred tax liabilities	**(1,168.7)**	**-**	**(1,168.7)**	(1,111.8)	-	(1,111.8)
Provisions for liabilities and charges	**(200.4)**	**-**	**(200.4)**	(194.2)	-	(194.2)
Pension deficit	**(178.0)**	**-**	**(178.0)**	(187.8)	-	(187.8)
	(27,009.5)	**-**	**(27,009.5)**	(26,913.2)	-	(26,913.2)
Net (liabilities)/assets	**(6,902.1)**	**434.0**	**(6,468.1)**	(6,700.1)	390.3	(6,309.8)
Equity						
Called-up share capital	**998.2**	**-**	**998.2**	977.8	-	977.8
Share premium	**-**	**-**	**-**	-	-	-
Cash flow hedge reserve	**(9.1)**	**-**	**(9.1)**	(16.1)	-	(16.1)
(Accumulated losses) / retained earnings	**(7,891.2)**	**434.0**	**(7,457.2)**	(7,661.8)	390.3	(7,271.5)
Total equity	**(6,902.1)**	**434.0**	**(6,468.1)**	(6,700.1)	390.3	(6,309.8)

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants.

Condensed statement of changes in equity

For the six month period ended 30 September 2023

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2022	**1.0**	**(33.2)**	**(6,621.9)**	**(6,654.1)**
Profit for the period	-	-	4.0	4.0
Cash flow hedges transferred to income statement	-	11.5	-	11.5
Deferred tax charge on cash flow hedges	-	(2.2)	-	(2.2)
Actuarial gain on pension scheme	-	-	81.7	81.7
Deferred tax charge on actuarial gain	-	-	(19.3)	(19.3)
At 30 September 2022	**1.0**	**(23.9)**	**(6,555.5)**	**(6,578.4)**
At 1 April 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 actuarial gain	-	-	(17.1)	**(17.1)**
At 31 March 2023	**977.8**	**(16.1)**	**(7,271.5)**	**(6,309.8)**
Share capital issued[1]	20.4		-	**20.4**
Loss for the period	-	-	(177.8)	**(177.8)**
Cash flow hedges transferred to income statement	-	9.3	-	**9.3**
Deferred tax charge on cash flow hedges	-	(2.3)	-	**(2.3)**
Actuarial loss on pension scheme	-	-	(12.3)	**(12.3)**
Deferred tax credit on actuarial loss	-	-	4.4	**4.4**
At 30 September 2023	**998.2**	**(9.1)**	**(7,457.2)**	**(6,468.1)**

[1] 20,428,000 shares with a nominal value of £1 each were issued during the reporting period to Kemble Water Eurobond Plc (KWE), for a total value of £20,428,000.

Condensed statement of cash flows

For the six month period ended

	30 September 2023			30 September 2022		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Operating activities:						
(Loss)/profit for the financial year	**(221.7)**	**43.9**	**(177.8)**	(61.9)	65.9	4.0
Less finance income	**(101.7)**	**-**	**(101.7)**	(56.7)	-	(56.7)
Add finance expense	**760.4**	**-**	**760.4**	735.9	-	735.9
Add interest expense on lease liabilities	**1.3**	**-**	**1.3**	1.6	-	1.6
Less net gains on financial instruments	**(169.0)**	**-**	**(169.0)**	(580.0)	-	(580.0)
Taxation on (loss)/profit on ordinary activities	**(53.3)**	**14.6**	**(38.7)**	124.8	(23.6)	101.2
Operating profit	**216.0**	**58.5**	**274.5**	163.7	42.3	206.0
Depreciation on property, plant and equipment	**338.5**	**-**	**338.5**	313.8	-	313.8
Depreciation on right of use asset	**3.6**	**-**	**3.6**	3.3	-	3.3
Amortisation of intangible assets	**34.5**	**-**	**34.5**	32.3	-	32.3
Gain on sale of property, plant and equipment	**(21.6)**	**-**	**(21.6)**	-	-	-
Difference between pension charge and cash contribution	**0.8**	**-**	**0.8**	(6.1)	-	(6.1)
Increase in inventory	**(7.7)**	**-**	**(7.7)**	(4.0)	-	(4.0)
Increase in trade and other receivables	**(380.3)**	**(69.4)**	**(449.7)**	(380.5)	(49.6)	(430.1)
(Increase)/decrease contract assets	**(28.3)**	**(4.8)**	**(33.1)**	1.0	0.2	1.2
Increase/(decrease) in trade and other payables	**(60.3)**	**-**	**(60.3)**	26.3	(5.7)	20.6
Increase in contract liabilities	**451.1**	**20.6**	**471.7**	418.7	13.4	432.1
Increase in provisions	**11.9**	**-**	**11.9**	14.1	-	14.1
Net cash generated by operating activities[1]	**558.2**	**4.9**	**563.1**	582.6	0.6	583.2
Investing activities:						
Interest received	**60.7**	**-**	**60.7**	34.8	-	34.8
Purchase of property, plant and equipment[2]	**(952.1)**	**-**	**(952.1)**	(786.0)	-	(786.0)
Purchase of intangible assets	**(20.8)**	**-**	**(20.8)**	(22.4)	-	(22.4)
Proceeds from sale of property, plant and equipment	**4.9**	**-**	**4.9**	-	-	-
Net cash used in investing activities	**(907.3)**	**-**	**(907.3)**	(773.6)	-	(773.6)
Financing activities:						
New loans raised[3]	**370.7**	**-**	**370.7**	1,818.5	-	1,818.5
Repayment of borrowings[4]	**(661.3)**	**-**	**(661.3)**	(1,685.1)	-	(1,685.1)
Repayment of lease principal	**(5.1)**	**-**	**(5.1)**	(4.7)	-	(4.7)
Proceeds from derivative settlement[5]	**-**	**-**	**-**	18.9	-	18.9
Payment for derivative settlement[6]	**(152.0)**	**-**	**(152.0)**	(115.8)	-	(115.8)
Interest paid	**(179.5)**	**-**	**(179.5)**	(146.5)	-	(146.5)
Net fees paid	**(9.3)**	**-**	**(9.3)**	(4.7)	-	(4.7)
Net cash used in financing activities	**(636.5)**	**-**	**(636.5)**	(119.4)	-	(119.4)
Net (decrease)/increase in cash and cash equivalents	**(985.6)**	**4.9**	**(980.7)**	(310.4)	0.6	(309.8)
Net cash and cash equivalents at beginning of period	**1,891.1**	**7.0**	**1,898.1**	697.3	5.2	702.5
Net cash and cash equivalents at end of period	**905.5**	**11.9**	**917.4**	386.9	5.8	392.7

[1] Net cash generated by operating activities for the six months ended 30 September 2023 (30 September 2022: £nil) includes £5.7 million (30 September 2022: £nil) payments that are considered to be exceptional relating to restructuring and transformation within TWUL. An exceptional outflow of £69.7 million was recognised in TWUL in the year ended 31 March 2021 which related to defined benefit pension upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made it would have resulted with in cash payment of £10.2 million for the six-month period ended 30 September 2023. A payment of £20.4 million for an internal inflation mechanism pension contribution payment was made on TWUL's behalf by Kemble Water Eurobond Plc. If both cash payments had been made by the group, then the net cash generated by operating activities for the six-month period ended 30 September 2023 would be £532.5 million.

[2] Purchase of property, plant and equipment includes an adjustment to account for the cash on accruals relating to additions of capital investment in the period.

[3] New loans raised of £370.7 million relates to drawdowns from the Class B revolving credit facilities. In the comparative period ended 30 September 2022, new loans raised was £1,818.5 million consisting of £1,050.0 million drawdowns from Class A revolving credit facilities, £370.7 million drawdowns from Class B revolving credit facilities and £397.8 million (net of fees) relating to loans raised.

[4] Repayment of borrowings of £681.7 million (30 September 2022: £1,570.0 million) includes £370.7 million of repayments relating to Class B revolving credit facilities (2022: £650.0 million Class A revolving credit facilities and £370.7 million Class B revolving credit facilities). The remaining amount includes £10.1 million loan repayments and £300.9 million bond repayments (30 September 2022: £133.9 million loan repayments and £530.5 million bond repayments).

[5] For the six month period ended 30 September 2022, proceeds from derivative settlement includes £18.9 million relating to accretion received on index-linked swaps. No proceeds from derivative settlement were received for the current period.

[6] Payment for derivative settlement of £152.0 million relates to accretion paydown on index-linked swaps (30 September 2022: £111.6 million). For the six month period ended 30 September 2022, £4.2 million related to settlement of cross currency swaps, £nil for the current period.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to arrangement with BTL and therefore our underlying amounts are disclosed separately as required by some of our financial covenants.

Analysis of net debt

	30 September 2023 £m	31 March 2023 £m
Secured bank loans and private placements	**(5,415.6)**	(5,370.9)
Bonds	**(11,416.1)**	(11,636.5)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and bonds	**(223.3)**	(207.7)
Interest payable on amounts owed to group undertakings	**(4,894.0)**	(4,513.3)
Lease liability	**(53.6)**	(57.0)
	(25,103.2)	(24,886.0)
Cash and cash equivalents[1]	**915.1**	1,895.8
Net debt (statutory basis)	**(24,188.1)**	(22,990.2)
Amounts owed to group undertakings[2]	**3,085.6**	3,085.6
Interest payable on secured bank loans, private placements and bonds	**223.3**	207.7
Interest payable on amounts owed to group undertakings	**4,894.0**	4,513.3
Unamortised debt issuance costs and discount	**(86.5)**	(92.8)
Relevant derivative financial liabilities (Accretion and FX)	**(969.8)**	(831.7)
Fair value adjustment on acquisition to loans	**110.1**	115.7
Unamortised IFRS 9 transition adjustment	**22.8**	23.1
Cash (not relevant)/relevant for covenant	**(7.3)**	(9.7)
Net debt (covenant basis)	**(16,915.9)**	(15,979.0)
Equity attributable to owners of the Group	**(6,468.1)**	(6,309.8)

[1] The cash and cash equivalents balance excludes £2.3 million (31 March 2023: £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 the net debt (covenant) basis and £15.0 million payable to Thames Water Investments Limited which is included for the 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 borrowing 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 rates on cross currency swaps.

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

	30 September 2023 £m	31 March 2023 £m
Securitised Class A debt	**(15,105.6)**	(14,843.6)
Securitised Class B debt	**(1,299.7)**	(1,599.7)
Holding company level debt	**(1,364.8)**	(1,364.8)
Cash net of covenant cash adjustment	**907.8**	1,886.1
Lease liability	**(53.6)**	(57.0)
Net debt (covenant basis)	**(16,915.9)**	(15,979.0)

Notes to the condensed consolidated financial statements

1. Post balance sheet events

In October 2023, the following transactions took place:

- a total of £530.0 million Class A Revolving Credit Facilities were drawn and a total of £370.7 million Class B Revolving Credit Facilities were repaid;
- a £98.5 million Class A loan agreement due 2029 and a £65.0 million Class B loan agreement due 2027 were fully drawn;
- a £100.0 million Class A RPI loan agreement originally due 2025 and with accreted principal of £144.8 million, and a £125.0 million Class A RPI loan agreement originally due 2026 and with accreted principal of £180.1 million, were both extended to 2033;
- a £300.0 million Class A bond due 2040 was issued; and
- the Company paid a dividend of £37.5 million to Thames Water Utilities Holdings Limited. These proceeds were subsequently distributed by Thames Water Utilities Holdings Limited to Thames Water Limited and then through to Kemble Water Finance Limited. Kemble Water Finance Limited retained the proceeds to service its – and its subsidiary Thames Water (Kemble) Finance's - external debt obligations.