Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance plc

Annual report and financial statements
For the year ended 31 March 2022

Contents

Directors and advisors

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T Bolton
M Bamford
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Independent auditors

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Strategic Report

The Directors present their Strategic Report for Thames Water Utilities Finance plc ("the Company") for the year ended 31 March 2022.

Review of the business and strategy

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

The major transactions of the Company constitute the raising of finance and subsequent lending of debt to TWUL, the Company's immediate parent company. The proceeds from external debt issued by the Company including the impact of associated derivatives are passed onto TWUL through intercompany loans with a margin charged, although a small minority of external transactions are not perfectly matched with intercompany transactions or no margin is charged.

The Company is also part of a Securitisation Group of companies ("the Securitisation Group"). This arrangement comprises the Company, its immediate parent and the parent of its immediate parent as follows:

- Thames Water Utilities Limited;
- Thames Water Utilities Holdings Limited.

The payment of all amounts owing in respect of the external debt issued by any company in the TWUL Group is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The guaranteed debt on a post swap basis within the TWUL Group as at 31 March 2022 was £13,771.8 million (2021: £12,933.4 million).

Credit rating

We retain investment grade credit ratings for the 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 (2021: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (2021: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (2021: Ba1 with stable outlook).

In December 2021, S&P placed the BBB+ (2021: BBB+) and BBB- (2021: BBB-) issue ratings of Class A and Class B debt respectively issued by the Company, on CreditWatch negative (2021: negative outlook). The negative CreditWatch placement indicates that S&P could lower the issue ratings if strong remedial measures do not enable TWUL Group to maintain certain key credit metrics within defined guidance ranges.

Strategic Report (continued)

Gearing and interest cover

As part of the Whole Business Securitisation agreement with our secured creditors, we are required to keep gearing and interest cover within the Securitisation Group within certain limits. Under these covenant conditions, a number of financial ratios are tested and a senior gearing level above 85.0%, a Class A gearing level above 75%, a senior interest cover ratio of below 1.1x or a Class A interest cover ratio of below 1.3x would impose certain conditions, including a restriction on distributions from TWUL.

The Securitisation Group's investments are funded by a combination of equity from shareholders and from borrowings under long-term secured financing arrangements including bank loans and bonds. The Securitisation Group is required to comply with certain financial covenants. Its gearing is 80.6% (2021: 83.2%), measured by comparing the sum of the Securitisation Group's net debt (covenant basis) of £13,409.4 million (2021: £12,497.1 million) against TWUL's stated Regulatory Capital Value ("RCV") of £16,641.0 million (2021: £15,025.3 million). Interest cover measures the ratio of operating cashflow to net interest expense. As at 31 March 2022, this ratio was 1.8x (2021: 1.7x) versus a covenant level of 1.1x (2021: 1.1x).

Results and performance

During the financial year ended 31 March 2022, finance income increased by £86.9 million to £519.2 million (2021: £432.3 million) mainly reflecting an increase in accretion on intercompany loans receivable, partially offset by a reduction in interest income recognised on swaps. Finance expense increased by £86.4 million to £466.5 million (2021: £380.1 million) mainly reflecting an increase in accretion on loans.

For the financial year ended 31 March 2022, the Company made a loss before tax of £98.3 million (2021: loss before tax of £110.5 million) principally due to £150.9 million net losses on financial instruments (2021: net losses of £162.7 million) mainly reflecting higher RPI expectations and interest rate expectations as compared to 31 March 2021 expectations. Net liabilities of the Company at 31 March 2022 were £69.7 million (2021: net liabilities of £10.1 million) mainly reflecting year-on-year non-cash movement in derivative fair values. The Company's performance is in line with expectations and the Directors have no significant concerns regarding the performance or position of the Company.

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

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

Principal risks and uncertainties

The Company is a financing subsidiary of TWUL and is part of the Securitisation Group. All financing transactions and obligations are passed on to TWUL by way of intercompany loans. Details of principal risks and uncertainties applicable to the Securitisation Group have been included in the TWUL Group's annual report and financial statements.

The Company's operations expose it to a variety of capital and financial risks. The Group's treasury operations are managed centrally, by a specialist team, operating with delegated authority of, and under policies approved by, the Group's Board of Directors, therefore risks are managed on a Group wide basis.

The operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of liquidity, credit and market risks associated with the financing activities of the Group. The key elements of the treasury policies and procedures are incorporated in the TWUL Group's annual report and financial statements.

Copies of the TWUL Group's annual report and financial statements may be obtained from the Company Secretary's Office at the address included in note 15.

Strategic Report (continued)

Principal risks and uncertainties (continued)
Capital risk management

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the Company's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

The capital structure of the Company consists of borrowings and equity. Quantitative information in relation to the capital structure is included in 'Note 10 Financial Instruments'.

The Company is part of a Securitisation Group of companies. The Securitisation Group is required to comply with certain financial and non-financial covenants. The financial covenants include interest cover ratios and RCV to net debt ratios. The Securitisation Group complied with these ratios throughout the financial year.

The Group's funding policy is to ensure that it has adequate funding at all times to meet the Group's short term and long-term requirements. The Group maintains a broad portfolio of debt (diversified by source and maturity) and maintains 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 to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

The Company has access to £1,796.4 million (31 March 2021: £1,646.3 million) Revolving Credit Facilities (RCF). As at 31 March 2022, £1,425.7 million (31 March 2021: £1,432.0 million) was undrawn. The Company also has £550.0 million of undrawn liquidity facilities which can only be drawn in limited circumstances.

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 Company's income or the value of its holdings of financial instruments.

Financial instruments entered into by the Company include fixed rate debt, floating rate debt, RPI-linked debt and swaps. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. RPI-linked instruments are exposed to future movements in the RPI index and real rates. All debt raised by the Company is lent to TWUL, a regulated water company with RPI-linked revenue which forms a partial economic hedge for RPI linked borrowings.

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency interest rate swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All foreign currency hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate and foreign currency interest rate fluctuations. Further disclosures regarding financial instruments can be found in note 10.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to its immediate parent entity Thames Water Utilities Limited and cash flows receivable from counterparties to its derivative financial instruments. Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables from TWUL including, where appropriate, a review of TWUL's budget and forecasts. Additionally, payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by all companies within the Securitisation Group.

Under the terms of the Whole Business Securitisation agreement, counterparties to the Company's derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. In respect of the derivative counterparties there is also a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount. No collateral was posted for the current or prior year.

Strategic Report (continued)

Principal risks and uncertainties (continued)

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Securitisation 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 diverse debt maturity profiles are maintained. The Company matches the majority of its financial obligations with receivables due from its parent.

Details of the Company's borrowings and other financial instruments are disclosed in notes 9 and 10 respectively.

As stated in the accounting policies to these financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

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 on 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 a financing company within the Kemble Water Holdings 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. During the year, the Board of Directors have approved the entering in-to new debt facilities, renewal of revolving credit facilities, updates of debt issuance programme documentation, amendment of loans and derivatives to replace LIBOR with SONIA, the entering in-to intercompany loans and the approval of the Company's annual report and financial statements. 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.

Strategic Report (continued)

s172 reporting (continued)

Likely consequences of decisions in the long-term

The Board's decision to extend revolving credit facilities and to enter into new loan facilities and debt issues were consistent with the purpose of the Company acting as a financing vehicle for its parent, and the on-loan of external borrowings drawn down under debt facilities also enabled the Company to earn a margin on these activities.

Stakeholder management

The Company's stakeholders are considered to be external debt investors and other companies within the Kemble Water Holdings group with whom intercompany loan relationships exists. 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 Group's Head 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. During the year several debt investor update calls took place involving TWUL CEO and CFO. Many individual debt investor queries have been responded to by phone or email and regular update meetings have taken place throughout the year with external shareholder representatives.

Community and Environment

In raising funding for other Group companies, 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 Group's 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 15.

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.

Future outlook

It is expected that the Company will continue with its current business model for the foreseeable future, with the proceeds of the Company's debt raising activities (including impact of associated derivatives) on lent to TWUL with a margin charged in addition to the underlying external costs.

This Strategic Report was approved by the Board of Directors on 5 July 2022 and signed on its behalf by:

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report

The Directors present their annual report and the financial statements of the Company for the year ended 31 March 2022. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance and strategy.

The registered number of the Company is 02403744.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

T Bolton
M Bamford
D Manuelpillai

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 (2021: none).

Future outlook

The future outlook of the Company is discussed in the Strategic Report.

Going concern

The Directors have considered the nature of the business and don't expect this to significantly change over the next 12 month period. The Directors have sought a letter of support from the Company's immediate parent company, TWUL, to support the going concern basis.

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company and the ongoing support from TWUL. Given the dependency on TWUL, the Directors have considered the going concern assessment made by TWUL Group as well as the actions taken by TWUL Group post the balance sheet date of 31 March 2022. The section on page 22, "Summary of TWUL Group going concern assessment" outlines this assessment where the conclusion is to prepare the financial statements for TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL Group annual report for 2021/22, copies of which may be obtained from the Company Secretary's Office at the address included in Note 15.

The Directors believe, after due and careful enquiry, and taking into account the support of the parent company, as well as the ultimate parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements. Further details on the going concern and long-term viability has been included within the financial statements of TWUL.

Dividends

The Company did not pay any dividends in the year (2021: £nil). The Directors do not recommend the payment of a final dividend (2021: £nil).

Directors' report (continued)

Financial risk management

During the year, the Company had access to the Executive Team of TWUL, who also manage the wider Kemble Water Holdings Limited Group on a day-to-day basis on behalf of the Directors of individual group companies. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate action can be taken in the relevant group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report.

Corporate Governance

As noted above, the Company has full access to the Executive Team of TWUL, including access to the risk management and internal control systems. Their 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. 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 remainder of the asset management plan ("AMP");
- Performance reporting – the Company's Board and Group shareholders receive monthly Group 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; and
- Code of conduct and Whistleblower hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

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

Further details relating to Corporate Governance are incorporated in the Group's annual report and financial statements.

Research and development

The Company undertakes no research and development activity, this remains unchanged from the prior year.

Political and charitable donations

No political or charitable donations were made by the Company during the year (2021: £nil).

Disclosure of information to the auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' report (continued)

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors (which extend to the performance of any duties as Director of any associated company) and these remain in force at the date of this report.

Independent auditors

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.

The Directors' report was approved by the Board of Directors on 5 July 2022 and signed on its behalf by:

T Bolton
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 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 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable 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 company will continue in business.

The directors are responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations
In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the Board of Directors on 5 July 2022 and signed on its behalf by:

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors’ report to the members of Thames Water Utilities Finance plc

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water Utilities Finance plc’s financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 March 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 financial statements (the “Annual Report”), which comprise: the Statement of financial position as at 31 March 2022; the Income statement, the Statement of cash flows and the Statement of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting Committee of Thames Water Utilities Limited.

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 company 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 1 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

- Valuation of financial derivatives

Materiality

- Overall materiality: £131,988,000 (2021: £125,700,000) based on 1% of total assets.
- Performance materiality: £98,991,000 (2021: £94,300,000).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The impact of COVID-19, which was a key audit matter last year, is no longer included because the immediate operational and financial impact of the pandemic to the entity is now better understood and the impact in terms of our audit approach is now integrated into the specific key audit matters individually if applicable. 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	
As at 31 March 2022 the fair value of derivatives in an asset position was £77.1m (2021: £60.8m) and in a liability position was £686.2m (2021: £532.6m). The net fair value of the derivatives was a liability of £609.1m (2021: £471.8m). The valuation of derivatives has been 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 and long dated which can cause additional complexities. Refer to note 10 of the financial statements.	Our procedures included: Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Engaging with our valuations team who have performed independent testing of the pre-credit risk adjusted valuations for a sample of the 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 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.

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 company, the accounting processes and controls, and the industry in which it operates.

The entity consists of one operating segment and is managed from a single location based in the United Kingdom.

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:

Overall company materiality	£131,988,000 (2021: £125,700,000)
How we determined it	1% of total assets
Rationale for benchmark applied	The entity functions to service group financing requirements. Therefore, using total assets as a benchmark is appropriate.

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% (2021: 75%) of overall materiality, amounting to £98,991,000 (2021: £94,300,000) 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 Audit, Risk and Reporting Committee of Thames Water Utilities Limited. that we would report to them misstatements identified during our audit above £13,198,000 (2021: £12,500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- assessing the ability of management to rely on the letter of support it has obtained from TWUL through assessing the ability of the TWUL group to remain compliant with the various financial covenants that the group is subject to and meet its liabilities as they fall due. In addition we have assessed what financial support the wider group headed by the ultimate parent Kemble Water Holdings may require, and to what extent resources from TWUL would be required to provide this support and whether this would impact TWUL's ability to support TWUF.
- assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

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

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

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

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

Strategic report and 'Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and 'Directors' report for the year ended 31 March 2022 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 company and its 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the listing rules, 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 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. 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 inquires of the TWUL group; management, internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments in particular in relation to the valuation of financial derivatives. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where appropriate along with considering the appropriateness of the related disclosures in the financial statements;
- Applying our pre-determined fraud risk criteria in respect of journals posted in the year;
- Reviewing minutes of meetings of those charged with governance and reviewing TWUL Group internal audit reports.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Reporting Committee of Thames Water Utilities Limited, 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 4 years, covering the years ended 31 March 2019 to 31 March 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
5 July 2022

Income statement
For the year ended 31 March

	Note	**2022 £m**	2021 £m
Administrative expenses	1	**(0.1)**	-
Operating loss		**(0.1)**	-
Finance income	4	**519.2**	432.3
Finance expense	5	**(466.5)**	(380.1)
Net losses on financial instruments	6	**(150.9)**	(162.7)
Loss on ordinary activities before taxation		**(98.3)**	(110.5)
Tax credit on loss	7	**38.7**	5.8
Loss for the year		**(59.6)**	(104.7)

All amounts relate to continuing operations.

There is no other comprehensive income for the current or prior year.

Statement of financial position
As at 31 March

	Note	**2022** £m	2021 £m
Non-current assets			
Intercompany loans receivable	8	**12,092.0**	11,237.9
Derivative financial assets	10	**57.8**	48.5
Deferred tax asset	11	**93.0**	48.7
Prepayments and other assets		**4.5**	5.7
		12,247.3	11,340.8
Current assets			
Cash and cash equivalents		**1.1**	2.4
Intercompany loans receivable	8	**860.3**	1,174.7
Derivative financial assets	10	**19.3**	12.3
Prepayments and other assets		**1.8**	1.7
Other financial assets		**69.0**	54.1
		951.5	1,245.2
Current liabilities			
Borrowings	9	**(669.9)**	(1,040.7)
Derivative financial liabilities	10	**(44.6)**	-
Group relief payable		**(17.3)**	(14.9)
Other financial liabilities		**(2.6)**	(2.1)
		(734.4)	(1,057.7)
Net current assets		**217.1**	187.5
Non-current liabilities			
Borrowings	9	**(11,887.8)**	(11,000.0)
Derivative financial liabilities	10	**(641.6)**	(532.6)
Other financial liabilities		**(4.7)**	(5.8)
		(12,534.1)	(11,538.4)
Net liabilities		**(69.7)**	(10.1)
Equity			
Called up share capital	12	**0.1**	0.1
Other reserves	12	**207.7**	207.7
Accumulated losses		**(277.5)**	(217.9)
Total equity		**(69.7)**	(10.1)

The financial statements were approved by the Board of Directors on 5 July 2022 and signed on its behalf by:

T Bolton
Director

Registered number: 02403744 (England & Wales)

Statement of changes in equity
For the year ended 31 March

	Called up share capital £m	Other reserves £m	Accumulated losses £m	Total equity £m
At 1 April 2020	0.1	207.7	(113.2)	94.6
Loss for the year	-	-	(104.7)	(104.7)
At 31 March 2021	**0.1**	**207.7**	**(217.9)**	**(10.1)**
Loss for the year	-	-	(59.6)	(59.6)
At 31 March 2022	**0.1**	**207.7**	**(277.5)**	**(69.7)**

Other reserves comprise a capital reduction undertaken by the Company in 2018 eliminating the share premium held previously of £207.7 million.

Statement of cash flows
For the year ended 31 March

	2022 £m	2021 £m
Cash flows from operating activities		
Loss for the year	**(59.6)**	(104.7)
Less finance income	**(519.2)**	(432.3)
Add finance expense	**466.5**	380.1
Add net losses on financial instruments	**150.9**	162.7
Tax credit on loss	**(38.7)**	(5.8)
Operating loss	**(0.1)**	-
Movement in other receivable	**(14.8)**	(43.4)
Movement in other financial liabilities	**0.1**	-
Movement in group relief payable	**(3.2)**	-
Net cash used in operating activities	**(18.0)**	(43.4)
Investing activities		
Interest received	**356.6**	405.9
Loans to group companies[1]	**(3,590.6)**	(1,575.3)
Loans repaid by group companies[2]	**3,191.1**	1,830.4
Fees received	**13.3**	8.6
Net cash (used in)/generated by investing activities	**(29.6)**	669.6
Financing activities		
Proceeds from new loans[3]	**3,585.4**	1,574.3
Repayment of borrowings[4]	**(3,206.5)**	(1,830.0)
Derivative settlement[5]	**20.6**	(15.3)
Interest paid	**(345.0)**	(347.6)
Fees paid	**(8.2)**	(7.8)
Net cash inflow/(outflow) used in financing activities	**46.3**	(626.4)
Net movement in cash and cash equivalents	**(1.3)**	(0.2)
Cash and cash equivalents at beginning of year	**2.4**	2.6
Cash and cash equivalents at end of year	**1.1**	2.4

[1] Loans to group companies of £3,590.6 million represents amounts raised by the Company and on lent to TWUL through an intercompany loan receivable and includes £2,430.0 million of drawdowns relating to revolving credit facilities, including £1,770.0 million Class A and £660.0 million Class B. The remaining £1,160.6 million includes £963.2 million (net of fees) bond issuances and £197.4 million (net of fees) loans raised by the Company and on lent to TWUL through an intercompany loan receivable.

[2] Loans repaid by group companies of £3,191.1 million represents intercompany loans receivable repaid by TWUL and includes £2,273.5 million of repayments relating to revolving credit facilities, including £1,770.0 million Class A and £660.0 million Class B. The remaining £917.6 million representing intercompany loans receivable repaid by TWUL relates to £396.6 million loan repayments and £521.0 million bond repayments.

[3] New loans raised of £3,585.4 million includes £2,430.0 million of drawdowns relating to revolving credit facilities including £1,770.0 million Class A and £660.0 million Class B. The remaining amount includes £958.0 million (net of fees) relating to bond issuances and £197.4 million (net of fees) relating to loans raised.

[4] Repayment of borrowings of £3,206.5 million includes £2,273.5 million of repayments relating to revolving credit facilities including £1,770.0 million Class A and £503.5 million Class B. The remaining amount includes £412.0 million loan repayments and £521.0 million bond repayments.

[5] Derivative settlement of £20.6 million relates to settlement of cross currency swaps. £15.3 million, in prior year, relates to index-linked swaps where accretion is payable periodically.

Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items considered material, except as noted below:

General information

Thames Water Utilities Finance plc (the “Company”) is a public limited company, limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

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

Statement of compliance with International Financial Reporting Standards

The policies applied in these financial statements for the year ended 31 March 2022 are based on the IFRS, International Accounting Standards (“IAS”) and International Financial Reporting Interpretations Committee (“IFRS IC”) interpretations issued and effective and adopted by the UK Endorsement Board as of 5 July 2022, the date that the Board of Directors approved these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to UK adopted IFRS.

The financial statements for the year ended 31 March 2022, set out on pages 17 to 48, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and in compliance with the Disclosure and Transparency Rules (“DTR”) issued by the Financial Conduct Authority.

For the year ended 31 March 2022, the annual financial statements are prepared in accordance with IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK’s exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. There is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

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

Accounting policies (continued)

Basis of preparation (continued)

<u>Going concern</u>

Company

The Directors have considered the nature of the business and don't expect this to significantly change over the next 12 month period. The Directors have sought a letter of support from the Company's immediate parent company, TWUL, to support the going concern basis.

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company and the requirement for ongoing support from TWUL. TWUL has confirmed that it will provide support to the Company to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements. Given the dependency on TWUL, the Directors have considered the going concern assessment made by TWUL Group as well as the actions taken by TWUL Group post the balance sheet date of 31 March 2022. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the conclusion is to prepare the financial statements for TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL Group annual report for 2021/22, copies of which may be obtained from the Company Secretary's Office at the address included in Note 15.

Summary of TWUL Group going concern assessment

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

On 29 June 2022, the TWUL Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. Given the equity commitment of £500 million has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the TWUL directors believe it reasonable that the £500 million of equity support can be taken into account for the going concern assessment.

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 31 March 2022, such liquidity consisted of £426 million of cash and cash equivalents, access to £1.80 billion of revolving credit facilities of which £1.43 billion was undrawn, £100 million undrawn Class B facility and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). Furthermore during the pandemic, the TWUL Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the TWUL Group is subject to financial covenants, assessed based on interest cover and gearing ratios. With significant headroom being present under the gearing ratios, the interest cover ratios are a more limiting factor and are mainly affected by operational cashflows.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints, cost of living concerns and Brexit, 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 and chemical prices and adverse weather. The impact on operational cashflows is reduced by mitigants involving active working capital management and the release of contingencies embedded with the Business Plan which have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and forecasts sufficient liquidity headroom for a period of at least 12 months from the date of signing of the financial statements.

Accounting policies (continued)

Basis of preparation (continued)

Going concern

Summary of TWUL Group going concern assessment (continued)

The TWUL directors have also considered the consequences of a temporary 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 bank facilities. The 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. The cash lockup preserves the value of the TWUL Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the TWUL Group has significant bank facilities which the TWUL directors believe are sufficient to fund its programme and meet its obligations for the duration of a temporary Trigger Event over the assessment period.

Based on the above, the TWUL Board is satisfied that the TWUL 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 financial statements.

Conclusion

The conclusion from the TWUL Board helps to underpin the Directors' belief that the Company has the ability to meet its financial obligations over the assessment period.

Taking into consideration the above factors, the Board is satisfied that the Company has adequate resources for a period of at least 12 months from the date of approval of the condensed financial statements to continue operations and discharge the Company's obligations as they fall due. For this reason, the Board considers it is appropriate to adopt the going concern basis in preparing the financial statements.

Accounting policies (continued)

New accounting policies

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in the financial reporting changes section below.

Financial reporting changes

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").

Although Kemble Water Holdings Group is not regulated by the FCA, the Company is impacted by this industry-wide transition given the LIBOR-linked instruments we have outstanding. These were previously transacted with our counterparties, including banks and other investors, the majority of which are regulated by the FCA and so are required to amend contracts to accommodate the ending of the publication of LIBOR.

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for financial years beginning on or after 1 January 2021 and addresses issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships.

There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences need to be applied, to enable the two benchmark rates to be economically equivalent on transition.

The Company established a project to oversee the GBP LIBOR transition plan. This transition project includes changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2022, the Company had no designated hedge relationships and hedge accounting was not applied.

Refer to the IBOR reform section included in Note 10 Financial instruments on page 45 for details of all of the financial instruments that the Company holds at 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

As at 31 March 2022, LIBOR has been transitioned to SONIA on an economically equivalent basis for £500.0 million (notional) index-linked swaps, £100.0 million (notional) cross-currency swaps, £1,721.5 million revolving credit facilities and £550.0 million liquidity facilities. No gain or loss was recognised on transition as the Phase 2 reliefs were met. Other modifications have been considered in respect of the IFRS 9 extinguishment and modification requirements. These did not result in a gain or loss.

Accounting policies (continued)

Finance income and finance expense

Finance income represents the recharge to TWUL of costs and interest incurred in respect of the raising of finance on that company's behalf (including 0.10% margin as applicable), recognised as it falls due, and amortisation of fair value related to intercompany receivables acquired on 31 August 2018 from a fellow group company. All interest and debt servicing costs are recharged to TWUL.

The Company's finance expense represents the interest costs on borrowings, amortisation of borrowings related issuance costs and amortisation of fair value related to borrowings acquired on 31 August 2018, recognised on an accruals basis.

Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise cash and cash equivalents, intercompany loans receivable and borrowings.

Cash and cash equivalents

Cash and cash equivalents are held at amortised cost and include cash on hand and deposits held at call with financial institutions.

Interest bearing loans to other group companies

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Interest bearing borrowings

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest rate method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Other financial assets

Other financial assets include amounts owed by immediate parent company TWUL and is recognised at amortised cost using the effective interest rate method.

Other financial liabilities

Other financial liabilities include amounts owed to immediate parent company TWUL and bondholders and is recognised at amortised cost using the effective interest rate method.

Derivative financial instruments

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are initially recognised at fair value, with transaction costs being taken to the income statement. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 10.

Gains or losses on remeasurement to fair value are recognised immediately in the income statement within Net gains/(losses) on financial instruments and exclude any interest income on swaps which is recognised within Finance income.

Accounting policies (continued)

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.

Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

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 an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial guarantees

The Company raises debt in external debt markets through the issuance of secured bonds, loans and private placements. Thames Water Utilities Holdings Limited and TWUL have guaranteed the principal and interest payments due under the terms of the Company's debt. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee and the amount can be reliably measured.

Impairment of financial assets

There is an annual impairment review for intercompany receivables which assesses the ability of the entity to pay them based on a multi-factor analysis including the counterparty credit score, past history of default, current financial performance of the counterparty and potential future changes to the counterparty.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income 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 because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

Accounting policies (continued)

Taxation (continued)

Deferred taxation

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 and 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 Company intends to settle its current tax assets and liabilities on a net basis.

Significant accounting judgements and key sources of estimation uncertainty

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

Fair value of derivatives

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. All of the Company's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair value of derivative financial instruments, including cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Company and counterparties. In case where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level two.

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 on 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, two 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 £22.2 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2022, £19.4 million (31 March 2021: £20.6 million) remained capitalised and £1.2 million had been recognised in the income statement (31 March 2021: £1.2 million). See Note 10 "Financial Instruments" for more information.

Notes to the financial statements

1. Administrative expenses and auditors' remuneration

Administrative expenses

	2022 £m	2021 £m
Auditors' remuneration[1]	**0.1**	-
	0.1	-

[1] Refer to "Auditors' remuneration" section below for a breakdown of audit remuneration.

Auditors' remuneration

The auditors', PricewaterhouseCoopers LLP (2021: PricewaterhouseCoopers LLP), remuneration was partly charged to the Company in the current year, with £118,000 recognised within administrative expenses, and the remaining £43,500 borne by Thames Water Limited. The entire auditors' remuneration was borne by Thames Water Limited (a fellow group company) in the preceding financial year with no recharge made to the Company. The total amount payable relating to the Company was:

	2022 £	2021 £
Fees payable to the auditors		
Statutory audit fees	**96,000**	94,000
Fees payable to the auditors for other services		
Audit related assurance services	**65,500**	53,250
	161,500	147,250

Other assurance services in both the current and preceding financial year includes amounts payable for the review of the Company's interim financial statements and updates to the debt prospectus.

2. Employees and Directors

Employees

The Company had no employees during the year (2021: none).

Directors

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There were no retirement benefits accruing in either the current or preceding financial year.

3. Segmental analysis

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

Notes to the financial statements (continued)

4. Finance income

	2022 **£m**	2021 £m
Interest income on intercompany loans receivable	**507.0**	376.1
Interest income on swaps	**10.0**	55.3
Fee income on swaps	**2.2**	0.9
	519.2	432.3

5. Finance expense

	2022 **£m**	2021 £m
Interest expense	**(464.5)**	(379.1)
Fees	**(2.0)**	(1.0)
	(466.5)	(380.1)

6. Net losses on financial instruments

	2022 **£m**	2021 £m
Net exchange (losses)/gains on foreign currency borrowings and intercompany loans receivables	**(35.7)**	99.8
Net losses arising on swaps where hedge accounting is not applied[1]	**(115.2)**	(262.5)
	(150.9)	(162.7)

[1] Net losses arising on swaps where hedge accounting is not applied primarily reflects higher RPI and interest rate expectations. The amount includes the fair value of £46.2 million (31 March 2021: £7.9 million) accreted on index-linked swaps during the year.

Notes to the financial statements (continued)

7. Tax credit on loss

	2022 £m	2021 £m
Current tax:		
Amounts in respect of group relief – current period	**5.6**	11.7
Total current tax charge	**5.6**	11.7
Deferred tax:		
Origination and reversal of timing differences in current period	**(23.7)**	(17.5)
Effect of tax rate change	**(20.6)**	-
Total deferred tax credit	**(44.3)**	(17.5)
Tax credit on loss on ordinary activities	**(38.7)**	(5.8)

The tax credit for the year is higher (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £m	2021 £m
Loss on ordinary activities before tax	**(98.3)**	(110.5)
Corporation tax on loss on ordinary activities at 19% (2021: 19%)	**(18.7)**	(21.0)
Effects of:		
Movement in fair value of derivatives subject to initial recognition exemption	**(2.6)**	14.7
Effect of tax rate change	**(20.6)**	-
Transfer pricing adjustment	**0.4**	0.5
Amortisation of fair value uplift of loans	**3.0**	-
Foreign exchange gain on fair value uplift	**(0.2)**	-
Total tax credit for the year	**(38.7)**	(5.8)

The impact on deferred tax of the corporation tax rate increase which was substantively enacted on 24 May 2021 is described in Note 11.

Notes to the financial statements (continued)

8. Intercompany loans receivable

As at 31 March	**2022** **£m**	2021 £m
Amounts owed by Group undertakings		
Thames Water Utilities Limited	**12,712.0**	12,171.6
Interest receivable on amounts owed by Group		
Thames Water Utilities Limited	**240.3**	241.0
Total	**12,952.3**	12,412.6
Disclosed within non-current assets	**12,092.0**	11,237.9
Disclosed within current assets	**860.3**	1,174.7

There are no amounts past their due by dates.

Intercompany loans receivable are held at amortised cost. Terms of the intercompany loans receivable reflect the terms of the relevant external borrowing and any relevant swaps, although a small minority of external transactions are not perfectly matched with intercompany transactions. These external transactions include two index-linked swaps with £100.0 million notional each, that were restructured in November 2019 (refer to Fair Value measurements section on page 35 for more information), where the relevant intercompany loans have not been restructured. In addition, there is a £100.0 million index-linked intercompany loan receivable from TWUL which is not linked to any external debt.

The Company is part of the Securitisation Group (refer to Review of the business and strategy section on page 2), the payment of all amounts owing in respect of the external debt issued by any company in the TWUL Group is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group.

As these assets relate to intercompany debt owed by a regulated water company characterised by relatively stable and predictable cash flows, and TWUL must maintain an investment grade credit rating as a condition of its regulatory licence conditions, the credit risk exposure is deemed immaterial and no amounts are impaired. Refer to “Credit risk” section on page 41 for more information.

9. Borrowings

As at 31 March	**2022** **£m**	2021 £m
Secured bank loans and private placements	**1,129.8**	1,161.2
Bonds	**10,948.3**	10,392.7
Amounts owed to Group undertakings	**291.9**	290.9
	12,370.0	11,844.8
Interest payable on borrowings	**187.7**	195.9
Total	**12,557.7**	12,040.7
Disclosed within non-current liabilities	**11,887.8**	11,000.0
Disclosed within current liabilities	**669.9**	1,040.7

Notes to the financial statements (continued)

9. Borrowings (continued)

Breakdown of secured bank loans and private placements

As at 31 March	**2022**	2021
	£m	£m
£214.3m Class B floating rate loan due 2021 (a)	**-**	214.3
£150.0m Class B floating rate loan due 2023 (d), (e)	**-**	150.0
£150.0m Class B floating rate loan due 2023 (d), (e)	**-**	150.0
$106.0m 4.070% private placement due 2026 (b), (h)	**80.5**	76.8
$131.0m 4.270% private placement due 2029 (b), (h)	**99.3**	94.8
€50.0m 2.100% private placement due 2030 (b), (h)	**42.1**	42.4
$150.0m 3.870% private placement due 2022 (b)	**-**	108.9
$200.0m 4.020% private placement due 2024 (b)	**152.3**	145.4
$250.0m 4.220% private placement due 2027 (b)	**187.6**	178.6
£200.0m Class B floating rate loan due 2026 (h)	**197.3**	-
£220.7m Class B floating rate loan due 2022 (a), (c), (g)	**220.7**	-
£75.0m Class B floating rate loan due 2022 (c), (f) (g)	**75.0**	-
£75.0m Class B floating rate loan due 2022 (c)	**75.0**	-
Total secured bank loans and private placements	**1,129.8**	1,161.2

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

(a) The interest margins of these loans are based on (i) a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's; and (ii) the Group's GRESB score.

(b) The Securitisation Group has entered into cross currency swap agreements which convert this debt into sterling debt. Hedge accounting is not applied.

(c) In March 2022, the £370.7 million of Class B revolving credit facilities were drawn in full. In April 2022, these Class B drawdowns were fully repaid.

(d) The interest margins of these loans are based on a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.

(e) In June 2021, the Company early repaid two £150.0 million floating rate loans that were due to mature in 2023.

(f) The interest margin of this loan is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both Standard and Poor's and Moody's.

(g) During the year, these loans have transitioned to SONIA (Sterling Overnight Index Average) from Libor (London Inter-Bank Offered Rate).

(h) These loans and private placements are shown net of issuance costs.

Notes to the financial statements (continued)

9. Borrowings (continued)

Breakdown of bonds

As at 31 March	**2022** **£m**	2021 £m
£225.0m 6.590% fixed rate due 2021	**-**	225.0
£175.0m 3.375% index-linked due 2021 (b), (d)	**-**	295.2
£330.0m 6.750% fixed rate due 2028 (b)	**328.1**	327.9
£200.0m 6.500% fixed rate due 2032 (b), (c)	**198.2**	198.1
£600.0m 5.125% fixed rate due 2037 (b), (c)	**596.8**	596.7
£300.0m 1.680% index-linked due 2053 (b), (d)	**472.4**	454.7
£300.0m 1.681% index-linked due 2055 (b), (d)	**472.4**	454.7
€113.0m 2.300% CPI index-linked bond due 2022 (a), (c)	**110.0**	109.0
£300.0m 5.750% Class B fixed rate bond due 2030 (b), (e)	**313.3**	314.3
£300.0m 4.375% fixed rate bond due 2034 (b)	**336.1**	338.5
¥20.0bn 3.280% fixed rate bond due 2038 (b), (c)	**157.7**	167.2
£50.0m 3.853% index-linked bond due 2040 (f)	**118.3**	115.6
£500.0m 5.500% fixed rate bond due 2041 (b)	**642.7**	648.0
£50.0m 1.980% index-linked bond due 2042 (d)	**104.2**	100.2
£55.0m 2.091% index-linked bond due 2042 (b), (d)	**111.9**	107.5
£40.0m 1.974% index-linked bond due 2045 (b), (d)	**59.1**	57.6
£300.0m 4.625% fixed rate bond due 2046 (b)	**363.3**	365.1
£100.0m 1.846% index-linked bond due 2047 (d)	**213.7**	205.5
£200.0m 1.819% index-linked bond due 2049 (b), (d)	**431.0**	414.3
£200.0m 1.771% index-linked bond due 2057 (b), (d)	**424.6**	406.3
£350.0m 1.760% index-linked due 2062 (b), (d)	**722.3**	688.9
£500.0m 4.000% fixed rate due 2025 (b)	**522.1**	528.6
£40.0m 0.750% index-linked loan due 2034 (b), (d)	**53.4**	50.2
£45.0m 0.721% index-linked loan due 2027 (b), (d)	**57.5**	54.0
£300.0m 3.500% fixed rate loan due 2028 ((b)	**308.6**	309.9
£400.0m 7.738% fixed rate bond due 2058 (b)	**728.4**	732.8
£250.0m 1.875% fixed rate bond due 2024 (b)	**247.0**	245.4
£250.0m 2.625% fixed rate bond due 2032 (b)	**238.0**	237.0
£300.0m 2.375% Class B fixed rate bond due 2023 (b)	**297.8**	295.9
£250.0m 2.875% Class B fixed rate bond due 2027 (b)	**243.3**	242.1
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**149.8**	141.1
£350.0m 2.375% fixed rate bond due 2040 (b)	**346.1**	346.0
£40.0m 2.442% fixed rate bond due 2050 (b)	**39.9**	39.9
£84.7m 0.875% fixed rate bond due 2023 (b)	**84.5**	84.6
€500.0m 0.190% fixed rate bond due 2023 (a), (b)	**421.3**	424.6
$57.0m 2.060% fixed rate bond due 2030 (a), (b)	**43.2**	41.2
$40.0m 1.604% fixed rate bond due 2027 (a), (b)	**30.4**	29.1
€575.0m 0.875% fixed rate bond due 2028 (a), (b)	**482.6**	-
€575.0m 1.250% fixed rate bond due 2032 (a), (b)	**478.3**	-
Total bonds	**10,948.3**	10,392.7

All bonds are Class A except where highlighted.

(a) The Company has entered into a cross currency swap which converts this debt into a sterling debt. Hedge accounting is not applied.
(b) These bonds are shown net of issuance costs.
(c) The Securitisation Group has entered into swap agreements that convert this debt into sterling index-linked debt.
(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").
(e) In September 2022 this Class B bond has a "Step Up and Call" meaning the interest rate changes to three months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value. Our current expectation is that the call option will be exercised.
(f) This is a Limited Price Index ("LPI") bond. Accretion is calculated using an adjusted UK Retail Price Index.

Notes to the financial statements (continued)

9. Borrowings (continued)

Amounts owed to Group undertakings

As at 31 March	2022 £m	2021 £m
£200.0m floating rate loan due 2039 (a), (b)	**200.0**	200.0
£100.0m floating rate loan due 2060 (a), (b)	**91.9**	90.9
Total amounts owed to group undertakings	**291.9**	290.9

(a) This is an intercompany loan due to Thames Water Utilities Limited, the immediate parent company.
(b) The Company has entered into RPI index-linked swaps which have accretion pay downs at five yearly intervals.

10. Financial instruments

Categories of financial instruments

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

Financial assets:

As at 31 March	2022 £m	2021 £m
Fair value through profit or loss		
Index-linked swaps	**19.3**	14.4
Cross currency swaps	**57.8**	46.4
	77.1	60.8
Amortised cost		
Cash and cash equivalents	**1.1**	2.4
Other financial assets	**69.0**	54.1
Intercompany loans receivables	**12,952.3**	12,412.6
	13,022.4	12,469.1
Total	**13,099.5**	12,529.9

Financial liabilities:

As at 31 March	2022 £m	2021 £m
Fair value through profit or loss		
Index-linked swaps	**(629.7)**	(487.9)
Cross currency swaps	**(56.5)**	(44.7)
	(686.2)	(532.6)
Amortised cost		
Borrowings	**(12,557.7)**	(12,040.7)
Other financial liabilities	**(7.3)**	(7.9)
	(12,565.0)	(12,048.6)
Total	**(13,251.2)**	(12,581.2)

Notes to the financial statements (continued)

10. Financial instruments (continued)

Fair value measurements
The fair value of the financial assets and liabilities represent the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale, at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

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

Unless otherwise stated, all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result we have concluded that it is appropriate to continue to classify the derivatives instruments as Level 2. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2022, all of which are classified within financial liabilities:

	Level 2[1]	
	2022	2021
	£m	£m
Financial assets – derivative financial instruments		
Index-linked swaps	**19.3**	14.4
Cross currency swaps	**57.8**	46.4
	77.1	60.8
Financial liabilities – derivative financial instruments		
Index-linked swaps	**(629.7)**	(487.9)
Cross currency swaps	**(56.5)**	(44.7)
	(686.2)	(532.6)
Net total	**(609.1)**	(471.8)
Disclosed within current-assets	**19.3**	12.3
Disclosed within non-current assets	**57.8**	48.5
Disclosed within current liabilities	**(44.6)**	-
Disclosed within non-current liabilities	**(641.6)**	(532.6)

[1] The fair value of derivative financial instruments is measured using discounted cash flows of all the transactions within each netting set. The future cash flows are estimated based on observable forward interest and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects credit risk of the Company and the counterparties.

In November 2019, the maturity dates of two index-linked swaps, with £100.0 million notional each, were extended to 2039. These swaps are measured at fair value through the income statement. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £22.2 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2022, £19.4 million (31 March 2021: £20.6 million) remained capitalised and £1.2 million had been recognised in the income statement in net losses on financial instruments (31 March 2021: £1.2 million).

Notes to the financial statements (continued)

10. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

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

Financial assets

As at 31 March	**2022**		2021	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Intercompany loans receivable	**12,952.3**	**15,090.6**	12,412.6	14,497.1
Cash and cash equivalents	**1.1**	**1.1**	2.4	2.4
Derivative financial instruments				
Index-linked swaps	**19.3**	**19.3**	14.4	14.4
Cross currency swaps	**57.8**	**57.8**	46.4	46.4
Other financial assets	**69.0**	**69.0**	54.1	54.1
Total	**13,099.5**	**15,237.8**	12,529.9	14,614.4

Financial liabilities

As at 31 March	**2022**		2021	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Borrowings	**12,557.7**	**14,354.6**	12,040.7	13,899.2
Derivative financial instruments				
Index-linked swaps	**629.7**	**629.7**	487.9	487.9
Cross currency swaps	**56.5**	**56.5**	44.7	44.7
Other financial liabilities	**7.3**	**7.3**	7.9	7.9
Total	**13,251.2**	**15,048.1**	12,581.2	14,439.7

Intercompany loans receivable

The fair value of intercompany loans receivable from group entities represents the fair value of the underlying debt and associated derivatives.

Borrowings

The fair value of borrowings represents the market value of 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 Company'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 expected to accrue to maturity, discounted using a risk-free rate plus the Company's credit spread.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Capital risk management

The capital structure of the Company consists of net debt and equity. Details of the Company's capital risk management strategy can be found in the Strategic Report.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, Thames Water Utilities Holdings Limited and TWUL have guaranteed the principal and interest payments due under the terms of the securitised debt. 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 details of the Securitisation Group's capital structure are included within TWUL's financial statements, which may be obtained from the Company Secretary's Office at the address included in Note 15.

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

As at 31 March	**2022** **£m**	2021 £m
Secured bank loans and private placements	**(1,129.8)**	(1,161.2)
Bonds	**(10,948.3)**	(10,392.7)
Amounts owed to Group undertakings	**(291.9)**	(290.9)
Interest payable on borrowings	**(187.7)**	(195.9)
	(12,557.7)	(12,040.7)
Cash and cash equivalents	**1.1**	2.4
Net debt (statutory basis)	**(12,556.6)**	(12,038.3)
Equity attributable to the owners of the Company	**(69.7)**	(10.1)

Notes to the financial statements (continued)

10. 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 both changes in liabilities arising from cash flow and non-cash changes.

	2022		2021	
	Borrowings	**Net derivative financial liabilities**	Borrowings	Net derivative financial liabilities
	£m	**£m**	£m	£m
Opening balance	**(12,040.7)**	**(471.8)**	(12,397.4)	(220.8)
Non-current	**(11,000.0)**	**(484.1)**	(10,596.8)	(205.8)
Current	**(1,040.7)**	**12.3**	(1,800.6)	(15.0)
Cash flows				
New loans raised	**(3,585.4)**	**-**	(1,574.3)	-
Repayment of borrowings	**3,206.5**	**-**	1,830.0	-
Derivative settlement[1]	**-**	**(20.6)**	-	15.3
Interest paid	**345.0**	**-**	347.6	-
Interest received	**-**	**(11.6)**	-	(59.1)
	(33.9)	**(32.2)**	603.3	(43.8)
Non-cash changes				
Interest accrued/fees amortised	**(337.3)**	**10.1**	(359.7)	55.3
Foreign exchange movement	**(27.7)**	**-**	124.3	-
Indexation	**(158.7)**	**-**	(38.5)	-
Amortisation on transfer from group companies[2]	**40.6**	**-**	27.3	-
Fair value changes	**-**	**(115.2)**	-	(262.5)
	(483.1)	**(105.1)**	(246.6)	(207.2)
Closing balance	**(12,557.7)**	**(609.1)**	(12,040.7)	(471.8)
Non-current	**(11,887.8)**	**(583.8)**	(11,000.0)	(484.1)
Current	**(669.9)**	**(25.3)**	(1,040.7)	12.3

[1] Derivative settlement of £20.6 million relates to settlement of cross currency swaps. £15.3 million, in prior year, relates to index-linked swaps where accretion is payable periodically.

[2] On 31 August 2018, the debt and derivative instruments previously held by Thames Water Utilities Cayman Finance Limited ("TWUCF") were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the debt liability transferred was £7,853.5 million and the fair value of the derivatives liability transferred was £94.4 million. Amortisation on transfer from group companies only relates to the debt liability transferred.

Financial risk management

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

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk

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

As at 31 March 2022	**Total at fixed rates £m**	**Total at floating rates £m**	**Total at RPI linked rates £m**	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
Sterling	**7,345.5**	**468.1**	**3,206.5**	**11,020.1**
Non-sterling	**125.2**	**-**	**-**	**125.2**
Total	**7,470.7**	**468.1**	**3,206.5**	**11,145.3**

As at 31 March 2021	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
Sterling	6,836.2	414.3	3,297.2	10,547.7
Non-sterling	131.2	-	-	131.2
Total	6,967.4	414.3	3,297.2	10,678.9

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

	Weighted average interest rate		**Weighted average period until maturity**	
	2022	2021	**2022**	2021
	%	%	**Years**	Years
Sterling				
Fixed	**3.9**	4.2	**10.5**	11.5
Index-linked	**8.0**	3.3	**29.1**	27.4
Non-Sterling				
Fixed	**3.3**	3.3	**16.4**	17.4

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk (continued)

(i) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2022. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	**2022**		2021	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit/(loss)	**254.0**	**(296.8)**	200.0	(238.7)
Equity	**254.0**	**(296.8)**	200.0	(238.7)

(ii) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to economically hedge the foreign currency exposure of loans and bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations.

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 2022. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	**2022**		2021	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
(Loss)/profit	**(20.6)**	**(8.7)**	(17.6)	(4.8)
Equity	**(20.6)**	**(8.7)**	(17.6)	(4.8)

(iii) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, TWUL, as a regulated water and wastewater company, 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.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk (continued)

(iii) Inflation risk sensitivity analysis (continued)

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2022. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2022**		2021	
	+1% **£m**	**-1%** **£m**	+1% £m	-1% £m
(Loss)/profit	**(271.3)**	**214.9**	(261.0)	204.5
Equity	**(271.3)**	**214.9**	(261.0)	204.5

(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 balance sheet date was £13,099.5 million (2021: £12,529.9 million) as shown below:

As at 31 March	**2022** **£m**	2021 £m
Intercompany loans receivable	**12,952.3**	12,412.6
Derivative financial instruments	**77.1**	60.8
Cash and cash equivalents	**1.1**	2.4
Other financial assets	**69.0**	54.1
Total	**13,099.5**	12,529.9

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure the liquidity needs of the Securitisation Group are met through continued access to the capital markets. Proceeds of funding activities are on lent to TWUL, which is a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are considered to be impaired.

The amount due from TWUL, which is part of the Securitisation Group, as at 31 March 2022 was £13,021.3 million (2021: £12,466.7 million). There are no amounts past their due dates.

If a receivable continues to have an investment grade rating, then IFRS 9 permits an assumption that there has been no significant increase in credit risk. As such given TWUL's investment grade credit rating, an assessment of the 12 month expected credit loss is permitted rather than a lifetime credit loss assessment as per 'stage 1' of the IFRS 9 impairment model.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk (continued)

As the external debt issuance and rating is based on the performance of the operating company, TWUL, the directors believe it is acceptable to attribute the same rating to the loans receivable.

At a TWUL consolidated level an assessment has been performed to consider if the TWUL Group can meet all liabilities due in the twelve months from the signing of the consolidated financial statements on 5 July 2022 with no concerns identified. The external debt repayment due within 12 months of £669.9 million (2021: £1,040.7 million) is included in this assessment. As required by IFRS 9 the Directors have also considered whether anything might happen within the next 12 months that could cause the entity to be unable to pay the interest and principal on other debt when it falls due.

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.

Under the terms of the WBS agreement, counterparties to the Company's derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount. During the year ended 31 March 2022, no collateral was held (2021: £nil).

The following table summarises cash and cash equivalents held by credit rating of the counterparty.

As at 31 March	**2022** **£m**	2021 £m
A	**1.1**	2.4
Total	**1.1**	2.4

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

As at 31 March	**2022** **£m**	2021 £m
AA-	**15.6**	15.1
A+	**57.9**	45.2
A	**3.6**	0.5
Total	**77.1**	60.8

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)
(c) Liquidity Risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic Report. The maturity profile of the interest bearing borrowings disclosed in the statement of financial position are given below.

As at 31 March	**2022 £m**	2021 £m
- Within one year	**482.2**	843.4
- Between one and two years	**1,204.4**	109.0
- Between two and three years	**151.3**	1,495.9
- Between three and four years	**523.6**	141.1
- Between four and five years	**466.9**	528.6
- After more than five years	**9,541.6**	8,726.8
Total	**12,370.0**	11,844.8

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:

As at 31 March Undiscounted amounts payable	**2022 £m**	2021 £m
- Within one year	**838.5**	1,205.6
- Between one and two years	**1,558.6**	452.2
- Between two and three years	**484.5**	1,839.1
- Between three and four years	**829.9**	456.0
- Between four and five years	**777.6**	808.6
- After more than five years	**19,804.4**	17,474.1
Total	**24,293.5**	22,235.6

Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives, based on undiscounted cash flows, is as follows:

As at 31 March Undiscounted amounts receivable/(payable)	**2022 £m**	2021 £m
- Within one year	**(27.3)**	28.0
- Between one and two years	**22.9**	(13.9)
- Between two and three years	**(102.2)**	25.2
- Between three and four years	**(5.5)**	(58.8)
- Between four and five years	**23.0**	4.1
- After more than five years	**(814.8)**	(609.1)
Total	**(903.9)**	(624.5)

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where the Company 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.

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2022 and 31 March 2021. The column 'net amounts' shows the impact on the statement of financial position if circumstances arose for set-off rights to be applied.

Effects of offsetting on the Company statement of financial position

As at 31 March 2022	**Gross amounts £m**	**Amounts set off £m**	**Net amounts presented £m**	**Impact of master netting arrangements £m**	**Net amounts £m**
Financial assets					
Derivative financial instruments	**77.1**	**-**	**77.1**	**(36.1)**	**41.0**
	77.1	**-**	**77.1**	**(36.1)**	**41.0**
Financial liabilities					
Derivative financial instruments	**(686.2)**	**-**	**(686.2)**	**36.1**	**(650.1)**
	(686.2)	**-**	**(686.2)**	**36.1**	**(650.1)**
Total	**(609.1)**	**-**	**(609.1)**	**-**	**(609.1)**
As at 31 March 2021					
Financial assets					
Derivative financial instruments	60.8	-	60.8	(30.3)	30.5
	60.8	-	60.8	(30.3)	30.5
Financial liabilities					
Derivative financial instruments	(532.6)	-	(532.6)	30.3	(502.3)
	(532.6)	-	(532.6)	30.3	(502.3)
Total	(471.8)	-	(471.8)	-	(471.8)

10. Financial instruments (continued)

Financial risk management (continued)

IBOR reform

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

	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				
Amortised cost				
Borrowings[1]	-	**(291.9)**	-	(291.9)
Total assets and liabilities exposed to GBP LIBOR	**-**	**(291.9)**	-	(291.9)

[1] Included in the £291.9 million of borrowings in the table above are two intercompany loans with TWUL that are directly linked to LIBOR. Refer to Note 9 Borrowings on page 34 for a breakdown of these intercompany loans.

Notes to the financial statements (continued)

11. Deferred tax asset

	2022 £m	2021 £m
At the beginning of the year	**48.7**	31.2
Amounts credited to income statement based on fair value movements	**23.7**	17.5
Effect of tax rate change	**20.6**	-
At the end of the year	**93.0**	48.7

The deferred tax asset relates to the cumulative fair value losses recognised on derivatives. The Company is expected to generate taxable profits in the future and the deferred tax asset is therefore recoverable.

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. The effect of this rate change has therefore been reflected in these financial statements.

12. Called up share capital and other reserves

Share capital

As at 31 March	2022 £	2021 £
Allotted, called-up and fully paid		
12,501 (2021: 12,501) ordinary shares of £1 each	**12,501**	12,501
Allotted, called-up and partly paid		
37,500 (2021: 37,500) ordinary shares of £1 each	**37,500**	37,500
Total	**50,001**	50,001

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

Other reserves

As at 31 March	2022 £m	2021 £m
Other reserves	**207.7**	207.7
Total	**207.7**	207.7

Notes to the financial statements (continued)

13. Guarantees

The Company, Thames Water Utilities Holdings Limited and Thames Water Utilities Limited are Obligors under the Securitisation Group's whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the debt and hedging obligations of TWUL and the Company with their future cash flows. The guaranteed debt on a post swap basis as at 31 March 2022 was £13,771.8 million (2021: £12,933.4 million).

14. Related Parties

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

Intercompany loans receivable

The proceeds from external debt issued by the Company including any impact of associated derivatives are passed onto TWUL through intercompany loans with a margin of 0.1% charged, although a small minority of external transactions are not perfectly matched with intercompany transactions.

Amounts owed by Group undertakings represent cumulative financing proceeds that have been loaned to TWUL. Details of intercompany loans receivable can be found in note 8. There are no amounts past their due dates (2021: £nil).

As these assets relate to intercompany debt owed by a regulated water company characterised by relatively stable and predictable cash flows, and TWUL must maintain an investment grade credit rating, the credit risk exposure is deemed immaterial and no amounts are impaired. Intercompany loans receivable are held at amortised cost.

Total interest earnt from TWUL in respect of the year ended 31 March 2022 was £507.0 million (2021: £376.1 million).

Other financial assets

Other financial assets include amounts owed by immediate parent company TWUL. As at 31 March 2022, £69.0 million (2021: £54.1 million) was recognised within other financial assets relating to amounts owed by TWUL, of which £68.4 million (2021: £53.7 million) reflects interest received by TWUL on behalf of the Company in relation to restructured swaps.

Borrowings

Amounts owed to Group undertakings represent floating rate loans payable to TWUL. Details of the borrowing can be found in note 9. There are no amounts past their due dates (2021: £nil).

Interest on the loans from TWUL is charged at a floating rate (LIBOR plus a margin) in both the current and preceding financial period. Total interest earnt by TWUL in respect of the year ended 31 March 2022 was £5.8 million (2021: £6.7 million).

Other financial liabilities

Other financial liabilities include amounts owed to immediate parent company TWUL. As at 31 March 2022, £6.2 million (2021: £7.4 million) was recognised within other financial liabilities relating to amounts owed to TWUL.

Transactions with key management personnel

During the period, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2021: none).

Notes to the financial statements (continued)

15. Immediate and ultimate parent and controlling party

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

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

16. Post balance sheet events

Since 31 March 2022, a total of £375.0 million has been drawn from the Class A Revolving Credit Facility and a total of £370.7 million Class B Revolving Credit Facilities were repaid.

On 29 June 2022, the Thames Water Utilities Limited Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water Utilities Limited in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. This equity commitment of £500 million has been approved by shareholders' investment committees and is not subject to any performance-related conditions. Such funds, when drawn, are expected to be cascaded from Kemble Water Holdings Limited to Thames Water Utilities Limited via intermediate holding companies.