Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance plc

Interim report and condensed financial statements

For the six months ended 30 September 2022

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Company information

Directors

T Bolton
D Manuelpillai

Registered auditor

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH
United Kingdom

Company secretary and registered office

B Swiergon
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB
United Kingdom

Interim management report

This interim management report comprises a business and financial overview of Thames Water Utilities Finance plc ("the Company") for the six month period ended 30 September 2022 and constitutes unaudited key financial data and a narrative review of performance over this period. This report has been prepared solely to provide additional information to the Company's shareholders to assess the performance and future outlook of the Company, and as required under the Company's finance documents, and should not be relied upon by any other party or for any other purpose.

These condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements of the Company for the year ended 31 March 2022 which are available at https://www.thameswater.co.uk/about-us/investors/debt-information.

The Directors consider that the Interim report and condensed financial statements, taken as a whole, is fair, balanced and understandable, and alongside the Annual Report and Financial Statements of the Company for the year ended 31 March 2022, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2022.

Business review

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. 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 any 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 30 September 2022 was £14,488.1 million (31 March 2022: £13,771.8 million).

During the six months ended 30 September 2022, the Company had drawn £1,420.7 million debt relating to revolving credit facilities, and repaid £1,436.1 million debt including £1,020.7 million relating to revolving credit facilities and £415.4 million relating to bonds.

Interim management report (continued)

Credit rating

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

In May 2022, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating ("CFR") for TWUL continuing as Baa2 with a stable outlook (30 September 2021: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (30 September 2021: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (30 September 2021: Ba1 with stable outlook).

In September 2022, S&P lowered the ratings of the Company's Class A debt to BBB (30 September 2021: BBB+) and Class B debt to BB+ (30 September 2021: BBB-), with stable outlook (30 September 2021: negative outlook). The stable outlook reflects S&P's expectation that credit metrics will gradually improve through the current regulatory period.

Financial results

The Directors have determined that the result before tax and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company.

For the six month period ended 30 September 2022, the Company made a profit before tax of £375.2 million (30 September 2021: loss before tax of £69.7 million), primarily due to £334.0 million net gains on financial instruments (30 September 2021: £89.4 million net loss on financial instruments) mainly reflecting higher interest rate expectations as compared to 31 March 2022 expectations. Net assets of the Company at 30 September 2022 were £218.4 million (31 March 2022: net liabilities of £69.7 million) mainly reflecting the six month period 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.

The Directors have adopted the going concern basis in preparing these condensed interim financial statements having given due consideration to the net assets of the Company and the requirement for ongoing support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan, cash and committed borrowing facilities available and TWUL Group's basis of preparation, see page 13 for more information.

TWUL has confirmed that it will provide support to the Company to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing these condensed financial statements.

Interim management report (continued)

Directors

The Directors of the Company who were in office during the six month period ended 30 September 2022 and up to the date of signing these condensed interim financial statements were:

T Bolton
M Bamford (resigned 8 July 2022)
D Manuelpillai

During the period under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service with TWUL (12 months ended 31 March 2022: none).

Dividends

The Company did not pay any dividends in the six month period ended 30 September 2022 (30 September 2021: £nil). The Directors do not recommend the payment of a dividend (30 September 2021: £nil).

Political and charitable donations

No political or charitable donations were made by the Company during the period (30 September 2021: £nil).

Principal risks and uncertainties

During the six months ended 30 September 2022, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2022 remain largely unchanged. However, the risk landscape remains challenging due to the on-going cost-of-living crisis, inflation rate increases and the summer drought event which has caused additional stress on TWUL's operations. The impact of these factors on the Company's going concern assumption are considered further within the accounting policies of this report in the going concern section starting on page 12.

Further information of principal risks and uncertainty applicable to the Securitisation Group have been included within the condensed interim consolidated financial statements of TWUL. Copies of TWUL's Interim report and condensed consolidated financial statements may be obtained from the Company Secretary's Office at the address included in note 12.

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 Interim management report was approved by the Board of Directors on 02 December 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 Interim report and condensed financial statements

The directors confirm that the Interim report and condensed financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting', and that the interim management report includes a fair review of the information required by the Disclosure Guidance and Transparency sourcebook ("DTR") 4.2.7 namely: an indication of important events that have occurred during the first six months and their impact on the condensed set of interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year. As the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 02 December 2022 and signed on its behalf by:

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water Utilities Finance plc
Report on the condensed interim financial statements
Our conclusion

We have reviewed Thames Water Utilities Finance plc's condensed interim financial statements (the "interim financial statements") in the Interim report and condensed financial statements of Thames Water Utilities Finance plc for the 6 month period ended 30 September 2022 (the "period").

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

The interim financial statements comprise:

- the condensed statement of financial position as at 30 September 2022;
- the condensed income statement for the period then ended;
- the condensed statement of cash flows for the period then ended;
- the condensed statement of changes in equity for the period then ended;
- the accounting policies; and
- the explanatory notes to the interim financial statements.

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

Basis for conclusion

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

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the company to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim report and condensed financial statements, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim report and condensed financial statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim report and condensed financial statements, including the interim 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.

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

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
4 December 2022

Condensed income statement

For the six month period ended

	Note	**30 September 2022 £m**	30 September 2021 £m
Finance income	2	**350.2**	224.7
Finance expense	3	**(309.0)**	(205.0)
Net gains/(losses) on financial instruments	4	**334.0**	(89.4)
Profit/(loss) on ordinary activities before taxation		**375.2**	(69.7)
Tax (charge)/credit on profit/(loss)	5	**(87.1)**	31.3
Profit/(loss) on ordinary activities after taxation		**288.1**	(38.4)

All amounts relate to continuing operations

There is no other comprehensive income for the six month period.

Condensed statement of financial position

As at

	Note	**30 September 2022 £m**	31 March 2022 £m
Non-current assets:			
Intercompany loans receivable	6	**11,639.3**	12,092.0
Derivative financial assets	8	**274.0**	57.8
Deferred tax asset	9	**6.3**	93.0
Prepayments and other assets		**3.7**	4.5
		11,923.3	12,247.3
Current assets:			
Cash and cash equivalents		**1.2**	1.1
Intercompany loans receivable	6	**1,408.8**	860.3
Derivative financial assets	8	**-**	19.3
Prepayments and other assets		**2.1**	1.8
Amounts owed by group undertakings	8	**69.0**	69.0
		1,481.1	951.5
Current liabilities:			
Borrowings	7	**(1,235.2)**	(669.9)
Derivative financial liabilities	8	**-**	(44.6)
Amounts payable in respect of group relief	8	**(17.8)**	(17.3)
Other financial liabilities	8	**(2.9)**	(2.6)
		(1,255.9)	(734.4)
Net current assets		**225.2**	217.1
Non-current liabilities:			
Borrowings	7	**(11,589.6)**	(11,887.8)
Derivative financial liabilities	8	**(336.7)**	(641.6)
Other financial liabilities	8	**(3.8)**	(4.7)
		(11,930.1)	(12,534.1)
Net assets/(liabilities)		**218.4**	(69.7)
Equity:			
Called up share capital	11	**0.1**	0.1
Other reserves	11	**207.7**	207.7
Retained earnings		**10.6**	(277.5)
Total equity		**218.4**	(69.7)

The condensed interim financial statements were approved by the Board of Directors on 02 December 2022 and signed on its behalf by:

T Bolton
Director

Registered number: 02403744 (England & Wales)

Condensed statement of changes in equity

For the six month period ended

	Called up share capital	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m
1 April 2021	**0.1**	**207.7**	**(217.9)**	**(10.1)**
Loss on ordinary activities after taxation	-	-	(38.4)	(38.4)
30 September 2021	**0.1**	**207.7**	**(256.3)**	**(48.5)**
Loss on ordinary activities after taxation	**-**	-	(21.2)	(21.2)
31 March 2022	**0.1**	**207.7**	**(277.5)**	**(69.7)**
Profit on ordinary activities after taxation	-	-	288.1	288.1
30 September 2022	**0.1**	**207.7**	**10.6**	**218.4**

Condensed statement of cash flows

For the six month period ended

	30 September 2022 £m	30 September 2021 £m
Cash flows from operating activities		
Profit/(loss) on ordinary activities after taxation	**288.1**	(38.4)
Less finance income	**(350.2)**	(224.7)
Add finance expense	**309.0**	205.0
(Less)/add net (gains)/losses on financial instruments	**(334.0)**	89.4
Tax charge/(credit) on profit/(loss)	**87.1**	(31.3)
Net cash inflow from operating activities	**-**	-
Cash flows from investing activities		
Interest received	**199.1**	214.0
Loans to group companies	**(1,420.7)**	(1,616.8)
Loans repaid by group companies	**1,464.8**	1,764.5
Fees received	**3.4**	7.2
Net cash inflow from investing activities	**246.6**	368.9
Cash flows from financing activities		
Proceeds from new loans[1]	**1,420.7**	1,616.6
Repayment of borrowings[1]	**(1,436.1)**	(1,764.5)
Derivative settlement[2]	**(28.7)**	-
Interest paid	**(199.0)**	(214.8)
Fees paid	**(3.4)**	(4.1)
Net cash outflow from financing activities	**(246.5)**	(366.8)
Net movement in cash and cash equivalents	**0.1**	2.1
Cash and cash equivalents at beginning of the period	**1.1**	2.4
Cash and cash equivalents at end of the period	**1.2**	4.5

[1] Refer to the Borrowings note on page 18 for more information.
[2] Derivative settlement of £28.7 million (30 September 2021: £nil) consists of £24.5 million relating to index-linked swaps where accretion is payable/receivable periodically and £4.2 million relating to settlement of cross currency swaps.

Accounting policies

General information

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

The Company’s principal activity to act as a financing company to Thames Water Utilities Limited (“TWUL”), together with the Company, the “TWUL Group”, the main trading subsidiary of the Kemble Water Holdings Limited Group, remains unchanged from the previous year.

Statement of compliance

These condensed interim financial statements of the Company have been prepared on the basis of the policies set out in the March 2022 Annual Report in accordance with the UK-adopted International Accounting Standard 34, ‘Interim Financial Reporting’ and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority.

The condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2022 which were prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.

The auditors’ report on those financial Statements for the year ended 31 March 2022 was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or Directors’ remuneration report not agreeing to records and returns), or section 498(3) (failure to obtain necessary information and explanations).

Basis of preparation

The condensed interim financial statements for the six months ended 30 September 2022, set out on pages 8 to 23, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules (“DTR”) issued by the Financial Conduct Authority.

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 role of other group companies 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.

<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. In light of Covid-19 and the current situation, 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. This is based upon a review of TWUL’s (and that of the Securitisation Group’s) budget, business plan, cash and committed borrowing facilities available and TWUL Group’s basis of preparation, see below “TWUL Group” section for more information. TWUL has confirmed that it will provide support to the Company to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing these financial statements.

Accounting policies (continued)

Basis of preparation (continued)

<u>Going concern (continued)</u>

TWUL Group

In assessing the appropriateness of the going concern basis, the TWUL Directors have considered a range of factors under both a base case and a plausible but severe downside including; liquidity, cashflow projections and covenant compliance and based on this they are satisfied that it is appropriate that the financial statements are prepared on a going concern basis.

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 adequate liquidity headroom based on financial resources in the form of cash, committed bank facilities. As of 30 September 2022, such liquidity consisted of £263 million of cash and cash equivalents, access to £1.8 billion of revolving credit facilities of which £1.0 billion was undrawn and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). This is in addition to the £500 million equity commitment which can be drawn in March 2023, as described below. Additional loan facilities in aggregate of £1.16 billion have been put in place over the course of November and December 2022. Furthermore during the pandemic, the TWUL Group 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 cash interest cover and gearing ratios. With headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

In June 2022, to support Thames Water in the delivery of its updated 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 TWUL Group 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, which considers the impact of a severe but plausible downside scenario.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints, and cost of living concerns, 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 to a lesser extent lower billable volumes in the non-household sector due to reduced economic activity and consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To lessen the impact on operational cashflows, various mitigations are available which include, but are not limited to, active working capital management. Under the various scenarios, the business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

The going concern assessment also takes into account inflation linked swaps with a notional value of around £1.0 billion with maturities of 10 years transacted post the balance sheet date of 30 September 2022. These swaps help manage inflation risk and effectively convert existing debt, which was issued at a fixed nominal rate, into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity.

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 condensed 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.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Conclusion

Taking into consideration the above factors, including the letter of support from its parent company, 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 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.

New accounting policies

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim 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. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Annual Report and Financial Statements for the year ended 31 March 2022.

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").

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 transition has largely been completed, although some intercompany transactions have not yet transitioned.

Refer to the IBOR reform section included in Note 8 Financial instruments on page 21 for details of all of the financial instruments that the Company holds at 30 September 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

Seasonality of operations

Management have assessed the impact of any seasonality on the operations of the business and concluded that there is no impact.

Notes to the condensed interim financial statements

1. 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 condensed financial statements.

2. Finance income

For the six month period ended	**30 September 2022 £m**	30 September 2021 £m
Interest receivable on intercompany loans receivable	**353.8**	220.6
Net interest (expense)/income on swaps	**(3.6)**	1.9
Fee income on swaps	**-**	2.2
Total	**350.2**	224.7

3. Finance expense

For the six month period ended	**30 September 2022 £m**	30 September 2021 £m
Interest expense on borrowings	**(308.8)**	(203.8)
Fees	**(0.2)**	(1.2)
Total	**(309.0)**	(205.0)

4. Net gains/(losses) on financial instruments

For the six month period ended	**30 September 2022 £m**	30 September 2021 £m
Net exchange losses on foreign currency borrowings and intercompany loans receivables	**(178.3)**	(21.1)
Net gains/(losses) arising on swaps where hedge accounting is not applied[1]	**512.3**	(68.3)
	334.0	(89.4)

[1] Net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations and depreciation of GBP against USD, EUR and CAD.

Notes to the condensed interim financial statements (continued)

5. Taxation

For the six month period ended	**30 September 2022 £m**	30 September 2021 £m
Current tax:		
Amounts in respect of group relief payable	**0.4**	1.8
Deferred tax:		
Origination and reversal of timing differences	**86.7**	(33.1)
Tax charge/(credit) on profit/(loss) on ordinary activities	**87.1**	(31.3)

The tax charge for the period is higher (30 September 2021: higher credit) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

For the six month period ended	**30 September 2022 £m**	30 September 2021 £m
Profit/(loss) on ordinary activities before tax	**375.2**	(69.7)
Corporation tax on profit/(loss) on ordinary activities at 19% (period ended 30 September 2021: 19%)	**71.3**	(13.2)
Movement of fair value subject to initial recognition exemption	**(3.2)**	1.3
Effect of tax rate change[1]	**-**	(19.6)
Impact of tax rate change on timing differences in the period[2]	**18.8**	-
Transfer pricing adjustment to intercompany interest rate	**0.2**	0.2
Total tax charge/(credit) for the period	**87.1**	(31.3)

Factors affecting the future tax rate

[1] In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. The rate increase to 25% was substantively enacted on 24 May 2021. Therefore, its effects on deferred tax were included in the financial statements for the prior period in respect of timing differences as at 30 September 2021 which were expected to unwind after 1 April 2023.

[2] Timing differences as at 31 March 2022 which were previously expected to unwind after 1 April 2023 had deferred tax provided at the rate of 25%. Some of these, predominantly deferred tax assets in respect of cash flow hedges, have now reversed in the current period. The reduction in the corresponding deferred tax asset results in an increase in the tax charge for the period.

Notes to the condensed interim financial statements (continued)

6. Intercompany loans receivable

As at	**30 September 2022 £m**	31 March 2022 £m
Amounts owed by Group undertakings:		
Thames Water Utilities Limited	**12,832.6**	12,712.0
Interest receivable on amounts owed by Group undertakings:		
Thames Water Utilities Limited	**215.5**	240.3
Total	**13,048.1**	12,952.3
Disclosed within non-current assets	**11,639.3**	12,092.0
Disclosed within current assets	**1,408.8**	860.3

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 19 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 Business review 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 rating” section on page 3 for more information.

Notes to the condensed interim financial statements (continued)

7. Borrowings

As at	**30 September 2022 £m**	31 March 2022 £m
Secured bank loans and private placements	**1,625.3**	1,129.8
Bonds	**10,742.9**	10,948.3
Amounts owed to Group undertakings	**292.5**	291.9
	12,660.7	12,370.0
Interest payable on borrowings	**164.1**	187.7
Total	**12,824.8**	12,557.7
Disclosed within non-current liabilities	**11,589.6**	11,887.8
Disclosed within current liabilities	**1,235.2**	669.9

During the six months ended 30 September 2022, the Company had drawn £1,420.7 million debt relating to revolving credit facilities, and repaid £1,436.1 million debt including £1,020.7 million relating to revolving credit facilities and £415.4 million relating to bonds.

Debt issued by the Company matures between 2022 and 2062. The Company uses derivatives to swap some fixed rate debt to index-linked debt, which is lent on to TWUL, a regulated utility company and the immediate parent company with index-linked revenues. Additional disclosures on the derivatives have been provided in note 8.

TWUL and Thames Water Utilities Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds, secured loans and private placements.

Amounts owed to Group undertakings are loans from TWUL and interest is charged at a floating rate in both the current and preceding financial period.

8. Financial instruments

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 cross currency 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. There were no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments.

Notes to the condensed interim financial statements (continued)

8. Financial instruments (continued)

Fair value measurements (continued)

The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2022:

Financial assets	Level 2[1]	
As at	**30 September 2022 £m**	31 March 2022 £m
Fair value through profit or loss:		
Index-linked swaps	**-**	19.3
Cross currency swaps	**274.0**	57.8
	274.0	77.1
Amortised cost		
Cash and cash equivalents	**1.2**	1.1
Amounts owed by group undertakings	**69.0**	69.0
Intercompany loans receivable	**13,048.1**	12,952.3
	13,118.3	13,022.4
Total	**13,392.3**	13,099.5

Financial liabilities	Level 2[1, 2]	
As at	**30 September 2022 £m**	31 March 2022 £m
Fair value through profit or loss:		
Index-linked swaps	**(329.8)**	(629.7)
Cross currency swaps	**(6.9)**	(56.5)
	(336.7)	(686.2)
Amortised cost		
Borrowings[2]	**(12,824.8)**	(12,557.7)
Amounts payable in respect of group relief	**(17.8)**	(17.3)
Other financial liabilities	**(6.7)**	(7.3)
	(12,849.3)	(12,582.3)
Total	**(13,186.0)**	(13,268.5)

[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.

[2] Level 2 with the exception of publicly traded underlying liquid bonds which are Level 1.

During 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 'Financial Instruments' and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 30 September 2022, £18.8 million (31 March 2022: £19.4 million) remained capitalised within derivative financial liabilities and £0.6 million had been recognised in the income statement within net losses on financial instruments for the six month period (30 September 2021: £0.6 million).

Notes to the condensed interim financial statements (continued)

8. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

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

As at	**30 September 2022**		31 March 2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Intercompany loans receivable	**13,048.1**	**11,010.4**	12,952.3	15,090.6
Cash and cash equivalents	**1.2**	**1.2**	1.1	1.1
Derivative financial instruments	**274.0**	**274.0**	77.1	77.1
Amounts owed by group undertakings	**69.0**	**69.0**	69.0	69.0
	13,392.3	**11,354.6**	13,099.5	15,237.8
Financial liabilities:				
Borrowings	**(12,824.8)**	**(10,697.8)**	(12,557.7)	(14,354.6)
Derivative financial instruments	**(336.7)**	**(336.7)**	(686.2)	(686.2)
Amounts payable in respect of group relief	**(17.8)**	**(17.8)**	(17.3)	(17.3)
Other financial liabilities	**(6.7)**	**(6.7)**	(7.3)	(7.3)
	(13,186.0)	**(11,059.0)**	(13,268.5)	(15,065.4)

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 condensed interim financial statements (continued)

8. Financial instruments (continued)

IBOR reform

The following table contains details of all of the financial instruments that the Company holds at 30 September 2022 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 30 September 2022		Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings[1]	-	**(292.5)**	-	**(292.5)**
Total assets and liabilities exposed to GBP LIBOR	**-**	**(292.5)**	-	**(292.5)**

[1] This amount includes two intercompany loans with TWUL that are directly linked to LIBOR.

9. Deferred tax asset

The deferred tax asset relates to the cumulative fair value loss recognised on derivatives as detailed below:

As at	**30 September 2022 £m**	31 March 2022 £m
At the beginning of the period	**93.0**	48.7
Amounts (charged) / credited to income statement based on fair value movements	**(86.7)**	23.7
Effect of tax rate change	**-**	20.6
At the end of the period	**6.3**	93.0

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%. The rate increase to 25% was substantively enacted on 24 May 2021. Therefore, its effects on deferred tax were included in the financial statements for the prior period in respect of timing differences as at 30 September 2021 which were expected to unwind after 1 April 2023. Please see Note 5 for further comment on the effect of this change on timing differences in the current and prior periods.

Notes to the condensed interim financial statements (continued)

10. 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 the intercompany loans receivable can be found in note 6. There are no amounts past their due dates (31 March 2022: £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 six month period ended 30 September 2022 was £353.8 million (30 September 2021: £220.6 million).

Amounts owed by group undertakings

Amounts owed by group undertakings include amounts owed by immediate parent company TWUL. As at 30 September 2022, £69.0 million (31 March 2022: £69.0 million) was recognised within amounts owed by group undertakings relating to amounts owed by TWUL, of which £68.4 million (31 March 2022: £68.4 million) primarily reflects interest received by TWUL 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 7. There are no amounts past their due dates (31 March 2022: £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 six month period ended 30 September 2022 was £3.3 million (30 September 2021: £2.9 million).

Other financial liabilities

Other financial liabilities include amounts owed to immediate parent company TWUL. As at 30 September 2022, £5.8 million (31 March 2022: £6.2 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 with TWUL (31 March 2022: none).

Notes to the condensed interim financial statements (continued)

11. Called up share capital and other reserves

Called up share capital

As at	**30 September 2022 £**	31 March 2022 £
Allotted, called-up and fully paid		
12,501 ordinary shares of £1 each	**12,501**	12,501
Allotted, called-up and partly paid		
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	**30 September 2022 £m**	31 March 2022 £m
Other reserves	**207.7**	207.7
Total	**207.7**	207.7

12. 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.

13. Post balance sheet events

During October and November 2022, a net £300.0 million of Class A Revolving Credit Facilities drawdowns were repaid and a total of £370.7 million of Class B Revolving Credit Facilities drawdowns were repaid. The Company also received a net total of £670.7 million from TWUL as repayment of the related intercompany loans.