Registered number: 537456915 (England & Wales)

Thames Water Utilities Limited

Interim report and financial statements

For the six month period ended 30 September 2022

Contents

Chairman's report

Introduction

Thames Water Utilities Limited ("the Company") is a private limited company incorporated in England & Wales and domiciled in the United Kingdom. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Company's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers in London, the Thames Valley and surrounding area in accordance with its licence of appointment. The Company is also an intermediate holding company within the Kemble Water Holdings Limited Group of companies ("the Group").

This report comprises a business and financial overview of Thames Water Utilities Limited for the six month period ended 30 September 2022 and constitutes unaudited key financial data and narrative review of performance over this period.

The Company is party to various financing agreements which require the Company to prepare unaudited financial statements. This interim report has been prepared to meet these requirements.

Principal risks and uncertainties

Following review our principal risks, as disclosed in the Thames Water Annual Report and Sustainability Report 2022/23, 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 our water and wastewater networks. Additionally, there are further challenges around the risk of damage and flooding of the wastewater network, supply interruptions and visible leakage on our water network.

We continue to invest in our infrastructure to increase our capacity and improve network resilience, as well as allocating additional funding to support our leakage detection programme, however we are facing legal and regulatory challenges including in-flight investigations by Ofwat and the EA.

Pressure remains on our financial position due to challenges in cash and debt collection. In the wake of the ongoing cost-of-living crisis with inflation and interest rate increases, we continue to support customers that face financial hardship and are unable to pay their water bill.

In addition, we are experiencing increased disruption within our supply chain, including shortage of critical chemical supplies in UK/Europe (a sector-wide issue that is being monitored at a national level) and unprecedented price increases across key components of our cost base (power and chemicals). Looking ahead, we anticipate continued rises in power prices due to market volatility. Inflationary pressures are expected to continue into FY24, impacting our cost base and our cash collection rate.

Going Concern

In assessing the appropriateness of the going concern basis, the 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 Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The 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 Group continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the 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 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 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.

Going Concern (continued)

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 Directors have also considered the consequences of a temporary Trigger Event, a feature of the 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 Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the Group's ability to trade. The cash lockup preserves the value of the Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the Group has significant bank facilities which the 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 Board is satisfied that the 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 Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Alastair Cochran
Chief Financial Officer
2 December 2022

Condensed income statement

For the six-month period ended 30 September

	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Revenue	1,092.8	42.4	1,135.2	1,062.3	42.8	1,105.1
Operating expenses excluding impairment losses on financial and contract assets	(957.0)	-	(957.0)	(864.1)	-	(864.1)
Impairment losses on financial and contract assets	(11.8)	(0.1)	(11.9)	(12.0)	(0.1)	(12.1)
Total operating expenses	**(968.8)**	**(0.1)**	**(968.9)**	**(876.1)**	**(0.1)**	**(876.2)**
Other operating income	50.3	-	50.3	40.1	-	40.1
Operating profit	**174.3**	**42.3**	**216.6**	**226.3**	**42.7**	**269.0**
Finance income	77.6	-	77.6	64.8	-	64.8
Finance expense	(388.0)	-	(388.0)	(249.3)	-	(249.3)
Net loss on financial instruments	246.7	-	246.7	(365.5)	-	(365.5)
Profit/(loss) on ordinary activities before taxation	**110.6**	**42.3**	**152.9**	**(323.7)**	**42.7**	**(281.0)**
Tax (charge)/credit on (loss)/profit on ordinary activities	(68.6)	23.6	(45.0)	**(273.1)**	**(8.1)**	**(281.2)**
Profit/(loss) for the period	**42.0**	**65.9**	**107.9**	**(596.8)**	**34.6**	**(562.2)**

Condensed statement of other comprehensive income

For the six-month period ended 30 September

	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Profit/(loss) for the period	**42.0**	**65.9**	**107.9**	**(596.8)**	**34.6**	**(562.2)**
Other comprehensive income						
Will not be reclassified to the income statement:						
Net actuarial loss on pension schemes	81.7	-	81.7	(97.1)	-	(97.1)
Deferred tax credit on net actuarial loss including impact of tax rate change in current period	(19.3)	-	(19.3)	60.3	-	60.3
May be reclassified to the income statement:						
Cash flow hedges transferred to income statement	11.5	-	11.5	18.3	-	18.3
Deferred tax charge on cash flow hedge gains less impact of tax rate change in current period	(2.2)	-	(2.2)	(0.1)	-	(0.1)
Other comprehensive expense for the period	**71.7**	**-**	**71.7**	**(18.6)**	**-**	**(18.6)**
Total comprehensive income/(expense) for the period	**113.7**	**65.9**	**179.6**	**(615.4)**	**34.6**	**(580.8)**

The Company's activities underpinning the results above are derived from continuing activities.

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

Condensed statement of financial position

As at

	30 September 2022			31 March 2022		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current assets						
Intangible assets	274.9	-	274.9	284.8	-	284.8
Property, plant and equipment	17,432.6	-	17,432.6	16,949.8	-	16,949.8
Investment property	50.0	-	50.0	50.0	-	50.0
Investment in subsidiaries	207.7	-	207.7	207.7	-	207.7
Right-of-use assets	42.8	-	42.8	45.8	-	45.8
Derivative financial assets	508.0	-	508.0	111.5	-	111.5
Intercompany loans receivable	1,993.4	-	1,993.4	1,993.4	-	1,993.4
Prepayments	1.2	345.3	346.5	-	308.8	308.8
Insurance, amounts owed to group undertakings and other receivables	38.3	-	38.3	41.5	-	41.5
Pension asset	1.7	-	1.7	12.0	-	12.0
	20,550.6	**345.3**	**20,895.9**	**19,696.5**	**308.8**	**20,005.3**
Current assets						
Inventories	17.0	-	17.0	13.0	-	13.0
Intercompany loans receivable	61.2	-	61.2	43.5	-	43.5
Contract assets	250.4	8.3	258.7	251.0	8.5	259.5
Trade and other receivables	694.5	28.1	722.6	301.6	14.0	315.6
Prepayments	64.8	-	64.8	36.9	-	36.9
Amounts owed to group undertakings and other receivables	38.3	-	38.3	40.8	1.0	41.8
Derivative financial assets	11.0	-	11.0	3.6	-	3.6
Cash and cash equivalents	257.3	5.8	263.1	418.7	5.2	423.9
	1,394.5	**42.2**	**1,436.7**	**1,109.1**	**28.7**	**1,137.8**
Current liabilities						
Contract liabilities	(500.1)	(15.4)	(515.5)	(125.1)	(2.0)	(127.1)
Trade and other payables	(754.1)	(18.0)	(772.1)	(699.3)	(49.2)	(748.5)
Borrowings	(1,484.5)	-	(1,484.5)	(974.3)	-	(974.3)
Lease liabilities	(6.7)	-	(6.7)	(6.2)	-	(6.2)
Provisions for liabilities and charges	(7.5)	-	(7.5)	-	-	-
Derivative financial liabilities	(221.0)	-	(221.0)	(58.4)	-	(58.4)
	(2,973.9)	**(33.4)**	**(3,007.3)**	**(1,863.3)**	**(51.2)**	**(1,914.5)**
Net current (liabilities)	**(1,579.5)**	**8.8**	**(1,570.7)**	**(754.2)**	**(22.5)**	**(776.7)**
Non-current liabilities						
Contract liabilities	(874.7)	-	(874.7)	(831.7)	-	(831.7)
Borrowings	(12,874.1)	-	(12,874.1)	(12,862.5)	-	(12,862.5)
Lease liabilities	(54.0)	-	(54.0)	(57.1)	-	(57.1)
Derivative financial liabilities	(1,449.9)	-	(1,449.9)	(1,597.2)	-	(1,597.2)
Deferred tax	(1,285.1)	-	(1,285.1)	(1,184.1)	-	(1,184.1)
Provisions for liabilities and charges	(191.5)	-	(191.5)	(185.0)	-	(185.0)
Pension deficit	(162.7)	-	(162.7)	(257.3)	-	(257.3)
	(16,892.0)	**-**	**(16,892.0)**	**(16,974.9)**	**-**	**(16,974.9)**
Net assets	**2,079.2**	**354.1**	**2,433.3**	**1,967.4**	**286.3**	**2,253.7**
Equity						
Called up share capital	29.0	-	29.0	29.0	-	29.0
Share premium	100.0	-	100.0	100.0	-	100.0
Cash flow hedge reserve	(23.9)	-	(23.9)	(33.2)	-	(33.2)
Revaluation reserve	808.8	-	808.8	820.1	-	820.1
Retained earnings	1,165.3	354.1	1,519.4	1,051.5	286.3	1,337.8
Total equity	**2,079.2**	**354.1**	**2,433.3**	**1,967.4**	**286.3**	**2,253.7**

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

Condensed statement of changes in equity

For the six month period ended 30 September 2022

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	**Total equity £m**
1 April 2021	**29.0**	**100.0**	**(59.7)**	**903.1**	**2,208.4**	**3,180.8**
Loss for the year	-	-	-	-	(936.5)	(936.5)
Cash flow hedge transfer to the income statement	-	-	31.1	-	-	31.1
Deferred tax charge on cash flow hedge less impact of tax rate change	-	-	(4.6)	-	-	(4.6)
Net actuarial loss on pension scheme	-	-	-	-	(22.9)	(22.9)
Deferred tax credit on actuarial loss	-	-	-	-	11.8	11.8
Impact of tax rate change in current year in respect of net actuarial losses					31.1	31.1
Total comprehensive income	-	-	**26.5**	**-**	**(916.5)**	**(890.0)**
Transfer of depreciation[1]	-	-	-	(21.5)	21.5	-
Deferred tax on depreciation[1]	-	-	-	(61.5)	61.5	-
Dividends paid					(37.1)	(37.1)
31 March 2022	**29.0**	**100.0**	**(33.2)**	**820.1**	**1,337.8**	**2,253.7**
Profit for the period	-	-	-	-	107.9	107.9
Cash flow hedge transfer to the income statement	-	-	11.5	-	-	11.5
Deferred tax on cash flow hedge	-	-	(2.2)	-	-	(2.2)
Actuarial gain on pension scheme	-	-	-	-	81.7	81.7
Deferred tax charge on actuarial gain	-	-	-	-	(19.3)	(19.3)
Total comprehensive income	**-**	**-**	**9.3**	**-**	**170.3**	**179.6**
Transfer of depreciation[1]	-	-	-	(16.5)	16.5	**-**
Deferred tax on depreciation transfer[1]	-	-	-	5.2	(5.2)	**-**
30 September 2022	**29.0**	**100.0**	**(23.9)**	**808.8**	**1,519.4**	**2,433.3**

[1] The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax in the fair value uplift on assets.

Condensed statement of cash flows

For the six month period ended 30 September 2022

	2022			2021		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Operating activities:						
Profit/(loss) for the period	42.0	65.9	107.9	(596.8)	34.6	(562.2)
Less finance income	(77.6)	-	(77.6)	(64.8)	-	(64.8)
Add finance expense excluding interest on lease liabilities	386.4	-	386.4	247.7	-	247.7
Add interest expense on lease liabilities	1.6	-	1.6	1.6	-	1.6
Add net loss on financial instruments	(246.7)	-	(246.7)	365.5	-	365.5
Add/(less) taxation on profit/(loss) on ordinary activities	68.6	(23.6)	45.0	273.1	8.1	281.2
Operating profit	**174.3**	**42.3**	**216.6**	**226.3**	**42.7**	**269.0**
Depreciation on property, plant and equipment	303.2	-	303.2	292.5	-	292.5
Amortisation of intangible assets	32.3	-	32.3	26.9	-	26.9
Depreciation of right of use assets	3.3	-	3.3	2.0	-	2.0
Add loss on sale of property, plant and equipment	-	-	-	(0.2)	-	(0.2)
Difference in pension charge and cash contribution	(5.9)	-	(5.9)	(1.0)	-	(1.0)
(Increase)/decrease in inventory	(4.0)	-	(4.0)	1.0	-	1.0
Increase in trade and other receivables	(381.3)	(49.6)	(430.9)	(371.3)	(55.0)	(426.3)
Decrease/(increase) in contract assets	0.6	0.2	0.8	(24.5)	(2.7)	(27.2)
Increase/(decrease) in trade and other payables	26.6	(5.7)	20.9	(47.1)	3.4	(43.7)
Increase in contract liabilities	417.9	13.4	431.3	416.4	14.6	431.0
Increase in provisions	14.0	-	14.0	3.8	-	3.8
Net cash generated by operating activities	**581.0**	**0.6**	**581.6**	**524.8**	**3.0**	**527.8**
Investing activities:						
Proceeds from short term investments				-	-	-
Purchase of property, plant and equipment	(786.0)	-	(786.0)	(594.9)	-	(594.9)
Purchase of intangible assets	(22.4)	-	(22.4)	(32.3)	-	(32.3)
Proceeds from sale of property, plant and equipment	-	-	-	0.6	-	0.6
Interest received	43.5	-	43.5	41.1	-	41.1
Net cash used in investing activities	**(764.9)**	**-**	**(764.9)**	**(585.5)**	**-**	**(585.5)**
Financing activities:						
New loans raised	1,818.5	-	1,818.5	1,616.6	-	1,616.6
Repayment of borrowings	(1,598.6)	-	(1,598.6)	(1,772.7)	-	(1,772.7)
Repayment of lease principal	(4.7)	-	(4.7)	(5.3)	-	(5.3)
Interest paid	(120.6)	-	(120.6)	(174.9)	-	(174.9)
Derivative paydown	(68.2)	-	(68.2)	-	-	-
Fees paid	(3.9)	-	(3.9)	4.8	-	4.8
Net cash used in financing activities	**22.5**	**-**	**22.5**	**(331.5)**	**-**	**(331.5)**
Net (decrease)/increase in cash and cash equivalents	(161.4)	0.6	(160.8)	(392.2)	3.0	(389.2)
Net cash and cash equivalents at beginning of period	418.7	5.2	423.9	488.5	3.6	492.1
Net cash and cash equivalents at end of period	**257.3**	**5.8**	**263.1**	**96.3**	**6.6**	**102.9**

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

Notes to the condensed company financial statements

1. Post Balance Sheet Events

During October and November 2022, the intercompany loans with TWUF in respect of 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.

In November 2022, £622.7 million equivalent proceeds were received from privately placed Notes which were priced in August 2022. The issuance consists of a total of $432.0 million USD tranches and a total of £258.0 million GBP tranches. Cross currency swaps were entered into in August 2022 for the USD tranches, swapping USD for GBP.

In November 2022, the Group entered into a £900.0 million revolving credit facility and a £100.0 million term loan facility, both maturing in May 2026.

In November 2022, the Group entered into a total of £1.0 billion notional index-linked swaps with a 10 year maturity. 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.

In December 2022, the Group entered into a £98.5 million Class A term loan facility maturing in December 2029 and a £65.0 million Class B term loan facility maturing in December 2027, both of which remain undrawn.