

Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance plc

Interim report and condensed financial statements

For the six months ended 30 September 2023

Contents

Company information	1
Interim management report	2
Statement of Directors' responsibilities in respect of the Interim report and condensed financial statements for the six months to 30 September 2023	6
Independent review report to Thames Water Utilities Finance plc	7
Condensed income statement	9
Condensed statement of financial position	10
Condensed statement of changes in equity	11
Condensed statement of cash flows	12
Accounting policies	13
Notes to the condensed interim financial statements	18

Company information

Directors

D Gregg
I Dearnley
J Read

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
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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 2023 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 2023 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 2023, provides the information necessary for shareholders to assess the Company’s performance and strategy for the six month period ended 30 September 2023.

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. However, a small minority of external transactions are not perfectly matched with intercompany transactions and on a small minority of intercompany transactions 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 the Company is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The Company guarantees the external debt issued by TWUL. The guaranteed debt on a post swap basis within the TWUL Group as at 30 September 2023 was £16,405.3 million (31 March 2023: £16,443.3 million).

During the six months ended 30 September 2023, the Company drew down £370.7 million debt (30 September 2022: £1,420.7 million) under its revolving credit facilities, and repaid £671.6 million debt (principal and accretion) (30 September 2022: £1,436.1 million) including £370.7 million relating to revolving credit facilities (30 September 2022: £1,020.7 million) and £300.9 million relating to bonds (30 September 2022: £415.4 million).

Interim management report (continued)

Credit rating

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

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

Financial results

The Directors have determined that the result before tax, total assets 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 2023, the Company made a profit before tax of £166.1 million (30 September 2022: profit before tax of £375.2 million), primarily due to £129.5 million net gains on financial instruments (30 September 2022: £334.0 million net gains on financial instruments) mainly reflecting higher interest rate expectations as compared to 31 March 2023 expectations.

Total assets of the Company at 30 September 2023 were £14,371.1 million (31 March 2023: total assets of £14,581.0 million) mainly due to settlement of intercompany loans receivable.

Net assets of the Company at 30 September 2023 were £278.2 million (31 March 2023: net assets of £135.9 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 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 relevant intercompany loans have matured or the terms 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 14 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 2023 and up to the date of signing these condensed interim financial statements were:

D Gregg
I Dearnley (appointed 5 May 2023)
J Read (appointed 5 May 2023)
A Black (appointed 22 February 2023 and resigned on 5 May 2023)
J Mogg (appointed 22 February 2023 and resigned on 5 May 2023)

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 2023: none).

Dividends

The Company did not pay any dividends in the six month period ended 30 September 2023 (30 September 2022: £nil). The Directors do not recommend the payment of a dividend (30 September 2022: £nil).

Political and charitable donations

No political or charitable donations were made by the Company during the period (30 September 2022: £nil).

Principal risks and uncertainties

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

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

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

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

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 13.

Interim management report (continued)

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 4 December 2023 and signed on its behalf by:



D Gregg
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of Directors' responsibilities in respect of the Interim report and condensed financial statements for the six months to 30 September 2023

The directors confirm that the Interim report and condensed financial statements for the six months to 30 September 2023 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 4 December 2023 and signed on its behalf by:



D Gregg
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 2023 (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 2023;
- 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 ("ISRE (UK) 2410"). 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

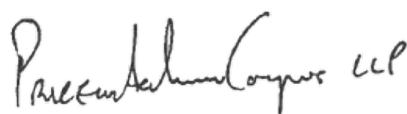
Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors 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 ISRE (UK) 2410. 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 2023

Condensed income statement

For the six month period ended

	Note	30 September 2023 £m	30 September 2022 £m
Administrative expenses		(0.1)	-
Operating loss		(0.1)	-
Finance income	2	353.4	350.2
Finance expense	3	(316.7)	(309.0)
Net gains on financial instruments	4	129.5	334.0
Profit on ordinary activities before taxation		166.1	375.2
Tax charge on profit	5	(23.8)	(87.1)
Profit on ordinary activities after taxation		142.3	288.1

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 2023 £m	31 March 2023 £m
Non-current assets:			
Intercompany loans receivable	6	12,433.0	12,357.8
Derivative financial assets	8	110.4	84.6
Deferred tax asset		15.5	36.0
Prepayments and other assets		1.9	2.8
		12,560.8	12,481.2
Current assets:			
Cash and cash equivalents		1.4	1.2
Intercompany loans receivable	6	1,691.5	1,989.1
Derivative financial assets	8	34.6	31.9
Prepayments and other assets		2.3	1.9
Amounts owed by group undertakings	8	80.5	75.7
		1,810.3	2,099.8
Current liabilities:			
Borrowings	7	(1,513.6)	(1,803.1)
Derivative financial liabilities	8	(23.1)	(13.7)
Amounts payable in respect of group relief	8	(22.4)	(19.0)
Other financial liabilities	8	(3.2)	(2.9)
		(1,562.3)	(1,838.7)
Net current assets		248.0	261.1
Non-current liabilities:			
Borrowings	7	(12,245.3)	(12,174.4)
Derivative financial liabilities	8	(283.1)	(429.0)
Other financial liabilities	8	(2.2)	(3.0)
		(12,530.6)	(12,606.4)
Net assets		278.2	135.9
Equity:			
Called up share capital	10	0.1	0.1
Other reserves	10	207.7	207.7
Retained earnings		70.4	(71.9)
Total equity		278.2	135.9

The condensed interim financial statements were approved by the Board of Directors on 4 December 2023 and signed on its behalf by:


D Gregg
Director

Registered number: 02403744 (England & Wales)

Condensed statement of changes in equity

For the six month period ended

	Called up share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
1 April 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
Loss on ordinary activities after taxation	-	-	(82.5)	(82.5)
31 March 2023	0.1	207.7	(71.9)	135.9
Profit on ordinary activities after taxation	-	-	142.3	142.3
30 September 2023	0.1	207.7	70.4	278.2

Condensed statement of cash flows

For the six month period ended

	30 September 2023 £m	30 September 2022 £m
<i>Cash flows from operating activities</i>		
Profit on ordinary activities after taxation	142.3	288.1
Less finance income	(353.4)	(350.2)
Add finance expense	316.7	309.0
Less net gains on financial instruments	(129.5)	(334.0)
Tax charge on profit	23.8	87.1
Operating loss	(0.1)	-
Movement in other receivable	(4.7)	-
Movement in other financial liabilities	0.1	-
Net cash outflow from operating activities	(4.7)	-
<i>Cash flows from investing activities</i>		
Interest received	187.9	199.1
Loans to group companies	(370.7)	(1,420.7)
Loans repaid by group companies	706.3	1,464.8
Fees received	3.7	3.4
Net cash inflow from investing activities	527.2	246.6
<i>Cash flows from financing activities</i>		
Proceeds from new loans ¹	370.7	1,420.7
Repayment of borrowings ²	(671.6)	(1,436.1)
Proceeds from derivative settlement ³	-	18.9
Payment for derivative settlement ⁴	(34.7)	(47.6)
Interest paid	(183.2)	(199.0)
Fees paid	(3.5)	(3.4)
Net cash outflow from financing activities	(522.3)	(246.5)
Net movement in cash and cash equivalents	0.2	0.1
Cash and cash equivalents at beginning of the period	1.2	1.1
Cash and cash equivalents at end of the period	1.4	1.2

¹ New loans raised of £370.7 million relates to drawdowns from the Class B revolving credit facilities. In the comparative period ended 30 September 2022, new loans raised was £1,420.7 million consisting of £1,050.0 million drawdowns from Class A revolving credit facilities and £370.7 million drawdowns from Class B revolving credit facilities.

² Repayment of borrowings of £671.6 million (30 September 2022: £1,436.1 million) includes £370.7 million of repayments relating to Class B revolving credit facilities (2022: £650.0 million Class A revolving credit facilities and £370.7 million Class B revolving credit facilities). The remaining amount relates to £300.9 million bond repayments (30 September 2022: £415.4 million bond repayments).

³ For the six month period ended 30 September 2022, proceeds from derivative settlement includes £18.9 million relating to accretion received on index-linked swaps. No proceeds from derivative settlement were received for the current period.

⁴ Payment for derivative settlement of £34.7 million relates to accretion paydown on index-linked swaps (30 September 2022: £43.4 million). For the six month period ended 30 September 2022, £4.2 million related to settlement of cross currency swaps, £nil for the current period.

Accounting policies

General information

Thames Water Utilities Finance plc (the “Company”) is a public limited company incorporated and domiciled in the United Kingdom. The Company is limited by shares issued to shareholders. 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

These condensed interim financial statements of the Company have been prepared on the basis of the policies set out in the March 2023 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 2023 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 2023 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 2023, set out on pages 9 to 26, 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.

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.

Going concern

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 assets 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 30 September 2023. 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.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment

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

In June 2022, to support Thames Water in the delivery of its updated business plan, Shareholders provided a commitment letter where they agreed to contribute, or cause to be contributed, an aggregate £500 million of funding, available to be drawn in full by the TWUL Group in March 2023. This funding was received on 30 March 2023. There has been a continual and constructive engagement with Shareholders on further support in AMP7 to enable Thames Water to deliver its business plan. Consequently, on 10 July 2023 shareholders provided a letter setting out further support totalling £750 million during the remainder of AMP7. This support is subject to specific conditions including Investment Committee approval by each Shareholder and, consequently, it has not been considered in the liquidity assessment for the going concern review. The TWUL Board continues at this time to have sufficient confidence that it remains the intention of the Shareholders to provide the additional funding and constructive discussions remain ongoing between Ofwat, Shareholders, Thames and other stakeholders, although the conditions have not yet been satisfied, Kemble Water Holdings Limited confirmed to Thames Water Utilities Limited on 1 December 2023 that the 10 July 2023 letter remains in effect subject to its terms and conditions. For the purposes of assessing covenant compliance, it is therefore reasonable to include the indicated level of support in the financial year ending 31 March 2024 for the purposes of calculating forecast covenant metrics.

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

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

The TWUL Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The TWUL Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 30 September 2023, such liquidity consisted of £0.9 billion of available cash and cash equivalents, access to £3.1 billion of committed credit facilities of which £2.6 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances).

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

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

It is based on a common set of terms for secured creditors that also facilitates debt raising across a range of facilities and debt instruments

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

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

Given the economic uncertainty associated with various macro factors such as a decline in real wages, a reduction in economic activity and inflationary pressures on operating costs, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To mitigate the impact on operational cashflows, mitigations involving active working capital management and the release of contingencies embedded with the Business Plan have also been taken into account. Under a severe but plausible downside scenario, the business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of 12 months from the date of signing of the financial statements.

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

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 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)

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 included changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The transition has largely been completed, although some intercompany transactions have not yet transitioned, this is expected to be completed by year ended 31 March 2024.

Refer to the IBOR reform section included in Note 8 Financial instruments on page 24 for details of all of the financial instruments that the Company holds at 30 September 2023 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

New standards and amendments

IFRS 17 ‘Insurance Contracts’ impact assessment

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

Management has conducted an assessment of the impact of IFRS 17, see below for the impact on the accounting for our financial guarantee contracts.

Financial guarantee contracts

The Company is party to a number of financial guarantee contracts for the purposes of its principal activities. Prior to the adoption of IFRS 17, these contracts were not accounted for in the statement of financial position due to the likelihood of a payment in respect of the guarantee not being probable. These arrangements include the whole business securitisation, where TWUHL guarantees obligations of the Company and TWUL; and the Company and TWUL guarantee the obligations of each other. Financial guarantee contracts were treated as a contingent liability until such a time as it became probable that the Company would be required to make a payment under the guarantee.

Following the transition to IFRS 17, the Company made the election to apply the requirements in IAS 32 ‘Financial Instruments: Presentation’, IFRS 7 ‘Financial Instruments: Disclosures’ and IFRS 9 ‘Financial Instruments’ to its financial guarantee contracts. These requirements include recognising the financial guarantees at fair value on initial application in the company standalone accounts, and then assessing the fair value (less amortisation recognised) against IFRS 9 expected credit losses at each reporting period.

Management have concluded that there is no material impact to the Company from the adoption of IFRS 17 on our financial guarantee contracts due to the majority of the Company’s liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked.

Accounting policies (continued)

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 2023.

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 2023 £m	30 September 2022 £m
Interest receivable on intercompany loans receivable	355.1	353.5
Net interest expense on swaps	(2.0)	(3.6)
Other finance fees recharged to TWUL	0.3	0.3
Total	353.4	350.2

3. Finance expense

For the six month period ended	30 September 2023 £m	30 September 2022 £m
Interest expense on borrowings	(316.5)	(308.8)
Other finance fees	(0.2)	(0.2)
Total	(316.7)	(309.0)

4. Net gains on financial instruments

For the six month period ended	30 September 2023 £m	30 September 2022 £m
Net exchange gains/(losses) on foreign currency borrowings and intercompany loans receivables	30.9	(178.3)
Net gains arising on swaps where hedge accounting is not applied ¹	98.6	512.3
	129.5	334.0

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

Notes to the condensed interim financial statements (continued)

5. Taxation

For the six month period ended	30 September 2023 £m	30 September 2022 £m
Current tax:		
Amounts payable in respect of group relief	3.3	0.4
Deferred tax:		
Origination and reversal of timing differences	20.5	86.7
Tax charge on profit on ordinary activities	23.8	87.1

The tax charge for the six-month period ended 30 September 2023 is lower than the 25% standard rate of corporation tax in the UK primarily due to the movement in the fair value of derivatives that is subject to the initial recognition exemption. As explained in the interim report for the prior year, the tax charge for the six-month period ended 30 September 2022 was higher than the 19% standard rate of corporation tax primarily due to the impact of the tax rate change on timing differences unwinding in the period.

Notes to the condensed interim financial statements (continued)

6. Intercompany loans receivable

As at	30 September 2023 £m	31 March 2023 £m
Amounts owed by Group undertakings:		
Thames Water Utilities Limited	13,861.9	14,079.4
Interest receivable on amounts owed by Group undertakings:		
Thames Water Utilities Limited	262.6	267.5
Total	14,124.5	14,346.9
Disclosed within non-current assets	12,433.0	12,357.8
Disclosed within current assets	1,691.5	1,989.1

There are no amounts past their due by dates.

On 31 August 2018, intercompany loans receivable 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 intercompany loans receivable transferred was £8,064.1 million, representing a fair value uplift of £1,653.9 million on the original book value held by TWUCF. During the period ended 30 September 2023, the fair value uplift amortisation of intercompany loans receivable was £25.9 million (30 September 2022: £41.2 million) and the unamortised fair value of the intercompany loans receivable as at 30 September 2023 was £7,137.6 million (31 March 2023: £7,453.1 million).

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, where the relevant intercompany loans have matured or are not perfectly matched with the external swaps. Furthermore, there are two additional index-linked swaps (with £200.0 million notional and £100.0 million notional) where the relevant intercompany loans are not perfectly matched with the external swaps.

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 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 2023 £m	31 March 2023 £m
Secured bank loans and private placements	1,173.0	1,165.9
Bonds	12,082.1	12,321.6
Amounts owed to Group undertakings	293.6	293.0
	13,548.7	13,780.5
Interest payable on borrowings	210.2	197.0
Total	13,758.9	13,977.5
Disclosed within non-current liabilities	12,245.3	12,174.4
Disclosed within current liabilities	1,513.6	1,803.1

During the six months ended 30 September 2023, the Company drew down £370.7 million debt under its revolving credit facilities, and repaid £671.6 million debt including £370.7 million relating to revolving credit facilities and £300.9 million relating to bonds.

Debt issued by the Company matures between 2023 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 swaps 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 2023 and 31 March 2023:

Financial assets As at	Level 2 ¹	
	30 September 2023 £m	31 March 2023 £m
Fair value through profit or loss:		
Cross currency swaps	145.0	116.5
Cash and cash equivalents – money market funds	1.3	1.1
	146.3	117.6
Amortised cost		
Cash and cash equivalents – cash at bank and in hand	0.1	0.1
Amounts owed by group undertakings	80.5	75.7
Intercompany loans receivable	14,124.5	14,346.9
	14,205.1	14,422.7
Total	14,351.4	14,540.3
Financial liabilities As at	Level 2 ^{1, 2}	
	30 September 2023 £m	31 March 2023 £m
Fair value through profit or loss:		
Index-linked swaps	(276.4)	(391.7)
Cross currency swaps	(29.8)	(51.0)
	(306.2)	(442.7)
Amortised cost		
Borrowings ²	(13,758.9)	(13,977.5)
Amounts payable in respect of group relief	(22.4)	(19.0)
Other financial liabilities	(5.4)	(5.9)
	(13,786.7)	(14,002.4)
Total	(14,092.9)	(14,445.1)

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.

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 2023		31 March 2023	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets:				
Intercompany loans receivable	14,124.5	10,699.6	14,346.9	12,550.9
Cash and cash equivalents	1.4	1.4	1.2	1.2
Derivative financial instruments	145.0	145.0	116.5	116.5
Amounts owed by group undertakings	80.5	80.5	75.7	75.7
	14,351.4	10,926.5	14,540.3	12,744.3
Financial liabilities:				
Borrowings	(13,758.9)	(10,391.1)	(13,977.5)	(12,026.2)
Derivative financial instruments	(306.2)	(306.2)	(442.7)	(442.7)
Amounts payable in respect of group relief	(22.4)	(22.4)	(19.0)	(19.0)
Other financial liabilities	(5.4)	(5.4)	(5.9)	(5.9)
	(14,092.9)	(10,725.1)	(14,445.1)	(12,493.8)

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, future interest costs 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 2023 and 31 March 2023 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 30 September 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings ¹	-	(293.6)	-	(293.6)
Total assets and liabilities exposed to GBP LIBOR	-	(293.6)	-	(293.6)

	Carrying Value at 31 March 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings ¹	-	(293.0)	-	(293.0)
Total assets and liabilities exposed to GBP LIBOR	-	(293.0)	-	(293.0)

¹ This amount includes two intercompany loans lent by TWUL that are directly linked to LIBOR.

Notes to the condensed interim financial statements (continued)

9. 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 and in most cases 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 2023: £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 earned from TWUL in respect of the six month period ended 30 September 2023 was £355.1 million (30 September 2022: £353.5 million).

Other finance fees recharged to TWUL in respect of the six month period ended 30 September 2023 was £0.3 million (30 September 2022: £0.3 million).

Amounts owed by group undertakings

Amounts owed by group undertakings include amounts owed by immediate parent company TWUL. As at 30 September 2023, £80.5 million (31 March 2023: £75.7 million) was recognised within amounts owed by group undertakings relating to amounts owed by TWUL, of which £79.8 million (31 March 2023: £75.1 million) primarily 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 7. There are no amounts past their due dates (31 March 2023: £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 earned by TWUL in respect of the six month period ended 30 September 2023 was £3.3 million (30 September 2022: £3.3 million).

Other financial liabilities

Other financial liabilities include amounts owed to immediate parent company TWUL. As at 30 September 2023, £4.3 million (31 March 2023: £4.8 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 2023: none).

Notes to the condensed interim financial statements (continued)

10. Called up share capital and other reserves

Called up share capital

As at	30 September 2023 £	31 March 2023 £
Allotted, called-up and fully paid		
50,001 ordinary shares of £1 each	50,001	50,001
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 2023 £m	31 March 2023 £m
Other reserves	207.7	207.7
Total	207.7	207.7

11. 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.

12. Post balance sheet events

In October 2023,

- a total of £530.0 million Class A Revolving Credit Facilities were drawn. The Company loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin;
- a total of £370.7 million Class B Revolving Credit Facilities were repaid. The Company received a total of £370.7 million from TWUL as repayment of the related intercompany loans; and
- a £300.0 million Class A bond due 2040 was issued. The Company loaned the proceeds (net of fees) from the issuance to TWUL on the same terms plus a margin.