

Chris Weston Chief Executive Officer



Contents

Section 172

| trategic report | | Governance report | |
|---------------------------------|----|--|--|
| ey performance indicators | 2 | Chairman's introduction | |
| hair Statement | 3 | Compliance with Governance Code | |
| EO Statement | 4 | Group structure | |
| ed by Purpose | 6 | Meet our Board | |
| hames Water in context | 7 | Governance at a glance | |
| ur proposed PR24 plan | 9 | Our Executive team | |
| reating long-term value | 10 | Roles and responsibilities | |
| lanagement focus | 12 | Board activities to drive our | |
| ealth, Safety and Wellbeing | 13 | turnaround plan | |
| ater quality and supply | 14 | Stakeholder engagement | |
| ollutions and discharges | 15 | Operational Oversight Committee Report | |
| eakage | 16 | Customer Service Committee Report | |
| ustomer service | 17 | Regulatory Strategy Committee Report | |
| ur assets | 18 | Health, Safety and Environment Committee Report | |
| ngaging with stakeholders | 19 | Nominations Committee Report | |
| isk management | 21 | Finance and Turnaround | |
| ong-term Viability Statement | 28 | Committee Reports | |
| SG highlights | 31 | Audit, Risk and Reporting | |
| eading our Turnaround | 32 | Committee Report | |
| CFD | 34 | Directors' Remuneration Report | |
| nancial Review | 44 | Remuneration at a glance | |
| on-Financial and Sustainability | | Annual Report of Remuneration | |
| nformation Statement | 48 | Director's Report | |

Financial statements

| | 51 | Independent auditors' report | | |
|---|------------|--|----|--|
| | 52 | Consolidated income statement | 12 | |
| | 53 54 | Consolidated statement of other comprehensive income | 12 | |
| | 56 | Consolidated statement of financial position | 12 | |
| | 59 60 | Consolidated statement of changes in equity | 12 | |
| | C 2 | Consolidated statement of cash flows | 12 | |
| | 63 | Accounting policies | 12 | |
| | 64 66 | Notes to the consolidated financial statements | 13 | |
| | 67 | Company income statement | 16 | |
| 6 | 68 | Company statement of other comprehensive income | 16 | |
| | 69 70 | Company statement of financial position | 16 | |
| | | Company statement of changes in equity | 16 | |
| | 72 | Company statement of cash flows | 16 | |
| | 73 | Notes to the company financial statements | 16 | |
| | 78 | | | |
| | 80 | The Strategic Report was approved by the | | |
| | 82 | Board of Directors on 9 July and signed on it | | |
| | 95 | behalf by Chris Weston, Chief Executive Of | HC | |



Governance

Thames Water Annual Report 2023/24







A snapshot

Key performance indicators (KPIs)

Operational and environmental KPIs¹

Financial statements

Health and safety² Lost-time injury frequency rate

19% reduction (FY24: 0.13: FY23: 0.16)

Water quality Compliance risk index³

1.43 (FY23: 10.96)

Supply interruptions

15% reduction (FY24: 16m 56s: FY23: 19m 54s) Leakage⁴

7% reduction (FY24: 570.4MI/d; FY23: 613MI/d)

Total pollutions⁵

6% increase (2023: 350; 2022: 331) 18% reduction in serious pollutions

Total complaints

10% increase (FY24: 83,146; FY23: 75,768)

Financial KPIs⁶

Total revenue

£2.5 billion +11% year on year

Underlying revenue

f2.4 billion +10% year on year

Profit after tax

£75 million (FY23: £30 million loss)

Underlying EBITDA⁷

f1.2 billion +21% year on year

Operating cash flow

f1.4 billion +24% year on year

Investment in assets

f2.1 billion +18% year on year

Committed liquidity⁸

£2.5 billion underpinning our AMP7 investment programme

Senior gearing

80.6% (FY23: 77.4%)

Sustainability KPIs⁹

2025

Thames Tideway Tunnel on track to become fully operational in 2025

Energy needs self-generated

27% (FY23: 27%)

Number of households on social tariff

358.357 (FY23: 306.506)

Every year, we publish a Sustainability Report and Environmental, Social and Governance (ESG) Statement – it will be published in July 2024 and will be available on the Thames Water website.

- 1 Our operational and environmental KPIs have been updated in line with our Turnaround Plan priorities, which are health and safety lost-time injuries, pollutions, leakage, water quality, supply interruptions and complaints. Last year, our operational and environmental KPIs also included employee engagement, C-MeX (customer measure of experience), per capita consumption, acceptability of water to customers, sewage discharges, number of sewer blockages cleared, treatment works compliance and internal sewer flooding.
- 2 The number of injuries per 100,000 hours worked.
- 3 The annual aggregated score of our level of treated water compliance incidents.
- 4 Leakage reflects leakage compared with the previous year, rather than the regulatory measure, in alignment with turnaround. We missed our regulatory target for the year.
- 5 A calendar year measure. Serious pollutions are those categorised as 1 or 2 in the Environment Agency ranking. There are currently four categories and total pollutions includes categories 1-3.
- 6 Our Financial KPIs have been updated to include underlying revenue, operating cashflow, gearing and liquidity as key metrics in measuring our financial resilience. Our KPI's no longer include dividends and credit rating which are deemed outcomes but not drivers of performance to support management in their review of performance. With inclusion of exceptional items in the period our EBITDA KPI is now reported on an 'underlying' basis compared to a 'total' basis in the prior year
- 7 Calculated excluding exceptional items.
- 8 As at 31 March 2024; excludes £550 million of additional undrawn liquidity facilities that can be drawn in limited circumstances.
- 9 We have refined our sustainability KPIs, as we move forward with our turnaround plan.













Our Chairman's statement

A turbulent year





With the right team, time money and resources, Chris and I both believe we can turn this business around – it would be in the best interests of customers and the environment for Thames Water to remain market-led"

Sir Adrian Montague Chairman It has been a turbulent year for the business, and we continue to face challenges as we rebuild trust against a backdrop of financial, regulatory and political uncertainty.

Strong leadership

I'd like to start by thanking Alastair Cochran, our Chief Financial Officer, and Cathryn Ross, our Director of Strategy and External Affairs, for swiftly restoring stability within the business, after taking the roles of interim CEOs at short notice in June 2023. They refocused our turnaround, building a credible plan to deliver quicker improvements for customers and the environment, and we're already seeing some progress.

My first priority as Chairman was to find an experienced CEO to lead Thames Water through this challenging time. While it's clear to me that the root causes of our challenges were predominantly homegrown, not all the problems came from within the business. Thames Water, our regulators and the Government all bear some responsibility for our current position, with a lack of alignment in goals as well as a regulatory approach that's prioritised low bills over investment in infrastructure, and is not offering fair returns to attract capital into the sector. Together, we must seek a solution that's in the best interests of our customers.

The appointment of CEO Chris Weston, who has successfully led a number of large and complex organisations, was of great significance for the business. He brings extensive experience and gravitas to the role, and is already navigating a pathway forward, with clarity on what the priorities need to be to rebuild this business.

A pivotal Price Review

On 2 October 2023, we submitted an ambitious PR24 business plan proposal for 2025 to 2030 and, following engagement with Ofwat, we updated our plan in April to increase proposed total expenditure (totex) to £19.8 billion from £18.7 billion, with the additional spend focused on projects that will benefit the environment. Our proposed plan can be found on our website.

We fully recognise the challenges Ofwat faces, given the current regulatory framework and its role as our economic regulator. Throughout the process, we've interacted extensively with both Ofwat and the Government about the nature of our plans and the challenges we face, to help Ofwat create a draft determination, that will attract much-needed investment and deliver more for customers and the environment, using the regulatory tools available to them. When we receive our draft determination we will take the time to review and respond to it, and will continue our ongoing engagement with Ofwat and the Government as the process continues towards expected Final Determinations in December 2024.

The shareholders' withdrawal of support for £500 million of further equity which was previously expected in March 2024, as they didn't feel their conditions would be met, was a severe setback but nonetheless understandable, given the feedback we received from Ofwat at that time. As we outlined in March 2024, we will seek to attract the equity from new and existing shareholders as we move through the Price Review process.

Seeking a financially resilient future

Both Chris and I believe we can turn this business around, and improve operational performance for the benefit of customers and the environment, given the time, support and money to do so.

The UK water industry is forecasting a doubling of investment to an estimated £96 billion in the next regulatory period, compared with 2020 to 2025, and is competing for debt and equity in a very competitive market, at a time of increased regulatory and political uncertainty and risk. It's clear that the entire sector will require significant and sustained investment over decades to cope with the risks presented by climate change, population growth and increased demand.

We remain of the view that a market-led solution would lead to a better and more cost-effective outcome for customers and the environment; however, it will require us working together with our regulators and the Government to create space to deliver our turnaround and ensure that investors are incentivised to continue investing in UK water. A lack of synergy adds real risk to UK

infrastructure investment in the round, with the challenges facing Thames Water having the potential to spread further afield into other sectors.

Governance

Given where we are in the PR24 process, Ontario Municipal Employees Retirement System (OMERS) felt it was right for Michael McNicholas, its Investor Director, to step down from the Thames Water Utilities Limited Board, while we await further clarity from Ofwat. I'd like to thank both Michael and Guy Lambert, who stepped down earlier in the year, for their dedication to Thames Water over the years. Despite the stepping down of Michael and Guy, John Holland-Kaye, who represents USS, remains on the Board as a shareholder-appointed Investor Director. After the delivery of our essential services, the focus of the Board remains to support the business to secure the right financial platform for the future of Thames Water.

Dividends

During the year, we declared dividends on two occasions – totalling £37.5 million in October 2023 and £158.3 million in March 2024. The Board takes the payment of dividends extremely seriously and took the view that the payment of these dividends was required for the financial stability of the operating company, Thames Water Utilities Limited. Both were paid in alignment with our dividend policy and no distributions were received by external shareholders. For more information about our dividends, please see page 95 in our Director's Report.

Thank you

The Board recognises it has been a challenging year for teams within the business, and frontline employees have done an incredible job coping with some major incidents. We'd like to thank everyone at Thames Water for maintaining focus on the delivery of our essential services to the millions of customers we serve across London, the Thames Valley and Home Counties.

Sir Adrian Montague

Chairm







Chief Executive Officer's statement

My first reflections



Most importantly, it's business as usual for the teams on the ground, as they continue to supply our services and remain focused on the delivery of our three-year Turnaround Plan"

Chris Weston
Chief Executive Officer

Safety first

Devastatingly, two of our colleagues passed away following a road traffic accident in May 2024, and our thoughts are with their families and loved ones. It reminds us all how important safety is. Whatever we do, we must do it safely: there is nothing more important than the health, safety and wellbeing of our colleagues, suppliers and customers.

I've been clear since day one that it will always be my number one priority – it underpins our licence to operate. To make sure safety is at the top of everyone's minds, we've relaunched our triple zero approach – 'zero incidents, zero harm and zero compromise'.

Reflections

It continues to be a difficult time for Thames Water as we address the challenges facing our business. Increasing our financial resilience and securing an investable PR24 plan is a critical priority for the business. Notwithstanding that, it's business as usual for the teams on the ground, as they continue to supply our services and remain focused on the delivery of our three-year Turnaround Plan: making progress in our underlying operational and financial performance.

During my first few months, I've been able to get out to see our operations and it's quite incredible what we do every day. We deliver 2.5 billion litres of safe drinking water to 10 million customers and treat 5.1 billion litres of wastewater for 16 million customers every single day. And our service is provided over an extensive infrastructure that is underinvested in, is tired and up to 150 years old, with the majority of it in one of the most congested cities in the world. Despite this, I've been impressed by the commitment and passion of our people, who work tirelessly every day to provide our service and to do their best to protect the environment. I am very grateful for their resilience and all they do; something they can be immensely proud of.

Turning to our financial performance; we delivered a material improvement in underlying results in 2023/24 with revenue up 10% to £2.4 billion, EBITDA up 21% to £1.2 billion and profit after tax of £140 million. We also invested a record £2.1 billion in our infrastructure.

Looking forward, we are focused on improving our financial resilience and learning to live within our means. Notwithstanding this, in the short term, gearing is forecast to increase further to support our much-needed investment programme and following the decision by our shareholders not to provide a further £500 million of equity funding in March 2024.

This has resulted in credit rating downgrades and forecast trigger events in our 2024/25 financial covenants. These both place restrictions on our ability to pay dividends in the future and incur new debt.

Consequently, and as previously announced, we are planning to seek new equity funding from investors following the receipt of our PR24 draft determination from Ofwat on 11 July. I continue to believe that a market led solution that increases financial resilience is in the best interests of all stakeholders, but it is dependent on securing a final regulatory determination that is deliverable, financeable and investable, as well as affordable for our customers.

My priorities

The success of Thames Water matters and I believe that with consistent leadership and priorities, time to deliver and investment, we can turn this business around and make it perform. My priorities fall into four areas: our people, our customers, our performance and our assets. Each priority has clear areas for improvement, including health and safety, pollutions, leakage, and customer service; to invest in our asset health, both the infrastructure we rely on to provide our services and our digital estate; and that we live within our means. For too long this business has been overspending against its allowances and, as is evident, this is not a sustainable business model. To successfully execute these priorities there is a requirement for clearer accountability and a more effective organisation and, in my first few weeks, I streamlined the Executive team. I created a new Chief Operating

My priorities

Our People

- Keeping everyone safe and well
- Developing ourselves, our leadership, and our culture

Our Customers

- Being easier to deal with
- Supporting customers who need extra help

Our Assets

- Investing to improve resilience and address population growth & climate change
- Overhauling and modernising our digital estate

Our Performance

- Delivering operational excellence, particularly pollutions, leakage, water quality & supply interruptions
- Living within our means: securing the right settlement, being efficient and investable



Find out more about our Turnaround Plan p12







Chief Executive Officer's statement continued



Chris meeting colleagues at Fobney water treatment works

Officer role, bringing together operations, asset management, engineering and capital delivery, to better manage our assets from inception to retirement, align goals and break down silos. Furthermore, I also introduced an enhanced governance structure, more focused on operational performance, including monthly business reviews.

Operational and environmental performance

We've made some clear improvements in water quality and supply interruptions since last year. In water quality compliance risk index, our regulatory measure, we delivered our best performance in the regulatory period so far, after investment at key sites, including Hampton and Coppermills. We've also delivered a 15% reduction in supply interruptions, after a change to the way we manage mains repairs, and a significant improvement in unplanned outages. However, we didn't meet our regulatory target for supply interruptions, and I'm fully aware our service fell significantly short of expectations during a major loss of supply in Guildford in November and our customers and performance were severely impacted. It wasn't acceptable and we're investing over £90 million to increase the resilience of our water supply in the area.

Given our current performance and how important the metrics are to our customers, my operational focus lies with reducing pollutions and leakage.

Our performance in pollutions and sewage discharges is not where it should be or where we want it to be. The number of reportable pollutions increased during the year to 350 from 331. However, to provide some context, the Environment Agency is changing the way it categorises pollutions, which we're already starting to see in the numbers, with all pollutions falling into the three categories we report on rather than four. Pollutions are directly correlated to rainfall; in 2023, we saw 40% more rain than the year before, causing a spike in pollutions. The prolonged heavy rainfall also led to an increase in sewage discharges to 16,990 from 8,015. As part of our Turnaround Plan, we are prioritising targeted cleaning of the network to prevent blockages, the biggest cause of network pollutions. Blockage clearance also led to a significant reduction in internal sewer flooding. Serious pollutions are down 18%; however, we were fined £3.34 million for a pollution that happened in Crawley in 2017 and there's been a thorough internal investigation since.

There are also ongoing investigations by Ofwat and the Environment Agency into sewage treatment compliance. We have received initial findings from Ofwat and have responded. We expect the Environment Agency investigation to take longer and continue to provide the requested information.

Almost 20 years ago, teams at Thames Water proposed a groundbreaking solution to tackle storm overflows in the tidal River Thames. We're now in the final stages of the landmark project, with the Thames Tideway Tunnel, built by Tideway, becoming fully operational next year. Taken together, the Thames Tideway improvements, which also included the Lee Tunnel and major upgrades to London sewage works, will secure a 95% reduction in the annual duration of spills into the tidal Thames, making a huge difference to the health of the river in the capital.

In the year, we've reduced leakage by 7%, to our lowest ever level. However, we know we have more to do, and we've developed a new approach which tackles leak repairs by volume of leakage saved rather than the number of leaks fixed. This is also an area particularly susceptible to extreme weather and requires extensive infrastructure investment over many years.

Customer performance

While our performance commitment for customer service is Customer Measure of Experience (C-MeX) and our KPI is complaints, what I want to see first is that we're getting the fundamentals right — we want customers to be able to get through when they call, have their query resolved first time and know they're getting an accurate bill. We also need to be better at collecting the money that's due to us. Our bad debt levels are approximately double the industry average, in part due to the transience of London's population, and must be brought under control. At the same time, we know there are many customers who need financial support and we're now helping around 360,000 households through our social tariffs.

The right foundations

We can't make major performance improvements without the right foundations in place. This is true for both the physical assets we use to deliver our services and our digital estate. Our digital infrastructure, including the applications we rely upon and our resilience, requires considerable investment. The state of our assets is poor, change is more complicated and slower than it should be, and one-off incidents have a disproportionate impact on our performance. There isn't a quick fix, but continued investment in our digital and physical infrastructure will give us the right base to deliver significant improvements over the long term and provide a resilient infrastructure that can cope with the demands of climate change and demand growth, both substantial challenges in their own right. We must be clear, however, that after decades of underinvestment, it will take time to restore asset health to the level we expect and require.

Looking ahead

Ofwat's final determination as part of its 2024 price review process will tell us how much money we can recover from our customers between 2025 and 2030; it is a critical enabler of our success, and speculation about the future of the company will inevitably intensify as we get closer to Ofwat's decision in December 2025. However, I look forward to working with everyone at Thames Water to increase our financial resilience and turn around this business, so we can deliver our key priorities and improve performance for customers and the environment.

Chris Weston

Chief Executive Officer

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements









Led by Purpose

Our Purpose

To deliver life's essential service so our customers. communities and the environment can thrive



Our values and behaviours

Take care

We put the health, safety and wellbeing of our colleagues, our customers, our communities and ourselves above all else

Be passionate about everything we do

We do everything with energy and enthusiasm, taking a can-do approach

Take ownership

We keep our promises and take action where it's needed to support our colleagues and our customers

Be respectful and value everyone

We challenge prejudice, discrimination and unacceptable behaviours wherever we see them

Reach higher, be better

We support each other to be the very best we can be by listening, learning and trying new ideas

Be proud, be blue

We always work together to do the best possible job for our customers

Management focus

Our People

Keeping everyone safe and well Developing ourselves, our leadership and our culture

Our Customers

- Being easier to deal with
- Supporting customers who need extra help

Our Assets

- Investing to improve resilience and address population growth & climate change
- Overhauling and modernising our digital estate

Our Performance

- Delivering operational excellence, particularly pollutions, leakage, water quality & supply interruptions
- Living within our means: securing the right settlement, being efficient and investable

Our plans to 2030

We've submitted a PR24 business plan, for 2025 to 2030, which proposes to spend £19.8bn to secure improvements for customers and the environment, including significant reductions in pollutions and leakage.

See page 9 for more information

Our Vision for 2050

For customers

- Making sure everyone continues to have access to top-quality water and a reliable waste system
- Providing outstanding service and value for all our customers
- Motivating customers to save water and protect the environment

For communities

- Using our land to benefit surrounding communities
- Equipping local communities with the skills they need to thrive
- Championing our people to deliver our purpose

For the environment

- Investing in our network to prevent leaks and keep water flowing
- Preventing all wastewater pollution and leading wider efforts to restore river health and increase biodiversity
- Producing all the green energy we can to power what we do



Strategic report Governance

Thames Water Annual Report 2023/24 Financial statements







Market review

Thames Water in context

Over the last year, it's been clear that economic, social and environmental conditions are rapidly changing, as are the expectations of customers. communities and stakeholders.

We have millions of customers to provide for and hundreds of communities to support, all within an environment struggling to cope with constant change. We need to adapt quickly and tackle these challenges to continue to put our Purpose into practice and address these challenges in our planning.

Over the next two pages, we cover the challenges facing our business and our associated principal risks.



Key to principal risks (see page 21 for more information) Principal Risk Customer Customer experience 2 Revenue collection Environment/ 3 Design and deliver capital projects 4 Biodiversity, climate change Operations and population growth 5 Legacy technology failure 6 Employee and physical asset protection 7 Cyber security and data protection 8 Asset integrity and resilience 9 Treat wastewater 10 Supply of wholesome water People/Safety 11 Physical or mental harm Workforce Values, standards, legal Finance/Legal and regulatory obligations 14 Liquidity 15 Inflation and interest rates Regulatory, legislative or Trust & Strategy political developments 17 Public value 18 Engage stakeholders See Principal risks and uncertainties on p21



Political and regulatory environment

The change of Government resulting from the General Election provides the opportunity to look afresh at policy and regulation surrounding the sector and create an environment that attracts the investment needed to improve outcomes for customers and the environment. Changing societal needs are already being reflected in a changing policy and regulatory environment. The UK Government's 25-Year Environment Plan (25YEP) and Environment Act 2021 continue to provide a driving force for environmental improvements, including making "progressive reduction in the adverse impacts of discharges from storm overflows" so that no storm overflows operate outside of unusually heavy rainfall or cause any adverse ecological harm by 2050, with significant progress required by 2035. The Environmental Improvement Plan (EIP) 2023 was the first revision of the 25YEP, which sets further targets and dates relevant to the water industry, including reductions in phosphorus discharged by sewage treatment works and reducing the use of public water supply per person. In parallel, the Levelling Up and Regeneration Bill is looking to place a new legal duty on water companies in England to upgrade wastewater treatment works by 2030 in 'nutrient neutrality' areas to the highest achievable technological levels, making sure new housing developments do not add more 'nutrient pollution' to the water catchment. In November 2023, the Department for Business and Trade progressed its Smarter Regulation programme, exploring reform in economic regulation. This presented proposals for material reforms in water, energy and telecoms, including changes to the appeals framework.



Customer and stakeholder expectations

In light of the challenges the business faces, customer expectations are changing.

Customers' expectations of service and operational performance are increasing across all sectors. This can be seen in the UK Customer Satisfaction Index, which noted "every sector has lower customer satisfaction than a year ago, with the biggest downturn in Utilities and Transport." This is supported by research from the CCW that found satisfaction with water companies has fallen in recent years.

There is rising awareness around the impacts of the climate and nature emergencies, with seven in ten people in the UK concerned about climate change and more than a third citing Combined Sewer Overflows (CSOs) as one of their top three environmental issues affecting the UK. We launched our storm discharge map in January 2023 to be open and transparent about our data and show customers and stakeholders near real-time storm discharge activity.

Being open, honest and transparent is important to build and maintain trust. The UK water industry has faced challenge and trust has been eroded, as shown by some of the examples above.

Link to principal risks









Link to principal risks







- 1 UK Government (2021), Environment Act 2021.
- 2 UK Government (2022), Storm Overflows Discharge Reduction Plan 2022.
- 3 HM Government (2023), Environmental Improvement Plan 2023: First revision of the 25-year
- 4 Thames Water: PR24 Business Plan. TMS07: Bill Impact, Affordability and Vulnerability 2022/23 prices.
- 5 UK Customer Satisfaction Index (July 2023).
- 6 CCW (October 2023), Understanding consumer priorities.
- 7 National Centre for Social Research (2017), European Attitudes to Climate Change.
- 8 UK Government (2021), Storm Overflow Evidence Project.

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements











Affordability

Much of the change our customers and stakeholders expect will require significant investment – all of which ultimately needs to be paid for against a backdrop of ensuring affordability. Our combined water and wastewater bill for 2024/25 is around the average level for the industry, at £471. We recognise that the increase in typical bills this year in the context of the cost of living crisis will have been challenging for some of our customers.

Our region is the most unequal in the UK – over the last two decades London has had the highest poverty rate in the UK, with 25% of households in poverty, and we have the most affluent households, with London and the South East having the highest level of disposable income in the UK, averaging 25% higher than the rest of the country. We offer social tariffs that provide support to customers in financially vulnerable circumstances. Our tariff provides a 50% discount, with support provided to 358,000 customers at the end of 2023/24. The current cost of living crisis makes it more challenging, but also more important, that we keep bills affordable. In addition to the targeted support we provide, we also recognise that we must create plans that are efficient in respect of both the scope of work we propose to do and its cost.

Link to principal risks





Find out more αbout ESG on p31



Ageing assets

The assets we use to provide our essential services to customers are ageing. Maintaining our service across our ageing asset base is a critical challenge. London's pipe network is made up of over 139,000km of water and waste pipes, with many dating back to the 1800s and early 1900s.

Each year, we invest to keep these assets working, but more is needed to reverse deterioration in our ageing asset base. Reversing our asset health deficit will require a multi-AMP programme of investment. For AMP8, our business plans include £1.9 billion to begin this process, prioritising water supply resilience, water quality, basement flooding risks, lead pipes, electrical assets and gravity sewers.

Link to principal risks











Water demand

Against this background, we see a growing demand for water. Between 2020 and 2050, four million extra people could be living in the South East. The National Infrastructure Commission found that the UK needs to find an extra 4 billion litres per day to keep up with customer demand over the next 30 years, with 25% of the population in our region.

In 2023, we reached a major milestone, having installed one million smart meters for our customers, and plan to install over a million more in AMP8, while also planning to invest £410 million for the development of additional water resources.

Link to principal risks











Climate change

Climate change is creating uncertainty over how and when resources will be replenished, and extreme events appear to be happening with increasing frequency. Because of this and other factors, without action, we are likely to have a supply that is roughly 30% below water demand by 2050.

At the same time, winter rainfall intensity could increase by 11% in London, with increased risk of property (including basement) flooding. Although safe, reliable and affordable drinking water remains our customers' top priority, they do not want to see it achieved at the expense of societal or environmental health. We are already seeing the consequences of more extreme weather on ground conditions, and the additional pressures this puts on our networks.

Link to principal risks







Find out more: TCFD on p34



¹⁰ ONS analysis of disposable income.

¹² PR24 Business Plan: TMS15 Asset Deficit 2017/18 prices.

¹³ National Infrastructure Commission, 2018. Preparing for a drier future: England's water infrastructure needs.

¹⁴ PR24 Business Plan: TMS01 Our Business Plan.

¹⁵ Water Asset Management Strategy (2021).

¹⁶ UK Climate Projections (UKCP18), 2018. Representative Concentration Pathway 8.5.

Thames Water Annual Report 2023/24 Financial statements



Our proposed PR24 plan (2025 to 2030)

Price Review 2024

In October 2023 we, alongside the rest of the industry, submitted to Ofwat our business plan for 2025-2030 (AMP8), setting out what we propose to deliver for customers, communities and the environment, how much this will cost and how much revenue we will need to recover from customer bills through the period. Our plan set out an ambitious set of goals, reflected on this page.

At the time we submitted our business plan, we set out we would need to spend £18.7 billion over the five-year period and that this would be subject to ongoing discussion. In response to discussions and questions from Ofwat and other regulators, we've made minor changes to clarify some points in our original plan. In addition to this, we've engaged extensively with our regulators to better understand their expectations for investment in AMP8 in relation to the:

- Water industry national environmental programme
- Industrial emissions directive
- Security and emergency measures direction

The result of these changes to date is that Ofwat is now considering a PR24 business plan for Thames Water that includes:

- Total expenditure of £19.8 billion (up from £18.7 billion in our October 2023 plan)
- Average annual customer bills of £608 by 2030 (down from £611 in our October 2023 plan)

We expect to receive Ofwat's Draft Determination on 11 July 2024 and Final Determination in December 2024, following which we have two months to decide whether to appeal to the Competition and Markets Authority.

Link to principal risks











Our proposed plan will deliver

A record level of investment

f19.8 billion in total spend

f4.5 billion

in proposed enhancement spend

£608

average annual customer bills by 2030

522k households to get support with their bills

75%

of eligible customers on the priority services register

500km

of water mains replacements

600

apprentices, graduate scheme applicants and summer interns on placements

£6.8 billion

to improve the environment

£440 million

investment to reduce storm overflows

30%

drop in pollution incidents

22% reduction

in leakage (AMP8 reduction based on 2019/20 baseline)









Business model

Creating long-term value

Our Purpose

To deliver life's essential service, so our customers, communities and the environment can thrive.

Our patch follows the iconic River Thames and stretches from Gloucestershire to Essex, covering countryside, villages, towns and London, our capital city



We employ over

8,000 employees

We serve

16 million

customers across London and the Thames Valley

We supply

2.5 billion litres of water

and treat

5.1 billion

litres of wastewater every day

We have

88

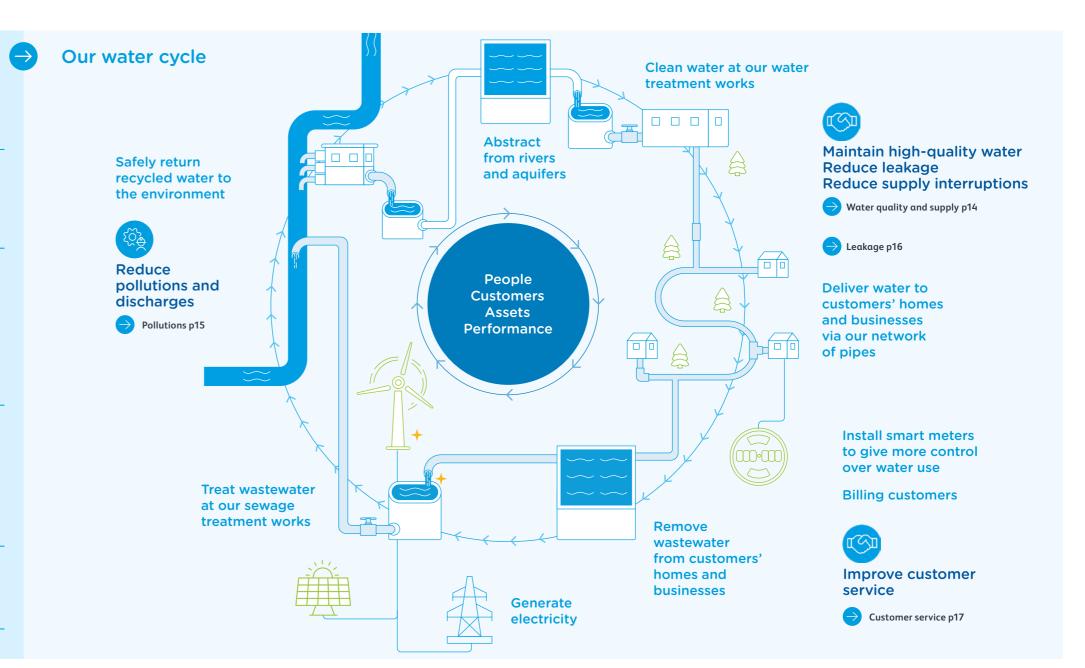
water treatment works and

352

sewage treatment works

We generate

531 GWh of renewable energy a year



Thames Water Annual Report 2023/24 Strategic report Governance Financial statements





Business model continued

Becoming more sustainable

We are creating a positive legacy for future generations

We have a long-standing sustainability policy, and our Purpose directly focuses on ESG outcomes with its reference to enabling customers, communities and the environment to thrive. Our approach to sustainability runs through everything we do, with our policy covering nine themes:

- Protecting water, a precious resource
- Managing wastewater and sustainable drainage
- Mitigating climate change
- Adapting to climate change
- Delivering efficient operations
- Investing sustainably for the long term
- Ensuring responsible operations
- Enhancing customer inclusion
- Maintaining a safe and sustainable workforce

The United Nations Sustainable Development Goals (SDGs) have been developed to make the world more sustainable by 2030. Supporting them is part of what we do every day to live our Purpose. We fully support the aspiration of all 17 goals, but there are six specific goals where we believe we can make a real contribution.















Our Sustainability Report and ESG Statement will be published in July 2024 and available on our website



This is how we spend every £1 we receive in revenue¹

5p Lenders²

By borrowing money at efficient rates, we are able to continue investing heavily in our infrastructure while keeping customer bills as low as we can.

59p Investment in our infrastructure³

To increase the long-term resilience of our services to enable us to respond to the challenging external environment in which we operate.



For information about the dividends we paid during the year, please see page 130.

30p Operational expenditure

To operate and maintain our network and improve our customer service.

To keep power costs down, we are increasing the amount of electricity we self-generate and enter forward contracts to buy energy in the future at a predetermined price per unit.

We paid over £133 million in business rates in 2023/24. We're not currently paying corporation tax, mainly due to tax deductions for interest payments on our debt and because we're investing heavily in our infrastructure. We receive tax relief under the Government's capital allowances scheme. We pay employment taxes in relation to our people costs.

Setting our bills

Ofwat is our economic regulator and aims to enable and encourage the sector to deliver efficiently and effectively for current and future customers. Every five years, Ofwat runs a price review process for all incumbent water companies, which determines what we need to deliver for the next regulatory period and how much revenue we can recover from our customers to enable us to do this. We turn this revenue allowance into tariffs that we use to calculate customer bills. Our average combined bill for 2023/24 is £456.

We continually assess and mitigate our principal risks and seek opportunities to enhance the sustainability of our business model. You can find more about our principal risks on page 21. We cover the risks and opportunities presented by climate change in our Taskforce for Climate-Related Financial Disclosures on page 34. The issues affecting our business are covered in our market review on page 7.

- Values are calculated from our underlying consolidated statement of cashflows.
- New loans raised, repayment of borrowings, proceeds from derivative settlement and payment for derivative settlement are excluded in this diagram. The amount paid to lenders represents the net value of interest paid and received
- 3 Value calculated from purchase of assets less cash received from asset sales.





Thames Water Annual Report 2023/24 Strategic report Governance Financial statements









Management focus

During the first half of FY24, we launched a rigorous process to develop a refocused, three-year Turnaround Plan, which would make quicker progress in what matters most to our customers and the environment. The plan runs from 2023 to 2026.

Our Turnaround Plan

Our Turnaround Plan is made up of 20 initiatives, to make guicker improvements for customers and the environment, and has continued to evolve as we home in on our most urgent priorities. To make sure we're heading in the right direction, we're measuring incremental progress through leading, as well as lagging, indicators. For example, increased proactive cleaning of sewers will lead to a reduction in pollutions, with blockages currently causing the majority of pollutions from our network.

At our half-year results, we outlined our six operational priorities as health and safety, pollutions, customer complaints, water quality, leakage and supply interruptions.

In this section, we'll outline our performance during the year for each of those priorities, and how we've refined things further.

Given our current performance and how important the metrics are to our customers and the environment, my operational focus lies with reducing pollutions and leakage"

Chris Weston

Chief Executive Officer

Our performance commitments

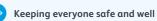
In total, we have 55 regulatory performance commitments and full details of performance against each metric are available in our Annual Performance Report, which is available on our website.

A number of our performance commitments are also outcome delivery incentives and can attract a penalty or reward based on performance against our targets set by Ofwat. Last year, we had a net penalty of £82.3 million (excluding C-MeX – Customer Measure of Experience – and D-Mex – Developer Measure of Experience), and we have reduced our net penalty by £43.7 million, to ₹38.6 million for FY24.



Our priorities

Our People





Our Customers

Being easier to deal with

Supporting customers who need extra help

Our Assets

Investing to improve resilience and address population growth & climate change

Overhauling and modernising our digital estate

Our Performance

Delivering operational excellence, particularly pollutions, leakage, water quality & supply interruptions

Living within our means: securing the right settlement, being efficient and investable











Our management focus - our people continued



Ensuring the health, safety and wellbeing of our customers and colleagues is the most important thing we do, and in the last year we've relaunched our triple zero approach zero incidents, zero harm, zero compromise.

Our aim is to understand the root causes and proactively address risks facing our colleagues. We're measuring our progress by focusing on leading indicators such as the number of open incident investigations and completed SHE7 (Safety, Health, and Environment) visits.

Our Health, Safety, Environment and Sustainability Committee oversees our approach to health, safety and wellbeing. The Committee Report can be found on page 69

Performance summary

19%

reduction in lost-time injury frequency rate

73%

increase in lost-time illness frequency rate

94%

of process safety performance indicators met

Our performance during FY24

In 2023/24, we saw an overall improvement in health, safety and wellbeing, meeting all our key leading indicators.

Here's a snapshot of performance against our leading and lagging indicators during the year.

Lagging indicators

Lost-time injuries: We secured a 19% reduction in lost-time injury frequency rate from 0.16 at the start of the year to 0.13 at the end of March 2024. This was, in part, due to an increased focus to prevent slips and trips during the cold and icy weather in the winter.

Lost-time illness: Disappointingly, our lost-time illness frequency rate rose during the year, predominantly after a rise in mental health-related illness, due to the impact of change within the business. We're focused on raising awareness of coping strategies using our online stress risk assessment tool, as well as a regular drumbeat of communications.

Loss of containment: We've been focused on improving reporting of loss of containment of chemicals events, recognising that individually an incident may seem insignificant, but through improved reporting, singular incidents show identifiable patterns and providing insight that will prevent more significant incidents in the future. We expect reporting of these incidents to further increase in the coming year.

Leading indicators

Visible leadership, team skills register and open incident investigations: Improvements in these three leading indicators supported progress in raising awareness of health, safety and wellbeing priorities with the frontline employees. With an increased number of leadership visits, frontline teams were able to engage directly with senior leaders, giving them the opportunity to hear more about our priorities and voice their concerns. An improvement in the 'team skills register', which is an app we use to identify and measure compliance with training and competence for critical safety roles, shows progress in ensuring all front-line colleagues meet requirements for 'critical safety' competences. At the end of the financial year, we had no incident investigations open for more than 21 days, ensuring we learn from incidents as quickly as possible to prevent similar incidents occurring in the future.

Process safety performance indicators: These are a key measure of safety performance at 118 of our key operational sites. There are 13 measures, which are monitored monthly, including number of incidents, number of inspections completed and overdue maintenance and statutory inspections, so key activities are carried out and supporting a positive approach to health and safety on sites.

Understanding performance

In April 2024, we launched our first Safety Culture Survey, with the aim of setting a baseline against which to measure our performance in the coming years. The tool, provided by the Health and Safety Executive, has been carefully designed by scientists to assess the attitudes of individuals within an organisation towards health and safety issues. The Safety Climate Tool delivers an objective measure of safety culture – the 'way things are done' in an organisation when it comes to health and safety. We see this as a great starting point for which to continually improve and raise our health, safety and wellbeing standards. The outcomes and the feedback from the survey will inform our future strategy.









Governance Thames Water Annual Report 2023/24 Strategic report Financial statements







Our management focus - operational performance continued



As we move forward with the turnaround, we've made progress in water quality compliance risk index and reducing water supply interruptions, two of our six operational priorities.

We also continue to make good progress in terms of customer acceptability contacts and Drinking Water Safety Plan risk management.

Performance summary

5th out of 17 in league table for water quality performance

15% reduction in supply interruptions

Water quality compliance risk index

We made a significant improvement in the our water quality performance, as measured using the Drinking Water Inspectorate's compliance risk index during the year, achieving 1.43 compared with 10.96 in 2022, and no failures at our largest water treatment works in London, which tend to have the greatest impact on the CRI measure. While our target is zero, meaning we didn't meet our regulatory target for the year, we did not incur a penalty as performance was within the deadband.

A turbidity (cloudy water) failure at Walton water treatment works, one of our London sites, had the biggest impact on our CRI score during 2023, contributing a third of the overall score. The failure at Walton was due to the disturbance of mains deposits and these were all subsequently removed, preventing a recurrence.

London tends to have a much greater influence on the score than the Thames Valley and Home Counties, as the measure is calculated by the size of the population an impacted site serves. Major improvement works are continuing at Hampton water treatment works, the site which most impacted performance in 2022, and there were no statutory sample failures in 2023.

We're planning further improvements in the next regulatory period, based on:

- improving our risk management process and our public health programme:
- increased investment in both our treatment and water distribution assets:
- deploying innovation and adopting guidance from the Drinking Water Inspectorate (DWI);
- installing UV treatment at two of our largest water treatments works within London: and
- embarking on a innovative programme of replacing lead pipes in collaboration with customers.

Water supply interruptions

There were 16 minutes 56 seconds of supply interruptions in 2023/24, a 15% reduction on the previous year. However, we missed our regulatory target of 5 minutes 23 seconds. This performance commitment is measured by the average time customers don't have water for more than three hours.

During the year, our most significant supply interruption was at Guildford, after Storm Ciaran caused supply issues at our production sites. 20,346 households experienced supply interruptions of more than three hours, and this accounted for 8 minutes 55 seconds of our total. Excluding Guildford, our 2023/24 underlying performance was 8 minutes 1 seconds.

We also made significant improvements in unplanned outages, with a 24% reduction compared to the previous year.

As part of the turnaround, we are making improvements including:

- investing in tools and technology to improve network insight and connectivity;
- changed the way we manage the network and supply interruptions, including through new innovation to monitor and maintain valves:
- enhancing our tankering fleet, to provide incident support;
- repairing bursts without stopping water supplies; and
- improving our asset maintenance.



Governance Thames Water Annual Report 2023/24 Strategic report Financial statements







Our management focus - operational performance continued



Pollutions and sewage discharges

A 40% increase in average rainfall during 2023 led to an increase in total pollution incidents (categories 1-3) to 350 in 2023, from 331 in 2022 – and we missed our regulatory target. The weather also had a significant impact on our storm discharge performance, with an increase to 16,990 from 8,015 in 2022. However, serious pollutions were down from 17 in 2022 to 14 in 2023. There are currently ongoing investigations by Ofwat and the Environment Agency (EA) into sewage discharge compliance. We have received provisional findings from Ofwat. The EA investigation into non-compliance of environmental permits at sewage treatment works, is expected to take longer, and we continue to respond to requests for information.

Performance summary

6% increase in total pollutions

18% reduction in serious (category 1 and 2) pollutions

7% reduction in pollutions from our network assets

The difference between pollutions and storm overflows

Pollution incidents: When our systems fail or a third party blocks our network, which can have acute consequences.

Storm overflows (otherwise known as spills): When the system operates as it was designed to do, though the circumstances may or may not be permitted. The main cause of many storm overflows can be traced back to either rain or groundwater getting into our sewers and increasing the flows beyond the capacity of our sewers, pumping stations or treatment works. In some areas the system has been designed to operate in this way.

Turnaround target:

Reduce pollutions over three years by 38%

Aim: to address and mitigate the major drivers of pollutions from drain to river through our sewage network, pumping stations and treatment works, including targeted, proactive network cleaning and monitoring, and better prioritised reactive responses.

Performance

Pollutions are highest in the Thames Valley and Home Counties from both our network of pipes and treatment works. Outside London, there are more rising main bursts, which are mains where sewage is pumped up-hill under pressure, due to an ageing asset base and an increase in soil instability from high levels of groundwater.

A 40% increase in average rainfall and exceptionally high groundwater levels contributed to the increase in incidents, as well as delays to capital investment programmes. Although total pollutions are up, we reduced pollutions from our network assets in 2023 by 7%.

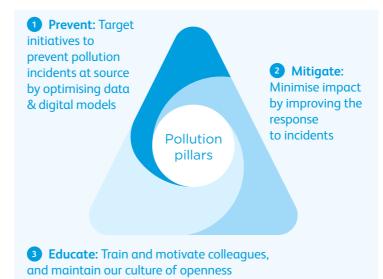
Blockage clearance – a leading cause of pollutions from our network – has improved significantly through consistent sewer cleaning, improved sewer depth monitor response and ongoing customer education.

For pollutions from sewage treatment works, embedding a new Discharge Alert Monitor (DAM) tool has been particularly useful at unstaffed sites, by providing more visibility of potential incidents which may previously have gone unnoticed.

We've also made positive cultural changes including supporting our colleagues to volunteer as 'Environmental Guardians' and rolling out pollution awareness training for our Waste teams and Clean Water teams, resulting in increased reporting of incidents.

Our Turnaround Plan

Our Turnaround Plan initiative for pollutions focuses on three pillars:



We've identified 15 projects, designed to be agile and guick to implement. These include:

- how we investigate and learn from incidents;
- how we store and use the data we collect:
- how we can improve our asset health; and
- how we prioritise work to reduce potential pollutions.

We are measuring performance against number of pollution incidents as well as other key indicators such as the time it takes us to complete incident reports, the availability of our sewer depth monitors (SDMs), and the amount of critical asset maintenance we carry out. We've set our targets to reflect the upcoming changes to environmental regulations, while being realistic in what we can deliver within the timeframe.

Case study Pollution prevention

Data is critical to understanding why pollutions happen. As well as deploying monitors across our sewer network, we now monitor more of our storm tanks at our sewage treatment works, increasing the available data and uncovering previously unseen issues. There is a natural increase in pollution incidents as we grow the proportion of monitored assets, negatively impacting our performance in the short term but enabling long-term, sustainable improvement.

Using this data, we've improved our root cause analysis. For example, we've learnt that over a quarter of pollutions happen in areas that are scheduled for planned sewer cleaning but haven't yet been reached. So, we reprioritised our programme to save a further 23 pollution incidents in 2024.











Our management focus - operational performance continued



In 2023/24, we reduced spot leakage to 570MI/d, our lowest ever leakage level, however we missed our regulatory target, which is based on a three-year rolling average. While we've made improvements during the year, we have a long way to go to deliver the step change required.

Performance summary

Lowest ever leakage 7% reduction

in leakage year on year

We've incorporated some minor improvements to our leakage reporting methodology to increase our compliance with Ofwat common guidance. This has bought us closer to full compliance, bringing the water balance discrepancy within +/-2% of distributable input. This represents a significant step forward in our reporting. Our calculations now more accurately reflect:

- Water use in unmeasured blocks of flats; and
- How we account for the way water is pumped both unmeasured and measured blocks of flats at night.

For context, 51% of our customers live in flats and 91% of these flats are in London. Recognising the great importance that we, our customers and our regulators rightly place on accuracy and consistency of information over time, we have applied these methodology improvements to our previously reported performance. As a consequence, the baseline has been reset so that our current performance is reported on a consistent basis. We have applied these improvements to our previously reported performance and have reset the 2019/20 baseline from 674.4 MI/d at APR23 to 672.9 MI/d at APR24. We've also restated our annual leakage for the earlier years of AMP7.

Turnaround target: Reduce leakage by 23% over three years

Aim: to drive sustainable leakage reduction through better understanding of consumption, targeting of detection activities, prioritisation of repairs, and more efficient field operations.

Performance

Reducing leakage continues to be a challenge for the business. We changed our leakage strategy in 2023/24, to prioritise fixing leaks by 'volume of leakage saved' rather than 'number of leaks fixed', which has had a positive impact on our performance.

The weather in 2023/24 was also not as extreme as the previous year, in either the summer or the winter. However we did still see a seasonal pattern to leakage with spikes in burst pipes during periods of particularly cold or hot weather, highlighting the sensitivity of our ageing assets to weather.

Our Turnaround Plan

In the last year we've launched a number of programmes to turn around performance including the following:

- Targeted leak repairs
- Embedded new leak grading strategy linked with improved repair response times
- Improved leakage detection contracts that focus on volumetric leakage reduction rather than the number of leaks
- Improved our consumption and night use model, using smart meter data

- Improved ways of working
- Launched new ways of working across for all front-line operational teams, improving performance monitoring at a local level (see case study)
- Focused on improving reliability and quality of metered flow data to assess leakage – we call this operability. We've improved ownership and accountability, processes and turnaround times which has led to improved data, which enables us to better target areas for leakage detection
- Better use of data
- Restructured our data hierarchy so that we can visualise all the sources and systems we use to manage leakage in one application. This provides greater insight and the ability to be more effective in prioritising areas for detection and managing performance throughout the cycle of activities.
- Innovation
- The AquaPea solution, a self-sealing compound for customer pipes, was granted water quality approval and made available to use
- Piloted 'no-dig' solution for communication pipe repairs, enabling over 80 repairs a month with no impact on water quality
- Engagement
- Hosted engagement sessions with local authorities and Highways England, to share progress and improve collaboration

During FY25 we will continue to build on these improvements and refine our AMP8 strategy.

Case study Improved ways of working

We've launched new ways of working with frontline operational teams, improving collaboration and our ability to solve complex problems.

Our new approach monitors performance at a local level, using a dashboard with a single, end-to-end view of leakage reporting and performance from first identification to detection and fix. We have clear escalation processes to regional management and then the leadership team, with a feedback loop throughout. Escalation focuses on core issues and the removal of blockers to enable improved performance at a local level.

When we piloted the new approach in Raynes Park, the area achieved its lowest level of leakage for the current regulatory period, reducing its leakage by 14.7%, hitting its leakage target and reaching 90% operability on our meters. We're now rolling this out across the company







Take





Governance Financial statements **Thames Water** Annual Report 2023/24 Strategic report







Our management focus - our customers continued



The overall volume of complaints was nearly 10% higher than the previous year, due to a 35% increase in complaints relating to billing, which were in part relating to complaints about smart meter installation.

However, we made good progress in reducing complaints about water services, with a 29% reduction, and waste services, which were down 19%.

Performance summary

29% reduction in complaints related to water services

19% reduction in complaints related to waste services

35% increase in complaints relating to billing

Turnaround target:

Reduce customer complaints by 10% year on year with 22% reduction in three years

Aim: to reduce complaints relating to bills and payment as well as operational concerns with our water and waste services. Working with cross-functional teams to tackle root causes and making investment into digital solutions we will be able to understand our customers' needs better.

Performance

With us offering more digital and real time channel availability during the year many customers have chosen to contact us via live chat, WhatsApp messaging or through social media and this has helped us to reduce the number of complaints received by telephone by nearly 22%. Disappointingly, the number of complaints that we received concerning the calculation of charges and the issue of bills went up by over 35%, in part due to complaints about smart meter installation.

Our turnaround plan

We recognise we don't always provide customers with the service they expect or deserve and have mobilised a programme to address the key areas driving dissatisfaction.

We know our customers need accurate and timely bills and, where customers are metered, bills based upon an actual read. Throughout the past year we've increased our meter readings from 1 to 2 per year, and this year we will be focusing on reading meters that we have not been able to read for a longer period of time.

Key to our customer service is maintaining a highly skilled and knowledgeable workforce. As such we are launching a department wide, training refresher exercise so all customer service agents have access to the right level of information, can talk confidently with customers, and, where appropriate, resolve their issues.

When customers do have an issue that requires us to send out colleagues to investigate or fix, we understand the need for informative and timely updates. We are assessing our existing communications and making improvements so they add value and explain what is happening in a straightforward way.

We're also reviewing our more complex customer journeys, reengineering them to remove unnecessary steps and create a more seamless customer experience.

Case study Reducing call abandonment

We want to be there to support our customers when they need us.

In April 2023, our Billing Contact Centre saw a call abandonment rate of 19.3% with a 582 second average speed of answer, which is not the level of service we wanted to provide to our customers.

Over the last 12 months, we've made significant improvements to our quality of service. We have seen consistent improvement and stability in these metrics since December 2023. In March 2024, we delivered an abandonment rate of 4.6% and average speed to answer to 111 seconds. These metrics will remain a key focus so we continue to provide the service our customers expect.









Governance Thames Water Annual Report 2023/24 Strategic report Financial statements

Our management focus - our assets continued



Our network connects millions of people to life's essential services. We rely on our network of pipes, sites and physical assets to deliver our services. And our network of digital assets – our IT systems keeps everything running smoothly.

The cost of managing our ageing assets and dealing with failures is increasing, and the impact of climate change and population growth is putting more pressure on our already stretched asset base To turnaround our business and deliver long-term performance improvements, we need to invest in both areas together.

Investment during the year

Over f2 billion of capital expenditure

Over £60 million of capital expenditure on digital projects and improvements

"Reversing our declining asset health will require a multi-AMP programme of investment but we are making progress towards that ambition."

Infrastructure

Poor asset health is a key root cause of our performance challenges today. The declining health of our ageing infrastructure has taken place over decades as we have stretched the life of our assets. This has helped to keep bills down for customers but it has also meant we have been repairing assets rather than replacing them and this is only sustainable for a limited period. Poor asset health today impacts our financial position through performance penalties, which subsequently results in less money to invest in improvement.

We estimate we need to spend a minimum of £3.5 billion to hold asset deterioration stable across our £147 billion asset base. Reversing our declining asset health will require a multi-AMP programme of investment but we are making progress towards that ambition.

How we're improving

During 2023/24, we invested over £2 billion in our infrastructure across a range of projects.

In London, we began a £400 million investment project to replace some of the city's water infrastructure and build new treatment capabilities. Major investment will be made at our Coppermills and Hampton water treatment works, which serve many of our customers across London. This significant project is due to be completed in 2032.

Smaller projects included a £16 million project to replace the 3km Haydon End Rising Main in Swindon, which will be completed in 2024. This section of our wastewater network has suffered repeated bursts in recent years as the population it serves has grown and the need to replace rather than repair has become more urgent so that we can provide a resilience and reliable service for our customers.

Digital

From maintaining our network to supporting customers, we're reliant on digital devices and systems to deliver our service. Technology is identified as a key enabler for around 65% of the initiatives in our Turnaround Plan, so making sure we've got the right tech in place, and the support available to get the most out of it, will enable a greater pace of change throughout the company. Our IT needs significant investment to bring it in line with customer expectations, and to enable colleagues to do their jobs more effectively.

How we're improving

We're modernising our digital function to enable improvements in all areas of our Turnaround Plan, transforming digital into a true business partner for the whole company.

This year, we delivered over £64 million of capital expenditure on digital projects and improvements, helping to reduce the burden of infrastructure maintenance while enhancing scalability, flexibility and cost-effectiveness.

A key change has been shifting focus in our digital team from outputs (like specific pieces of software or hardware) to outcomes (goals linked to the needs of the end-user).

Our Remediation Factory is one example of this shift. It uses a repeatable process to review our unused, unsupported or out of-date digital systems to identify if they can be upgraded, replaced or removed. The factory keeps our systems resilient, our data secure and our costs under control.

The Factory will now analyse all unused, unsupported and out-of-date digital systems.









Stakeholder engagement

Engaging with stakeholders

Moving forward together is central to our turnaround and this year we've continued to engage extensively with our stakeholders so that everyone's included on our journey to turn around Thames Water.

Focus on the water industry, our finances and future plans has increased this year, and we've worked to address our stakeholders' concerns by ensuring that we're listening, considering and sharing openly in ways that are tailored to their needs. We've prioritised clarity and taken a proactive approach through our engagement activities, events and communications.





Customers

What they expect

- A water and wastewater service that 'just works' today and in the future
- A good, affordable service from a company that takes responsibility for the environment and gives back to the communities it works in

How we've engaged

- Continuously gather insights into our customers' needs and behaviours
- Working with diverse customer groups, using a wide variety of techniques
 to gain insight, including bespoke research into specific topics, continuous
 surveys on brand perception and service satisfaction, analysing
 complaints and listening to social media

Outcome

- Optimised our high-volume online journeys. For example, reporting blockages online has seen a five-fold increase in volumes of use by customers in 2023 compared with 2022
- Changed our meter reading schedule to read all meters twice a year.
 This means that more bills are based on actual meter reads, meaning they are more accurate. In time, this will support faster detection of leaks and customer satisfaction will improve
- Installed our one millionth smart meter. Smart meters have revealed a
 continuous water flow in 9% of smart metered homes and around a
 quarter of smart metered businesses. Over 90% of residents address this
 when we make them aware of the issue
- In response to the cost of living crisis, we also distributed £3 million of support through our 'Extra Support Payment' and piloted new eligibility criteria for our social tariff based on affordability

Link to our Turnaround Plan

- Our performance commitments are a response to customer expectations and provide a transparent way of demonstrating the extent to which we are delivering for customers
- Reducing complaints is a building block of our Turnaround Plan



Debt investors

What they expect

- Regular engagement on operational and financial performance
- To see progress on the turnaround

How we've engaged

- Listened to and engaged with our debt investors through 1-2-1 calls, investor presentations, non-deal roadshows, investor conferences and through reporting, including our Annual Report and Accounts
- Facilitated site visits to show a behind the scenes look of Thames Water, including what we're doing to improve river health
- Made it easier for investors to find the information they need and bring our website in line with best practise – launched a refresh of the investor pages

Outcome

• £1.5 billion of new or extended borrowings, towards the refinancing of our debt maturities

Link to our turnaround plan

Funding strategy

Shareholders

What they expect

- · A return on their investment
- Regular engagement on operational and financial performance.
- To see progress on the turnaround
- Continued engagement on equity funding and PR24

How we've engaged

- Our shareholders had representatives on the Board, so they can engage with the rest of the Board and the Executive team
- Maintained regular engagement with shareholders as part of the PR24 process and equity funding

Outcome

 Critical PR24 business plan approved with full shareholder support for submission in October 2023

Link to our Turnaround Plan

Financial efficiency



What they expect

- To be kept informed and to know what to say to friends and family when Thames Water is in the news
- To know what our plans are, and how they can contribute to the delivery
- To feel their views are listened to and acted on, and to know that good work and performance will be recognised

How we've engaged

- Chris Weston has been out and about meeting teams since he joined, as well as attending divisional colleague calls
- Held our all-company 'Living our Values' Awards with 881 nominations from across the business. Nine winners were announced at our allcompany hybrid event
- Five all-company 'Ask the Exec' Town Hall sessions, with the CEO and members of the Executive team answering questions from colleagues.
 Topics included launching annual and interim results, PR24 business plan submission and new CEO
- Ran two conferences, with 500 attendees in May 2023 from our Engineering and Asset function, and 400 attendees in June 2023 from our Retail function
- Ran 22 CEO-led, face to face, frontline engagement sessions at sites across the patch
- Our Board Engagement sessions also continued, with 24 sessions held
- Launched our refocused Turnaround Plan on BlueBytes (intranet)
- Published a weekly newsletter, which was read on average by 75% of employees every week. It covered our Purpose, our values and behaviours, our turnaround plan, and our PR24 submission

Outcome

 80% of colleagues (6,082) responded to our annual employee engagement survey in April 2023, our highest-ever response rate, with engagement remaining stable year-on-year at 69%

Link to our Turnaround Plan

- Focused engagement links to either our Turnaround Plan, our Purpose, our Values and Behaviours, or our PR24 plan
- A multi-channel communication and engagement framework in order to deliver the right messages at the right time to the right audience. We've also maintained our frontline communication channels, now delivered in-the-line by senior leaders









Stakeholder engagement continued



Regulators

What they expect

- Transparency and accuracy
- Provision of any information that they need, to make sure we deliver a good quality and reliable service for our customers, communities and the environment
- Compliance with regulations including the Water Industry National Environment Programme (WINEP) and International Emissions Directive

How we've engaged

- Engaged extensively as part of the Price Review process
- Attended regular performance meetings with Ofwat, quarterly meetings with the DWI and monthly meetings with the EA
- Provided information requested by our regulators, including in relation to our payment of dividends and the ongoing investigations into sewage discharges by the Environment Agency and Ofwat.
- Provided our regulators with additional information on our financial resilience, operational and environmental performance

Outcome

 Collaborated with Ofwat, resulting in the approval of our Water Supply System Resilience Programme (WSSRP) conditional allowance in December 2023 which will provide significant delivery improvements for customers served by Coppermills and Hampton water treatment works

Link to our Turnaround Plan

- Positive engagement with our regulators is a foundation of our Turnaround Plan.
- Ongoing engagement to secure an investable and financiable PR24 business plan

We are regulated by Ofwat, The Drinking Water Inspectorate, the Environment Agency and Natural England. They are granted their powers under statutory instruments such as the Water Industry Act 1991



Policy makers and elected representatives

What they expect

- A reliable and affordable service and that we do the right thing when things go wrong
- For us to reduce our impact on the environment and invest in our network
- For us to support our customers during the cost of living crisis
- That we will protect customers from the impacts of climate change
- That we maintain financial resilience
- To be coordinated with our work alongside local authorities and other utilities

How we've engaged

- A programme of engagement with MPs, councillors and London Assembly Members, including letters, regular meetings and site visits
- Engaged Government and opposition parties to inform the policy debate
- Gave written and oral evidence submissions to Parliamentary and London Assembly committees
- Planned engagements in preparation for a general election
- Provided briefings to Parliamentarians for House of Commons debates
- Responded to Government consultations and engaging with officials to discuss how Government policy can enable progress in the sector
- Ran regular 'surgery' sessions with local authorities to understand their concerns and work to resolve them
- Hosted site meetings to our treatment works
- Attended council scrutiny meetings and other public meetings to give an honest and open account of our actions
- Proactively engaged with councillors to improve their understanding of Thames Water and the wider industry
- Provided updates on major projects in their constituencies and show how they benefit customers and the environment
- Provided updates during major incident

Outcome

- Kept close to policy changes that affect us and our environment
- Contributed directly to the development of policies affecting water and the environment, such as the proposed ban on plastic-containing wet wipes.
- Restructured our Engagement teams so they can be more focused on proactive activity with stakeholders

Link to our Turnaround Plan

 Significant engagement with MPs, councillors and London Assembly Members on our financial position and turnaround plan



Suppliers

What they expect

- Clear and honest two-way communication about opportunities and issues that might affect their business and plans
- A fair approach to procurement
- The opportunity to discuss more innovative ways of doing things
- To understand how we view their performance, whilst being given the chance to feedback on how we do things
- To understand our Turnaround Plan and the role suppliers play in delivering it

How we've engaged

- Ran a Supplier Summit attended by 56 strategic suppliers
- Facilitated senior level engagement to share our Turnaround Plan and PR24 strategy
- Emails and newsletters and quarterly webinars
- Held regular performance review meetings
- Continued development of the supplier management programme, launched in 2022
- Ongoing pre-market engagement for specific sourcing opportunities
- 'Voice of the Supplier' survey to our strategic suppliers
- Ran a shared apprenticeship scheme

Outcome

- We've not experienced any business impacting supply chain disruptions despite a challenging macro environment
- Motivated and engaged suppliers who are focused on supporting our turnaround.
- 85% of respondents said they have been asked for improvement ideas
 within the last 12 months, and 78% agreed we provide meaningful,
 actionable feedback on their performance and 65% of respondents
 agreed they have seen a positive change in the way we work together
 over the last 12 months
- Understand the impact of macro and micro supply chain risk on our ability to deliver
- Process improvements, including avoiding 8.9 tonnes of traffic management plastic waste
- 24 shared apprentices in place

Link to our Turnaround Plan

- Able to work together to identify opportunities to be more efficient and remove unnecessary costs
- Proactive engagement provides a clearer view of supplier performance to support operational performance improvements



Communities and NGOs

What they expect

- An organisation that's accessible, transparent and forthcoming with information relating to the local environment and community
- To be ethically minded in our business decisions, and to recognise when
 performance isn't good enough, being clear about our plans, timescales
 and costs to improve
- To drive social mobility through engagement with those in our local communities

How we've engaged

- A significant proportion of our engagement with environmental NGOs is driven through our catchment-based approach for river systems
- Worked collaboratively with 27 catchment partnerships
- Attended quarterly catchment partnership meetings and provided regular business updates
- Ran Smarter Water Catchments programme trialling a new way of engaging with the Chess, Evenlode and Crane River catchments
- Shared our environmental newsletter every 6 months with environmental groups
- Provided catchment partnerships with updates following serious environmental incidents
- Updated our storm overflow discharge map to include a quarterly view of planned investment per site

Outcome

- £1.3 million in funding directly towards catchment partnerships and their activities in the last two years
- Our summer internship programme in its fourth year has enabled us to engage with young people facing barriers into successful workforce transition
- Support for citizen science water quality sampling at two possible bathing water locations
- Over £47.5k funding through our community investment programme, providing support for 25 projects
- Over 4,669 hours of employee volunteering in the community

Link to our Turnaround Plan

- To deliver new ways of working we need to have new skills, capabilities and capacity
- Working with environmental partners though a catchment-based approach will improve outcomes for our customers and the environment)

21

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Principal Risks and Uncertainties

Risk management

Managing our risks to support long-term, sustainable success

At Thames Water we seek to manage risk across all parts of our business; managing the threats and optimising the opportunities to support the successful delivery of our Purpose and our refocussed Turnaround Plan, including being more resilient across our corporate, financial and operational structures. Our Enterprise Risk Management (ERM) department have responsibility for risk management across the organisation, providing expertise and support to the business units and reporting risk information to the Executive Team, Board and its Audit, Risk and Reporting Committee (ARRC).

We have further enhanced our ERM framework and tools so that risk management forms a fundamental part of our decision making in everything we do. We proactively manage our risks so we can quickly identify and adapt to the dynamic environment in which we operate. Our ERM Framework encompasses our values and behaviours, encouraging timely and transparent risk reporting to create an effective risk culture. This is supported by a strong, consistent tone from the top which is cascaded throughout the business.

Enterprise Risk Management Process

Our risk management process centres on a clear and simple approach, aligned to the ISO 31000:2018 risk guidelines. It provides a consistent end-to-end process to all business units, as well as integrating activities with the Executive Team and Board to align with our Turnaround Plan.

Risk oversight and governance

Embedding a clear and consistent approach to risk oversight and governance is key to ensuring that risk management is effectively implemented across the business. The Board has overarching responsibility for ensuring the effectiveness of the risk management and internal control systems, supported by the ARRC, which maintains oversight over the principal risk landscape and how the business is responding.

We follow the established Three Lines Model to enable an effective relationship between risk, control and assurance, ensuring clear accountability and responsibility throughout.

Our principal risks and relevant emerging risk information is formally considered and challenged at least quarterly via the business unit's Leadership Team risk reviews; the Executive Risk Committee; and the ARRC. Further information on our ARRC and other Board committees can be found on pages 65-94.

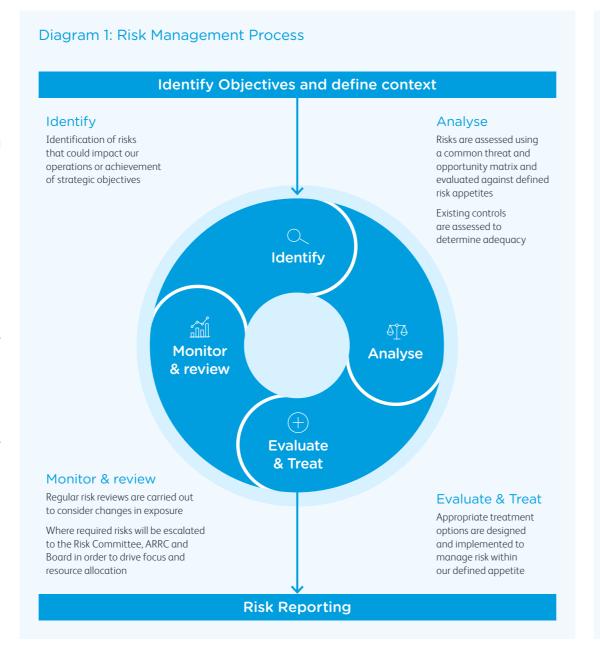


Diagram 2: Risk Governance Structure **TWUL Board** Responsible for discharging duties relating to risk and internal controls under the UK Corporate Governance code Audit, Risk and Reporting Committee (ARRC) Hold delegated authority by the Board to provide oversight and effective governance over the Company's risk management system and the monitoring of principal risks, as well as the system of internal controls **Risk Committee** The Risk Committee is responsible for the Company's risk management system and the monitoring of principal risks and material risks reported from the directorates, as well as the system of internal controls Independent Management **Assurance** First line Second line Third line Enterprise Risk Management Independent assurance provided Business operations responsible for the ownership and day-toand other oversight functions, by Internal Audit and other day management of risks, in line with a focus on the design external parties with the agreed risk appetite and facilitation of the risk Review the effectiveness of risk management process Directorate risk reviews support management and control activity the prioritisation of risk Provide risk expertise and across the first and second lines information upwards to the support, as well as challenge Report directly to the ARRC Risk Committee and ARRC over the management of risks and executive leadership Provide guidance to first line teams around controls and monitor compliance with policies and standards

Governance Thames Water Annual Report 2023/24 Strategic report Financial statements







Principal Risks and Uncertainties continued

Continuous improvement

We continue to consistently embed ERM across our business and have undertaken a risk maturity assessment to identify areas to enhance. Improvements made include enhanced top-down and bottom-up risk reporting, collaboration across business units and enhanced risk management and alignment across our refocused Turnaround Plan initiatives, including Asset Management, Digital and Business Resilience. We continue to work collaboratively across the organisation through increased business partnering and improved engagement, supported by the facilitation of risk workshops and training. Our bottom-up risk management is maturing, with improved risk identification and management at the business unit level, and alignment to our principal risks.

Our control environment has been strengthened in year. We have designed and documented an internal control framework which will capture and report on our most important controls and we are now looking to further strengthen our operational control effectiveness and maturity.

Principal risk profile

We have closely managed our principal risks through a year of considerable external and internal change. This has been supported by holding deep dive reviews of each principal risk with the appointed Board sponsor, Executive risk owner and the sub-risk owners.

The external risk landscape continues to be dominated by the cost-of-living crisis and disruptions in global supply chains. Rapid population growth and changing weather patterns continue to put pressure on our ageing infrastructure. The ongoing delivery of our refocussed Turnaround Plan and the need to assess the impact of the draft determination from Ofwat will continue to create pressure for our management teams for the year ahead. However, we continue to have mitigation plans in place to manage this.

Two principal risks were merged this year – PR18 (Engage stakeholders) now incorporates risks relating to public value, which was originally covered by PR17 (Public value).

Although our enterprise risk management process is robust, we cannot provide absolute assurance, and as such some risks may be affected by factors outside our control and unknown risks may manifest without warning. In these situations, we deploy our well-established incident management process to minimise the impact to Thames Water, our customers and other stakeholders.

Emerging risks

Emerging risks are those that are newly developing or rapidly changing and therefore their extent and implications are not fully understood. As such they cannot be fully assessed in the same way as our contemporary risks. However, they do have the ability to affect the future viability of Thames Water if appropriate steps are not taken to understand and respond.

We identify emerging risks using similar techniques to the standard risk assessment process, including workshops with key stakeholders, horizon scanning and insights from a variety of internal and external sources. Measures to monitor and respond to these risks are put in place as appropriate, including the creation of new principal risks when necessary.

Key areas of emerging risk include political, regulatory/legislative changes, economic conditions and security. One example is the exposure to Perfluoroalkyl and polyfluoroalkyl substances (PFAS) in our water supply, wastewater biosolids and recycled wastewater. Although we do not use PFAS in our processes, we are responsible, under DWI guidelines, for their removal. There is a risk that the current requirements in the guidelines are made more onerous and/ or become a regulatory requirement. Should this occur, it would take time and unplanned expenditure to bring our equipment and processes in line in order to achieve full compliance.

Another emerging risk relates to the Supreme Court judgment given on 2 July 2024, in the case of The Manchester Ship Canal Company Ltd v United Utilities Water Ltd. This appeal formed part of long running litigation about discharges into the Manchester Ship Canal. The Supreme Court ruled that the owner of the beds and banks of a watercourse can bring a claim against a sewerage undertaker in nuisance or trespass when the watercourse is polluted by discharges of foul water contaminated with untreated sewage. Until the judgment, it had been widely understood that such a claim could not be made as it would be barred by the Water Industry Act 1991.

The potential consequences of the judgment are under active consideration by TWUL and the industry generally. It is recognised that the judgment is likely to result in similar future claims against TWUL and other sewerage undertakers. Any such claims are unlikely to proceed beyond a preliminary stage in the next 12 months.

Principal risks

The directional trend of each of our principal risks is summarised in the table below and further details on how the risks are being managed can be found in the following section.

| Risk Category | Principal Risk | Current Trend | Board Sponsor |
|---------------|--|---------------|---------------------|
| Strategic | PR01: Customer experience | | Catherine Lynn |
| Financial | PR02: Revenue collection | 0 | Catherine Lynn |
| Operational | PR03: Design & deliver capital projects | • | John Holland-Kaye |
| Strategic | PRO4: Biodiversity, climate change and population growth | • | Sir Adrian Montague |
| Operational | PRO5: Legacy technology failure | | John Holland-Kaye |
| Operational | PR06: Employee & physical asset protection | • | Sir Adrian Montague |
| Operational | PR07: Cyber security & data protection | • | John Holland-Kaye |
| Operational | PRO8: Asset performance & resilience | 0 | John Holland-Kaye |
| Operational | PR09: Treat wastewater | • | Sir Adrian Montague |
| Operational | PR10: Supply of wholesome water | • | John Holland-Kaye |
| Operational | PR11: Physical injury or mental harm | 0 | John Holland-Kaye |
| Operational | PR12: Workforce | • | Jill Shedden |
| Compliance | PR13: Values, standards, legal & regulatory obligations | • | Hannah Nixon |
| Financial | PR14: Liquidity | • | Nick Land |
| Financial | PR15: Inflation & interest rates | • | Nick Land |
| Compliance | PR16: Regulatory, legislative or political developments | (a) | Hannah Nixon |
| Strategic | PR17: Public value (now merged with PR18) | | Ian Pearson |
| Strategic | PR18¹: Engage stakeholders | 0 | Ian Pearson |

Risk trend:

→ The principal risks have been used as the basis for the downside events and scenarios in the Long-Term Viability Statement on pages 28-30.

Improving •

1 PR18 (Engage stakeholders) now incorporates risks relating to public value, which was originally covered by PR17 (Public value).

Deteriorating Stable =

1. Customer experience

Executive Owner: Retail Director

Risk

An essential element of our revised Turnaround Plan involves enhancing customer service and support. Neglecting to properly recognise and address the needs of our customers may lead to a suboptimal customer experience. Consequently, this could result in a rise in complaints, unsatisfactory performance on our C-MeX and D-MeX metrics, potential Ofwat inquiries, fines, and the inability to garner the required customer advocacy and support to secure a PR24 plan that facilitates the realisation of our long-term goals.

Principal Risks and Uncertainties continued

Trend Commentary

We have successfully merged our Metering, Developer Services and Billing contact centre teams into a newly formed Customer Services organisation, committed to serving both Household and Non-Household customers, promoting collaboration between the teams and eliminating any barriers that existed. In addition, the insourcing of more than 250 front-line colleagues in our call centre operations is providing enhanced assistance to our customers and has contributed to a year-on-year increase in the Customer Service Department's Employee Engagement score. However, we are still failing customers too often, which is evidenced through our C-MeX score, corresponding ranking against other companies and, our total household complaint volumes. However, the annual household complaints report issued by the Consumer Council for Water in October 2023 noted that for the first time we moved up one place in the industry league table.

Trend:

Mitigations

- Addressing our levels of complaints forms a key initiative in our refocused Turnaround Plan to improve customer satisfaction.
- Working together with our new outsourced partners for back office and digital customer service channels to enhance efficiency and improve customer satisfaction as well as strengthen our internal team's capabilities.
- Implementation of a 24/7 operational customer support line to support customers during incidents.
- Ongoing deployment of digital smart meters and prioritisation of assurance activity for existing installations
- Revamping the customer service experience for our Developers and upgrading the systems that support them.
- Addressing data integrity issues with customer contact information

 Increasing the number of customers on our Priority Services Register and advancing our inclusivity agenda by maintaining our ISO standard accreditation for our provision of inclusive services.

KPIs

Total complaints

2. Revenue collection

Executive Owner: Retail Director

Risk

Internal and external factors impacting both our household (HH) and non-household (NHH) customers result in the risk that we are unable to effectively collect revenues for prolonged periods and/or support customers to pay their water bills. This could lead to a shortfall in recognised income and a strain on our cashflow and associated covenants.

Trend Commentary

Continuing improvements through digitisation, automation, enhancements of affordability propositions and increased resourcing within our front-line Financial Customer Care team continue to be made, however uncertainty remains surrounding the external factors driving this risk, including the impact from the cost-of-living crisis, albeit annual inflation is expected to fall during 2024.

Trend:

Mitigations

- Focused on strengthening our systems and processes so that we have fair and consistent outcomes for our customers and to enable prompt payment.
- Addressing our levels of bad debt forms a key initiative in our refocused Turnaround Plan.
- A return to two meter reads a year and increase in volume of smart meter penetration will support mitigation of our billing risk.
- Further developments will include bespoke collection strategies and portfolio insight.
- Continued investment to deliver service improvements, including to our 'billing to payment' journey.
- Ongoing focus on improving service levels to non-household retailers (NHH) and continued monitoring of retailer financial health.

KPIs

- Underlying EBITDA
- Underlying revenue
- Total complaints

3. Design and deliver capital projects

Executive Owner: Chief Operating Officer

Risk

We continue to deliver the sector's largest capital infrastructure renewal programme which aims to improve our asset debt and our operational performance. The risk of being unable to deliver the desired outcomes within agreed cost and time targets may be influenced by resourcing and access to specialist contractors, and our ability to effectively control such a large and complex capital delivery portfolio. This may result in financial losses and reputational damage as well as delays to delivering our commitments to customers, communities and the environment.

Trend Commentary

The risk trend is increasing. We have experienced delivery challenges in AMP7 despite a strong ramp up in capacity and capability after a slow start to the programme in AMP7 due to the change of delivery model and impact of Covid-19. In addition, construction costs are greater than we had assumed in our business plan. This means we will not deliver all of the expected AMP7 scope, which will instead need to be delivered in the next regulatory period, on top of the largest investment portfolio in the sector's history.

Trend: 1

Mitigations

- Our Turnaround Plan seeks to improve our end-to-end capital delivery process, including prioritisation, sponsorship, and programme management. Creation of Strategic Programmes aims to provide line of sight from the business plan to the delivery of the benefits, and to facilitate stronger control
- We continue to insource capability and capacity through targeted recruitment activities and will continue to recruit year on year to meet our AMP7/8 deliverables
- We continue to utilise industry standard project methodology to measure and track our effectiveness of our people and processes

KPIs

- Investment in assets
- Leakage
- Total pollutions

4. Biodiversity, climate change and population growth

Executive Owner: Chief Operating Officer

Risk

Climate change, population growth and failure to reduce customer demand may result in long term disruption to continuity of service and damage to biodiversity. We may not be able to reduce our operational carbon emissions to Net Zero by 2030. Please see TCFD disclosure on page 34.

Trend Commentary

We continue to plan for climate change and population growth and have adopted an adaptive pathway approach to allow us to respond to changes in the external environment. We've seen a reduction in customer demand for water due to a number of external factors including a mild 2023 summer, in parallel with our own demand reduction efforts. Following guidance from the Secretary of State, we have scaled back our net zero carbon ambitions and are focusing on replacing life expired assets with low carbon alternatives. This risk may increase in the medium to long term.

Trend: 🔱











Principal Risks and Uncertainties continued

Mitigations

- We continue to work with Water Resources South East (WRSE), and neighbouring water companies, to coordinate a regional response to water security challenges and develop our 50-year Water Resources Management Plan (WRMP) including new water supply options.
- We have developed our first 25-year Drainage and Wastewater Management Plan to understand the impact of risks such as population growth, climate change and protecting and enhancing the environment on our wastewater service.
- We've continued our focus on demand reduction schemes to influence customer usage, including the roll-out of digital smart meters, water efficiency activities and customer engagement.
- We are planning to reduce our greenhouse gas emissions and aim to meet our share of the Government's sixth carbon budget by limiting the volume of operational and capital greenhouse gases by 78% by 2035 compared to 1990 levels. In AMP8 we will be prioritising the replacement of life expired assets with low carbon alternatives and developing solutions to minimise the greenhouse gas emissions associated with new investments.
- We continue to work with local partners on Smarter Water Catchment initiatives to nurture the water cycle, improve river quality and enhance ecosystems. Alongside, we are enhancing biodiversity on our sites through a combination of changing grassland management and creation of new habitats such as wetlands, ponds and woodlands.

KPIs

- Leakage
- Total pollutions
- Supply interruptions
- Investments in assets

5. Legacy technology failure

Executive Owner: Chief Financial Officer

Risk

Our continued focus on digitalising our business processes and our increasing dependence on information technology systems for our core operations mean that we are heavily reliant on secure and resilient technology services. Any failure could have a significant impact on our ability to operate, our reputation, and the resilience of our operational assets. A serious event could result in disruption to our corporate, operational and customer services.

Trend Commentary

We continue our shift to cloud services and platform modernisation to offset aging physical technology risk and improve our resilience and security posture. We are in the process of accelerating our remediation programme.

Trend: 😑

Mitigations

- Improving our digital resilience and ability to recover critical data and applications form key initiatives in our refocused Turnaround Plan.
- Ongoing upgrade of critical systems used to manage leakage and test water quality.
- Ongoing upgrade of networks, operating systems and servers to keep current and in support.
- Ongoing decommissioning of hardware and software that is no longer required or as part of our modernisation plans.
- Disaster Recovery tests performed on critical systems so that we have recoverability in the event of a severe outage.

KPIs

- Total complaints
- Leakage
- Underlying revenue
- Investment in assets
- Water quality compliance risk index

6. Employee and physical asset protection

Executive Owner: Chief Operating Officer

Risk

A breach of our protective security arrangements could result in harm to our employees and the general public as well as material loss or damage to key operational sites, assets or services. This, in turn, could lead to interruption in the service we provide to customers and/or potential environmental damage (through contamination or uncontrolled release of water) as well as substantial remediation costs.

Trend Commentary

We are seeing an increase in domestic threats, and general criminality across our region, including cable theft and threats to our staff. Work is underway to ascertain the implications of the Department for Environment Food and Rural Affairs (DEFRA) increased Critical National Infrastructure (CNI) requirements. Our Security and Emergency Direction 2022 (SEMD) upgrade work is on target for the existing AMP7 programmes. We continue to assess the scope and requirements for an ambitious AMP8 delivery programme targeting future compliance and accounting for an evolving threat landscape

Trend: 1

Mitigations

- Security awareness for employees is re-enforced by communications and a security portal where updates, policies and guidance are readily accessible.
- Embedded dedicated security teams within our operational business act as both subject matter experts and educators so that we continue to develop physical security awareness and culture across our business.
- Our Protective Security department is responsible and accountable for forward reviews, inspections and recommendations relating to meeting both our regulatory and internal security standards across our estate.
- We take a proactive approach to monitoring our security systems, aligned to Security Protective Guidance (PSG) and Water UK Security Standards (WUKSS). This is enhanced by working closely with the relevant government agencies and sharing of best practice with other water and utilities companies.
- We conduct regular security risk assessments that follow industry best practice and National Protective Security Authority (NPSA) guidance.
- Implementation of the Security and Emergency Measure Direction (SEMD) programme and associated audit programme.
- We have an established security incident reporting and response process to, quickly and robustly, manage incidents. This is continuously improved through the use of 'lessons learnt'.

KPIs

- Health and Safety lost-time injury frequency rate
- Total pollutions
- Supply interruptions
- Investments in assets

7. Cyber security and data protection

Executive Owner: Chief Financial Officer

Risk

We operate Critical National Infrastructure and hold large amounts of personal and payment data for our customers and employees. If we do not defend our data and assets against internal and external threats this could result in disruptions to our business operations, reputational damage and regulatory fines. Furthermore, it could affect our fundamental ability to provide safe drinking water, protect the environment or respond to our customers' needs.

Trend Commentary

The protection of our systems and data forms a key initiative in our refocused Turnaround Plan with active mitigation underway. We continue to strengthen our controls via our dedicated cyber security programme. However, the risk of cyber-attack is increasing driven by a notable increase in successful cyber-attacks on water utilities, the wider geopolitical climate and the complexity of our internal technology estate.

Trend:

Mitigations

- We continue to invest in our cyber defences, data management and rebuild our IT capability to enhance our respond and recover capabilities.
- Specific areas of focus include, but are not limited to, deepening our detection capabilities, modernisation of our technology estate, strengthening access control and stress testing our respond and recover playbooks.

KPIs

- Total complaints
- Underlying revenue
- Investment in assets

Principal Risks and Uncertainties continued

8. Asset performance and resilience

Executive Owner: Chief Operating Officer

Risk

Failure to maintain and improve asset performance and resilience may result in chronic performance deterioration and catastrophic failure such as water main bursts or sewer collapses, instances of water treatment or sewage treatment outage or structural failures to critical assets. This could have subsequent health and safety, environmental and financial impacts, cause disruption to our customers and mean we fail to meet our regulatory obligations.

Trend Commentary

The overall risk remains stable in the short term. We are improving our overall Asset Management maturity and have prioritised investment to deliver enhanced water supply resilience investment in AMP8 as a continuation of the work started in AMP7. The medium to long-term outlook is dependent on the outcome of the PR24 Final Determination and extent to which we can reduce our asset deficit.

Trend:

Mitigations

- Improving business resilience and our asset management maturity are key initiatives in our Turnaround Plan so that we are better able to manage our assets through their lifecycle and prioritise investment in a way which maximises public value.
- We operate an ISO55001 Accredited Asset Management System and have an established governance framework for investment across our capital programme. We undertake targeted proactive maintenance, prioritised based on asset criticality, and inspections via the Critical Asset Programme.
- We have carried out Water Supply System resilience assessments to identify resilience needs beyond our risk appetite and are developing our approach for wastewater. We are also prioritising improvements in high-risk areas of our water network through the London Water Improvement programme.
- Within our draft PR24 plan, we have proposed a programme of targeted capital maintenance interventions to mitigate the most significant risks of asset deficit.
- In the event of asset failure, our Incident Management processes, and governance structure so that we respond quickly and robustly to minimise impact to customers and the environment.

KPIs

- Total complaints
- Leakage
- Total pollutions
- Supply interruptions
- Investment in assets
- Water quality compliance risk index

9. Treat wastewater

Executive Owner: Chief Operating Officer

Risk

Failure in our operational wastewater collection, treatment and/or recycling, or blockages and failures on the waste network could result in sewerage discharge to the environment, leading to serious pollution incidents with long lasting adverse public health or environmental impacts including to river health, disruption to business and domestic customers, reputational damage and regulatory action.

Trend Commentary

We've seen an increase in total pollutions to 350 for 2023 compared to 331 in 2022. Within this we have seen a significant increase in sewage treatment works (STW) pollutions driven by a combination of factors including asset deb t; delays to pollution improvement engineering programmes; increased visibility of performance following the rollout of the Event Duration monitors at STW sites and resourcing challenges impacting maintenance completions. However, significant improvements in network pollutions that have been driven through proactive activity such as sewer cleaning and an improved response to sewer blockages through the continued rollout of sewer depth monitors, has offset this in part.

Trend: •

Mitigations

- Ongoing delivery of our Pollution Incident Reduction Plan (PIRP) that is now being supported by our turnaround initiative for pollutions, where we have used detailed analysis of historic pollution cases to better understand route causes. This helps inform specific ongoing activities rolled out from the beginning of 2024.
- We continue to invest in our Smart Waste Digital Programme, to build an intelligent ecosystem of products allowing us to understand the operational performance of our wastewater assets so that we can apply the most cost-effective and timely interventions.

- Ongoing delivery of the £100 million upgrade of our Mogden sewage treatment works as well as currently increasing sewage treatment capacity at a number of our other sewage works across the Thames Valley, including Witney, Chesham and Fairford to be completed by 2025.
- £4.5 billion investment in the 'Super Sewer', Thames Tideway Tunnel due to go live in 2025. Together with existing Thames Tideway improvements, this will support a reduction in annual discharges into the Tidal Thames by around 95%.
- Expansion of the Event Duration Monitors (EDMs) programme rollout to record the frequency and duration of any discharges to the environment, with live sewage notifications published.

KPIs

- Total pollutions
- Investment in assets

10. Supply of wholesome water

Executive Owner: Chief Operating Officer

Risk

Our continuous supply of wholesome water could be compromised due to the failure of a water treatment process or a water quality incident that results in water unfit for consumption with potential public health concerns. Or we may fail to supply enough wholesome water to meet demand resulting in service disruptions for our customers and communities.

Trend Commentary

There continues to be significant business focus within this area, including key initiatives for water quality, supply interruptions and leakage under our refocused Turnaround Plan to further manage the risk. Active mitigation of supply chain and business operating challenges is ongoing.

Trend: 1

Mitigations

• Our Water Resource Management Plan (WRMP) sets out how we will manage the water supplies in our region to meet current and future needs up to 2100. Demand reduction is delivered by leakage reduction and water efficiency programmes, with the Strategic Resource Option (SRO) projects delivering the required infrastructure.

- Ongoing collaboration with regulators through the WRMP and PR24 processes to mitigate risk to the delivery of water efficiency targets.
- Ongoing employee training and upskilling to reduce operational risk and improve resilience of supply to customers.
- Our long-term, industry leading, Conditional Allowances programme will reduce risk at our large water production facilities and high-risk trunk mains, thereby improving the resilience of supply of potable water to customers. This programme has recently been approved by Ofwat for AMP8.
- We are transforming our approach to leakage reduction as part of the Turnaround Plan, building on the successful insourcing of the repair and maintenance activity of our water infrastructure. This programme is supported by the delivery of Smart Metering and Smart Water (SMART) proactive management of our water network, using data and insights to drive system-wide performance improvements from source through to our customers taps. These programmes include demand management, customer water efficiency, leakage targeting, improving real-time process and network data, and proactive programmes to manage pressure across our system to prevent bursts and reduce leakage.

KPIs

- Total complaints
- Supply interruptions
- Investment in assets
- Water quality compliance risk index
- Leakage

11. Physical or mental harm

Executive owner: Chief Executive Officer

Risk

Maintaining and embedding the right Health, Safety and Wellbeing (HSW) strategy, systems and measures is essential to prevent physical and mental harm of our employees, contractors, customers and other third parties. Failure to comply with our Health and Safety management system could result in serious injury or fatality.

Trend Commentary

The overall risk remains stable. We continue to prioritise the HSW of our people and partners. We have maintained a strong focus on our risk management, including reducing the number and frequency of injury incidents through our situational awareness campaigns.













Principal Risks and Uncertainties continued

We have also focused on reducing incidents related to damage to buried utility services by reintroducing a partner collaborative group to review and consider best practices to share learning across our operations. We are committed to employee wellbeing and our focus has remained on how our managers can support to prevent stress and anxiety disorders at an early stage. There has been no significant process or asset safety failure in year.

Trend:

Mitigations

- We take a 'Triple Zero Approach' of Zero Incidents, Zero Harm, Zero Compromise, to health, safety and wellbeing. Supported by our corporate value of 'Take Care', this provides a framework for all colleagues, our contractors and our customers to engage, communicate and improve our health, safety and wellbeing understanding, environment and culture.
- The Health & Safety Management System is externally accredited to ISO 45001 and is subject to annual verification.
- Our Health, Safety & Wellbeing team provides advice, guidance and support across all areas of the business to effectively manage our process safety, asset safety and occupational health & safety risks. This is supported by established monitoring and assurance processes across all business operations, overseen by our Executive and divisional level governance committees.
- Ongoing external collaboration and benchmarking through our relationships with Water UK and our regulators, such as the Health & Safety Executive.

KPIs

• Health and Safety – lost-time injury frequency rate

12. Workforce

Executive Owner: People Director

Risk

The attraction, retention, and engagement of a diverse and inclusive workforce, with the right skills, is essential for us to be able to serve our customers, support our front-line operations and deliver our refocused Turnaround Plan. Challenges including employment market conditions and the current negative media attention on the water industry and on Thames Water in particular, may impact attraction, retention and employee engagement.

Trend Commentary

Labour market conditions combined with negative media coverage increase the possibility that we fail to attract talent for critical roles, especially as we compete with increased infrastructure spend across both the water industry and wider construction.

Employee engagement has been impacted by press speculation of the future of Thames Water and by organisational restructures. We're working closely with our Trade Union partners, taking a more proactive approach to our ways of working as we plan for the future. We expect negative media attention to persist, and likely exacerbated by the general election.

Trend: 🕦

Mitigations

- Our ongoing comprehensive skills strategy is focused on critical roles and the expertise required to build a diverse pipeline to address our current and future requirements in professional, technical and STEM roles.
- We engage with communities, local authorities, charities and the education sector to provide apprenticeships, internships, graduate and employment opportunities to under-represented groups
- Our Purpose and values are at the heart of what we do and a key driver of engagement in our business. The Thames Water Story (our strategic employee communication approach to our purpose, values and business plan) brings these to life for all colleagues and is part of the induction for all new joiners. Our values are central to how we lead and communicate every day.
- We train and develop our people so that they possess the skills and knowledge required to perform their roles safely and effectively and manage a range of competence assurance programmes that meet regulatory and best practice requirements. In addition, we invest in developing our current and future leaders and provide all colleagues with access to a comprehensive suite of resources to develop their skills and careers.
- We work closely with our Trade Union Partnership to maintain good relationships and manage change in the business.
- Our leadership teams connect with front-line colleagues directly and regularly to brief on progress against our refocused Turnaround Plan through regular site visits, all-company 'Ask the Exec' live streamed events, regular briefings such as the weekly "e-brief" and monthly manager-led Team Talks.

13. Values, standards, legal and regulatory obligations

Executive owner: General Counsel & Company Secretary

Risk

Failing to comply with our legal and regulatory obligations could result in reputational harm, including loss of customer and investor confidence, both civil and criminal legal action and investigation by regulators, significant financial penalties, and for the most serious of breaches the potential loss of our Instrument of Appointment.

Trend commentary

Given well publicised concerns about our operational and financial performance we are attracting an increased level of scrutiny across the sector from regulators and stakeholders. We continue to focus on our ongoing Section 19 undertakings relating to leakage. In January 2023 we submitted our final report to Ofwat which confirms that we have delivered previously made undertakings and commitments relating to non-household market data and smart metering respectively. In May 2024, Ofwat consulted on proposals to release Thames Water from these undertaking and commitments and we currently expect Ofwat to formally conclude on this matter in the summer. The Company is currently subject to investigation by the Environment Agency regarding compliance with storm sewerage discharges in line with environmental permits and by Ofwat in relation to the operation of our sewerage treatment works. Ofwat is also investigating the Company in relation to a dividend declared in October 2023. More detail on these investigations is set out in our FY24 accounts on page 149. We continue to cooperate fully with these investigations. The Company also has ongoing challenges regarding the delivery of the AMP7 WINEP schemes and meeting the requirements of the Industrial Emissions Directive within the timescales set by the EA. More information is provided in our Condition P RFC.

Trend:

Mitigations

- Achieving compliance with our ethical, legal and regulatory obligations is based on a framework of sound governance, risk management and systems of internal control.
- We have mandatory training programmes in place in key areas (including competition law, data protection, bribery and corruption).

- Our Regulatory Compliance Framework Standard is a key component of our internal control framework and is designed to maintain a robust control environment to mitigate the principal risk of failure to comply with our regulatory obligations. We also conduct regular audits of compliance with key regulatory obligations.
- We undertake regular horizon scanning for changes in the legal and regulatory landscape.
- We set a strong tone-from-the-top and have clear Speak Up and whistleblowing procedures as well as processes for reporting any potential conflict of interest and offers of gifts and hospitality.
- Taken together, these controls help us identify and resolve any potential failure to comply with our values and standards promptly.

KPIs

- Health and Safety lost-time injury frequency rate
- Water quality compliance risk index
- Leakage
- Pollutions
- Supply interruptions
- Total complaints

14. Liquidity

Executive Owner: Chief Financial Officer

Risk

Weak financial resilience (real or perceived) due to operational performance or economic and market volatility could result in Thames Water being unable to secure sufficient liquidity to meet our funding requirements, resulting in insolvency (Special Administration) or insufficient resources to satisfy our Instrument of Appointment obligations.

Trend Commentary

The overall risk is deteriorating reflecting the shareholders decision not to provide £500 million of new equity in March 2024, subsequent credit rating downgrades in April 2024 and that the Group does not currently have sufficient committed liquidity for a period of 12 months from the approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review.

Trend: 1







Principal Risks and Uncertainties continued

Mitigations

- Pursuing equity and debt capital to extend liquidity runway and fund our proposed PR24 business plan to improve operational and environmental performance, and increase financial resilience.
- Robust performance management processes analyse both leading and lagging key performance indicators to initiate actions to mitigate the impact of cost inflation, improve cash collection performance and seek to maintain financial covenant headroom.
- We manage working capital and cash flows throughout the financial year to manage liquidity and improve cash conversion.
- Our treasury strategy utilises conservative funding, hedging and cash management to maintain liquidity, supported by committed credit facilities.
- We have robust financial policies that seek to maintain investment grade ratings and target Baa1 / BBB investment grade credit ratings in the medium term and beyond.
- We monitor the capital markets regularly, with a focus on de risking funding plans where possible and remain alert to bank counterparty risk.
- We set and maintain risk appetite levels for key covenant metrics to demonstrate financial resilience and address material financings at the earliest opportunity to reduce risk from market exposures and maintain liquidity.
- We regularly review our capital structure to identify opportunities to improve financial resilience.

KPIs

- Committed liquidity
- Financial covenants
- Credit Ratings

15. Inflation and interest rates

Executive Owner: Chief Financial Officer

Risk

Failure to adapt our cost base for changes in inflation or interest rates, or insufficient operating cashflow, could result in material financial losses or a breach of our financial covenants. This could lead to re-prioritisation of investment, impacts to operational performance and reduced service levels.

Trend Commentary

Inflation has fallen significantly during the financial year, real incomes have started to improve and interest rates are therefore expected to reduce from current levels, both of which result in an improving overall risk outlook. However, the outlook for energy prices and cost inflation remains uncertain and remains vulnerable to a deterioration in either geo-political or macro-economic environments. In addition, ongoing cost of living pressures do continue to pose a risk to cash collection and operating cash flow.

Trend: 🔱

Mitigations

- Our ongoing Supplier Management programme aims to mitigate
 the risk that suppliers do not perform at the cost and levels of
 service agreed in our contracts. In addition, it facilitates
 collaborative ways of working with suppliers to mitigate cost
 inflation pressure and improve performance.
- Our commodity power hedging programme reduces the risk of short-term volatility in wholesale energy prices by locking in forward electricity prices, thereby providing greater cost certainty over near term and medium power costs.
- Robust performance management processes to analyse and initiate action to improve cost base and cash collection performance.
- Management focus and action taken on working capital to improve operating cash flow.
- Our debt improvement programme is focused on improving cash collections and reducing the overall level of bad debt.
- Our Treasury liability management policies aim to manage borrowing and other liabilities, including mitigating the risk of interest rate, foreign exchange and inflation exposures.

KPIs

- Underlying EBITDA
- Operating cashflow

16. Regulatory, legislative and political developments

Executive owner: Strategy & External Affairs Director

Risk

Failure to protect our business from developments in the regulatory, legislative and political environments could materially impact our business operations, leading to new unfunded obligations or non-compliance with regulatory or legal requirements and significant reputational damage. Potentially significant investment over that originally anticipated in the business plan could be required to address the unfunded obligations or non-compliances.

Trend commentary

Political and regulatory scrutiny across the sector regarding compliance with current and future environmental obligations remains high, with river health and leakage dominating the agenda and a consequent focus on the financial affairs of the sector, notably relating to executive pay and shareholder dividends. Since submission of our AMP8 business plan we've engaged with stakeholders extensively on the choices we will need to make between 2025-2030. The General Election on 4 July 2024 and the decision-making phase of PR24 will both drive continued high levels of scrutiny and risk. In addition, public stakeholders are requiring increased reassurance on the pace and progress of our refocused Turnaround Plan

Trend:

Mitigations

- Potential changes to the regulatory, legal and political environments are identified through regular horizon scanning, supported by intelligence gathering on drivers for change.
- We inform and contribute to the water sector public policy debate through working in partnership with other organisations such as Water UK, other water companies and industry bodies.
- We also actively engage with regulators, politicians and regional and local stakeholders on a broad range of issues, including resilience, river water quality and delivery against our refocused Turnaround Plan

18. Engage stakeholders

Executive owner: Strategy & External Affairs Director

Risk

We may be unable to secure the engagement, trust and support of our stakeholders in ways that undermine our ability to provide our services, deliver projects and secure investment. This could ultimately lead to loss of our Instrument of Appointment.

Trend:

Trend commentary

Continued challenges around our operational performance are influencing stakeholders' views. Successful delivery of the promises in our refocused Turnaround Plan should help address this. Overall, the risk is stable, but concerns remain around river health due to increased salience and financial stability.

Mitigations

- Proactive and continuous engagement with customers and stakeholders on key business plans, 2050 Vision, Water Resources Management plan (WRMP), River Health Action Plan and Drainage and Wastewater Management Plan (DWMP) with a particular focus on demonstrating delivery.
- Extensive engagement and greater transparency with customers and stakeholders at national, regional and local levels to understand their needs, expectations and preferences.
 This includes, for example, the rollout in London of surgeries for local councillors to raise issues in their areas, as well as additional work proactively to explain our capital investment programme.
- Implementation of our refocused Turnaround Plan to build a more resilient and investable Thames Water. This includes ensuring stakeholders understand the progress being made with delivery of the turnaround.
- Developing and embedding the Public Value framework to support decision making and wider community engagement and environmental improvement.
- Regular dialogue with investors to support them in their investments and reflect their priorities in our plans.

KPIs

- Underlying revenue
- Total complaints
- Investment in assets







Long-term Viability Statement

Introduction

In accordance with the UK Corporate Governance Code the Directors have undertaken a robust assessment of the long-term viability of the Company. The main purpose of performing such an assessment is to assess whether the Company can withstand various severe but plausible downside scenarios and continue to deliver critical customer services if such negative events materialised.

This statement assesses the long-term viability of the Company, which has been granted an Instrument of Appointment to operate regional public water and sewerage networks by The Secretary of State for the Environment under the Water Industry Act 1991 ("Act" or "WIA"). The Act includes provisions to protect customers from the risk of company failure by ensuring the continued delivery of services in the event of such failure. This special administration regime can only be used if, on the application of the Secretary of State (or Ofwat with the consent of the Secretary of State), a Court is satisfied that (in summary) there has or is likely to be a contravention of any principal duty of the Company that is serious enough to make it inappropriate for the Company to continue to hold its Instrument of Appointment, or the Company is or is likely to be unable to pay its debts. The special administration regime may result in the restoration of the Company to a position of long-term viability or, if that cannot be achieved, ensures the continued viability of the services it provides, which may include the transfer of the Company's Instrument of Appointment to one or more other companies.

This statement should also be read in conjunction with the going concern basis of preparation note set out on page 110. The Directors have concluded it is reasonable to assume that actions can be taken such that the Group has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. However, there exists material uncertainties in relation to the going concern basis adopted in the preparation of the financial statements, given:

 the Group does not have sufficient committed liquidity for a period of 12 months from the approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and a future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements.

For the purposes of assessing long term viability, it is assumed that these material uncertainties are resolved or remedied on the basis that the Company:

- secures a PR24 determination this is deliverable, financeable and investable; and
- secures £3,250 million in equity funding from existing or new investors in the assessment period (or such amount as is required to finance a post PR24 final determination Board approved business plan) to improve operational and environmental performance, and increase financial resilience.

Board's approach to the viability assessment

The Board regularly assesses the risks facing the Company and takes into consideration the preventative and mitigating actions available to it. The process includes financial forecasting, risk management assessment, regular and timely budget review and scenario planning analysis. For the current financial year, the board also assessed viability against a backdrop of financial, regulatory and political uncertainty discussed in the Chairman, CEO and CFO statements set out on pages 3, 4 and 43.

Assessment Period

In previous financial years, the Board assessed viability over 10-year cycles reflecting the long-term nature of the business in providing essential water and wastewater services, the relative stability of the water sector and the time horizon of the Company's planning process. In determining the length of the assessment period for the current financial year, the Board considered the increased uncertainty regarding the outcomes of future regulatory price reviews, macroeconomic and political uncertainty, and its current business planning horizons.

For the financial year ended 31 March 2024, the Directors consider a 6-year period ending 31 March 2030 to be an appropriate period to assess the Company's prospects. This period is aligned to the current financial year and PR24 price review period. The Company has reasonable visibility over the remainder of AMP7 and has submitted its PR24 business plan to Ofwat, but has not yet received a draft or final determination of the price control for the 2025-30 regulatory period.

Severe but plausible downsides and conclusion

The Board has assessed the financial resilience of the business against a range of severe but plausible scenarios derived primarily from the principal risks and uncertainties set out on pages 21-27. The viability assessment also considers the material uncertainties disclosed in the going concern assessment set out on pages 96-97. Each of the scenarios and uncertainties have varying negative impacts with operational cashflows decreasing and/or capex increasing due to remedial actions. By conducting stress testing, the Directors have considered the potential impact on financial covenants in the Group's Whole Business Securitisation ("WBS"), the credit rating and liquidity (taking into account the dependency on existing financing arrangements and the availability of new debt). An Event of Default ("EoD") under the terms of the Group's financing arrangements has been used to determine viability for stress testing purposes, as non-compliance could result in creditors accelerating repayment and enforcing their security. Dividend Lockups and Trigger Events are features of our Whole Business Securitisation and are designed to act as early warning signals, protecting creditors and preserving the value of the Company. As such, in the short term they are not meant to threaten the viability, but instead provide time for the business to initiate remedial actions.

As per the terms of the WBS, the Group has undertaken to maintain compliance with defined financial covenants, assessed biannually on several interest cover and gearing ratios. As disclosed in the going concern basis of preparation note, the Group was compliant with financial covenants in the 2023/24 financial year. However, following the decision by shareholders not to commit new equity in March 2024, the compliance certificate to be submitted to the Security Trustee shows non-compliance of certain forecast ratios with Trigger

Event thresholds for the 2024/25 financial year, which will crystallise formally upon delivery of the compliance certificate for the financial year ended 31 March 2024. No EoD is forecast in the assessment period under severe but plausible scenarios.

In addition to testing scenarios with a single individual downside event, the impact of a combination of multiple downside events were also considered. Three combination scenarios were developed based on the Board's view of the aggregation of various risk events derived from our principal risks and uncertainties and by the Company's past experience.

- 1. Adverse weather events Scenario 9: these are particularly relevant given extreme hot, cold (freeze thaw) and wet weather events have occurred in the past
- 2. Water quality failures Scenario 10: whilst remote, the industry has experienced Cryptosporidium contamination events.

 As Thames Water has several large water treatment sites, such an event could adversely impact a large number of customers
- 3. Cyber-attacks and corresponding asset failures Scenario 11: TWUL has witnessed an increasing threat of cyber-attacks as more activities move online

None of the individual downside events threaten viability. For the combination scenarios, the adverse impact was severe enough such that credit ratios neared – but did not breach – EoD thresholds at certain points during the assessment period. Based on the current published methodology of the credit rating agencies and the assumptions outlined below, the assessment of both the individual downside events and combination scenarios (which mainly involves credit ratio analysis) do not give rise to events that lead to a sub investment grade credit rating if the Company secures a financeable and investable PR24 determination. All combination downside scenarios include Scenarios 1, 5, 6, 7 and 8, and then one of Scenario 2, 3 or 4.

Strategic report Governance Financial statements

Principal Risk

growth

resilience

PR04: Biodiversity, climate

PR08: Asset integrity and

PR09: Treat wastewater

PR10: Supply of wholesome

change and population





Long-term Viability Statement continued

1. Economic downturn influenced by macro events such as Covid-19, cost of living and inflation

Scenario

Prolonged low GDP growth leading to low inflation and poor collection rates, mitigated in part by low interest rates and working capital management.

Given the regulatory framework where Regulatory Capital Value ("RCV") and revenues are inflation linked, and that a material portion of the Company's debt is not linked to inflation, the Company's viability is more at risk in scenarios involvina low inflation. In a low inflation environment, the RCV would decline. However, the material portion of the debt which is fixed and not linked to inflation would not be lowered by the same amount, as such gearing would increase.

The majority of the Company's debt is either fixed nominal or inflation linked and part of our allowed revenue at each regulatory price review is linked to base interest rates. These factors significantly reduce the exposure of our nominal interest costs (on a cash basis) to changes in interest rates.

We have assessed the impact of inflation being around 1.5% higher and interest rates being around 1% lower than base case assumptions (both in absolute terms) for 2 years near the start of the assessment period.

Principal Risk

PR02: Revenue Collection

PR14: Liquidity

PR15: Inflation and interest

Scenario

2. Severe climate events and operational failures

Unplanned costs associated with extreme hot, cold and wet weather events and the failure of key assets impacting delivery of our water and waste services. This reflects the risks mentioned in the disclosure around climate change reporting.

We have assessed the impact of a series of adverse weather events involving an extreme hot, cold and wet weather event taking place over 3 years near the start of the assessment period. Such incidents amount up to around 4% of forecasted allowed totex (annual average) and is mainly based on our past experience in dealing with such adverse weather events.

Note: Outcome Delivery Incentives ("ODI") penalties incurred due to consequential underperformance from adverse weather are reflected in scenario 5.

3. Water quality failures

Widespread water contamination event involving Cryptosporidium, resulting in a significant supply interruption and penalties.

We have assessed the impact of two incidents over the assessment period with each event amounting to around 4% of forecasted allowed totex (annual average).

Note: Outcome Delivery Incentives ("ODI") penalties incurred due to consequential underperformance from water quality failures are reflected in scenario 5.

PR01: Customer experience

PR10: Supply of wholesome water

PR13: Values, standards, legal & regulatory obligations

PR16: Regulatory legislative and political developments

Scenario

4. Cyber security PR01: Customer experience

> A severe but not catastrophic compromise of technology and systems that control the operation of our water or wastewater services Such a breach has been assumed to be temporary in nature, with systems being restored within a few days. Costs incurred relate to opex This downside also includes failures of major water and wastewater assets requiring remedial measures, which increases total expenditure (totex).

We have assessed the impact of an incident over the assessment period, amounting to around 1.5% of forecasted allowed totex (annual average)

5. Failures to achieve performance commitments and noncompliance with regulations

Penalties from failing to deliver performance as per the business plan and fines from regulatory/legal bodies. This assumes three major fines over the assessment period, reducing operating cashflows.

We have assessed the impact of further penalties and fines equivalent to around 3% of forecasted allowed totex (annual average). This includes an average of ODI penalties associated with (i) adverse weather, (ii) water quality failure and (iii) cyber security risks. The ODI penalties incurred for each downside case is roughly double that assumed for the Base Case over the assessment period and take place on a yearly basis.

Principal Risk PPR01: Customer experience

PR05: Legacy technology

PR07: Cyber security and data protection

PR09: Treat wastewater

PR10: Supply of wholesome

PR08: Asset integrity and resilience

PR09: Treat wastewater

PR10: Supply of wholesome

PR13: Values, standards, legal & regulatory obligations

PR18: Engage stakeholders

6. Failure to achieve business

plan objectives

Thames Water Annual Report 2023/24

Further overspend incremental to the business plan.

Based on our historical spend for AMP6 and our expected spend for AMP7 as per our latest business plan, Thames Water has invested more than the allowance set by Ofwat in each Final Determination. As such, we have assessed the impact of around £120 million p.a. average increase in totex over a five year period, incremental to the additional investment already incorporated in the business plan under the base case. Such overspend predominately relates to capex. This downside takes into account the progress made in the turnaround programme to control costs assumed in the base case. Under this downside, the over investment for AMP8 is roughly twice the amount assumed under the base case.

Principal Risk

PR15: Inflation and interest rates

7. Increase in the cost of new

debt issuance

A 100 basis points absolute increase in the cost of new debt issuance has been assumed to reflect a potential credit rating downgrade arising from adverse operational and / or financial performance

PR14: Liquidity







Long-term Viability Statement continued

| Scenario | Principal Risk | | |
|---|--------------------------------------|--|--|
| 8.Pandemic | PR02: Collect revenues | | |
| One year impact of another pandemic similar to the first year of Covid-19 in the UK involving lockdowns and social distancing. Consequences involve lower cash collections mitigated by lower volumetric activity and working capital management. Quantification of the potential impact is based on experience of events in 2020/21 | PR08: Asset performance & resilience | | |
| | PR11: Physical or mental harm | | |
| 9. Adverse weather events based on a combination of scenarios 1, 2, 5, 6, 7, 8 | See above | | |
| 10. Water quality failures based on a combination of scenarios 1, 3, 5, 6, 7, 8 | See above | | |
| 11. Cyber attacks and corresponding asset failures combination of scenarios 1, 4, 5, 6, 7, 8 | See above | | |

The Directors have also considered various mitigating actions when applying the combined downside scenarios. To improve gearing, the Company could implement cash conservation measures that do not threaten the Group's statutory duties, cease distributions (in accordance with cash lock-up restrictions arising from licence condition and/or Trigger Event under the WBS) and seek further cash injections. Cash conservation measures may lower operational performance in the future, which in turn may lead to higher catch-up investment. However, such higher catch-up spend would probably occur at the time when the downside event would have passed. To improve interest cover ratios, mitigants include but are not limited to stricter operating cost control and management of working capital. As a significant proportion of debt and some totex is index linked, the Company is less exposed to inflation risk.

For completeness the Board has also considered how various economic downsides would impact the Company's defined benefit pension liability. As this pension liability is significantly hedged against movements in inflation and interest rates, we do not consider changes in such factors to have a severe adverse impact that would threaten our assessment of viability over the assessment period. As part of the triennial valuation dated 31 March 2019, a

recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027 by making regular contributions and deficit repair payments. The latest triennial valuations are being carried out as at 31 March 2022 and the valuation for the TWMIPS was completed in March 2024. Discussions are continuing with the Trustee and the Pension Regulator to complete the triennial valuation for TWPS, which could result in increases in Company contributions. It is recognised that increases in defined benefit pension contributions due to inflation would be accompanied by increases in our revenues, which are also linked to inflation. Additionally, for the key actuarial assumptions driving the valuation of the obligations, the Directors do not consider that plausible changes in the assumptions would be significant enough to have a severe impact on the defined benefit pension liability

In conducting the long term viability assessment, the Board has assessed the intercompany arrangements and the corporate structure of the Group (as detailed on page 53). No downside scenarios were identified that could negatively impact the viability of the Company as the WBS contractual ringfence enhances the licence ringfence and requires the Group to be clearly segregated from other parts of the Kemble Water Holdings Limited group and their financing arrangements.

We have in place an established process to assess the Company's prospects, which is performed annually by senior management. The results of the assessment are considered by the Audit, Risk and Reporting Committee, which reviews and recommends the Long Term Viability Statement to the Board, where it is then in turn reviewed by the Directors for approval.

The key assumptions underpinning the Directors' assessment include the following:

- The aggregate impact of adverse events and conditions, which are not considered in the scenarios modelled, would not exceed the additional mitigations available to management or result in an event of default under the Company's financing arrangements.
- The PR24 final determination will be deliverable, financeable and investable, taking into account Ofwat's duty under Section 2 of Water Industry Act 1991 (as amended) to "secure that water companies can (in particular through securing reasonable returns on capital) finance the proper carrying out of their statutory functions".
- The Group's credit rating agencies maintain their current methodology and guidance levels such that TWUL can maintain an investment grade credit rating during the assessment period or, in the event of a downgrade, that Ofwat does not enforce a breach of the Company's Instrument of Appointment.

- The Group is able to continue to access capital markets at affordable rates of interest to maintain adequate liquidity based on a Board approved business plan that targets Baa1/BBB+ credit ratios over time, a financeable and investable PR24 price determination and creditor support if required
- TWUL secures £3,250 million in equity funding from existing or new investors in the Assessment Period (or such amount as is required to finance a post PR24 final determination Board approved business plan) to improve operational and environmental performance, and increase financial resilience. The Board will continue to carefully monitor progress towards achieving equity funding on a regular basis and has undertaken prudent contingency planning to assess what options may be available to maintain its core water and wastewater services and financial resilience should this be required. The Board further notes that in the scenario where equity funding was not forthcoming, the Company would consider all options available at that time and could revise down its business plan expenditure to fit within the then available funding from the PR24 final determination, so as to enable the Group to maintain its financial resilience and efficiently access debt funding.
- The Company and defined benefit pension trustees agree to a reasonable and affordable contribution profile to repair the current or future funding deficit of the Company's defined benefit pension schemes, consistent with the outcome of previous triennial valuations.
- The Company remains in compliance with its principal duties under its Instrument of Appointment granted under the Water Industry Act 1991, consistent with its strategy and approved business plan.
- Ofwat, regulators or other stakeholders do not impose penalties
 or take enforcement actions on known or unknown matters
 that result in either the Company being placed into special
 administration or threaten the solvency of the Company or
 result in an event of default that cannot be mitigated, consistent
 with published guidance and policy.
- The water sector is not renationalised, consistent with the existing Government policy, as the Company believes the cost of nationalisation to the government, customers and investors would exceed any assumed benefits.

Board's conclusion

The Group actively monitors and responds to the risks identified in the viability assessment scenarios. There is a risk that future conditions will be more adverse than assumed in the analysis, noting that the Group does not have sufficient committed liquidity for a period of 12 months from the approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review. In addition, a future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements. However, the Directors concluded, after conducting a robust assessment taking into account the Group's current position, prospects, principal risks and uncertainties and the assumptions listed above, that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the six-year assessment period to 31 March 2030.

Strategic report Governance **Thames Water** Annual Report 2023/24 Financial statements

31





Sustainability

ESG highlights



Cathryn Ross (left) with Anna Boyles, Head of Catchment, at Mogden



We've had a long-standing goal to be more sustainable in all areas of our business and this is embedded in our Turnaround Plan."

Cathryn Ross

Strategy and External Affairs Director

Our approach to sustainability and ESG

We've had a long-standing goal to be more sustainable in all areas of our business and this is embedded in our Turnaround Plan. Sustainability is integrated across all our activities and is described across the nine sustainability themes of our sustainability policy:

- protecting water, a precious resource;
- managing wastewater and sustainable drainage;
- mitigating climate change;
- adapting to climate change;
- delivering efficient operations;
- investing sustainably for the long-term;
- ensuring responsible operations;
- enhancing customer inclusion: and
- maintaining a safe and sustainable workforce.

These themes affect each element of ESG; they reflect what we do as a business but also guide how we do it.

Our reporting

Every year, we produce a Sustainability Report and ESG Statement. This year's report will be available on our website. It covers a snapshot of what we've been doing over the last year and our current priorities. In addition, we include case studies to reflect and bring to life each of our nine sustainability themes. We'll keep updating you on our journey in future reports.

This Sustainability Report also includes our ESG statement, which covers a wide range of ESG metrics with data covering a five-year period to help illustrate progress, challenges and trends.

Our ESG Statement brings together five years of data in an accessible and transparent format to give a balanced view of our current and past performance against ESG measures. By providing these tables, we demonstrate our commitment to transparency and go beyond statutory requirements.



Environmental

We rely heavily on a healthy natural environment to be able to provide safe, clean drinking water and to safely discharge wastewater back into rivers. The world around us sustains us and so we all have a responsibility to look after it today and for future generations.



real-time map of live discharges

27% of energy needs self generated

4.2kt CO₂e



Social

We're focused on making sure we look after and support our customers, as well as being a responsible and respected part of the local communities we operate in.



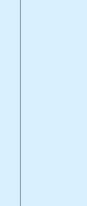
Governance

We take our responsibilities as a monopoly provider of an essential service very seriously. We're committed to the highest levels of governance and being led by our Purpose in everything we do. You can find our Governance update on pages 51 to 53.

increase in the number of households benefiting from a discount tariff

239

apprentices on board













Our people

Leading our turnaround

The effectiveness of our leaders is critical to the success of our turnaround.



The effectiveness of our leaders is critical to the success of our turnaround. Our Turnaround Plan includes work to build leadership skills and create a culture of performance and accountability. We have introduced formal 'Performance Contracts' for senior managers which become the basis of their ongoing performance evaluations. We are also investing in developing the leadership capabilities identified as most critical to the success of our turnaround:

- Personal leadership resilience and learning agility
- Accountability taking personal responsibility and holding others to account
- Collaboration working effectively across the business to solve problems
- Engaging leadership communication and empowerment

These are the basis of our 'Leading with Purpose and PACE' priorities. We have integrated these into how we recruit and manage performance and reward of our leaders.

Representing the communities we serve

Our Skills strategy aims to shape the future of our workforce, improve diversity, create sustainable careers, and provide opportunities for those not in education, employment or training. We contribute to our local communities and society and benefit from the varied and innovative perspectives that our talented employees bring by offering opportunities to individuals from diverse backgrounds and underrepresented groups.

We foster strategic partnerships providing employability support and removing barriers to entry into the workplace for underrepresented communities and untapped local talent. Examples include:

- Care Leaver's Covenant:
- 'Ban the Box':
- 'Women Into Construction Employability';
- 'Roots to Reading' refugee programme;
- 'Ambitious about Autism Covenant for Employers'; and
- 'Homelessness Covenant' launched by Crisis.

Our Skills strategy is integrated within our recruitment procedures. Our practices are more inclusive and focused on improving the experience for our candidates. We launched a new careers website to showcase the distinctiveness of our employment proposition and values and provide information about applying for the jobs we offer. To demonstrate our impact, we achieved a commendable score of 9 out of 10 for inclusive recruitment in the 'WISE 10 steps' (Women in Science and Engineering) measurement framework. Our reputation as a best practice leader was recognised by Business in the Community highlighting our successful work with the prison leavers and '10,000 Black Interns' project. And we have showcased our experience at prominent events including the Department for Work and Pensions, Responsible Business Live and the Action for Race Equality annual conference.

Talent of the future

We want to create a culture of life-long learning and support career development. We invest in our colleagues' progression with apprenticeships ranging from level two to degree level, including MBA. We've grown to 33 apprenticeship standards and currently have 239 apprentices. Every qualification addresses anticipated skills needed over the next three to five years. Our rankings in 'Rate my Apprenticeship' and 'Job Crowd' reflect our supportive environment for apprentices.

In the last year we have continued to grow our shared apprenticeship scheme, rotating 24 apprentices between us and our supply chain partners, targeting areas where recruitment has historically been challenging. And to boost wider talent development in the communities we serve, we gifted 8% of our apprenticeship levy to local organisations, empowering them to cultivate their own talent pipelines.

We welcomed 24 people on to our 2023 summer intern programme. Our cohort comprised of 50% female, 67% from an ethnically diverse background, 8% having an impairment, health condition or learning difference, 40% who received free school meals, 48% who were the first in the family to attend university, 17% who were care leavers and 1 was a refugee. Our alumni network has grown to 59 candidates who we aim to recruit over the next 5 to 10 years, with 40% of those graduated already started in unique niche roles with us that would have otherwise been challenging to fill.

Our graduate support focuses on core skills, particularly within the engineering sector, bridging talent gaps projected over the next four years. Additionally, we have our second cohort of T level students in engineering and digital disciplines. We are strengthening partnerships with the further education sector, aligning curriculum with future career prospects and apprenticeship vacancies.

Creating an inclusive environment through our employee networks

To support our value of "Be Respectful and Value Everyone" we have a number of employee resource groups driving initiatives to improve equity, diversity, and inclusion across Team Thames. Highlights from those networks include the following:

- Our DAWN network (Disability, Allies, Wellbeing and Neurodiversity) improved our approach to 'Personal Adjustment Passports' to enhance reasonable support beyond the minimum legal requirement.
- Our Multifaith network raised awareness about workplace inclusivity at an all-party Parliamentary group on international religious freedom and The Good Faith Partnership.
- Our Reach network (Racial Equality and Cultural Harmony) launched a mentoring programme to provide support to individuals from ethnically and culturally diverse backgrounds.
- Our Women's network launched a maternity-returners campaign offering support to mothers returning to work after having a baby.
- Our Men's Allies network creates a safe space for men and their allies to openly discuss topics that men typically struggle to talk about such as male cancers, suicide prevention, bereavement support, as well as the significance of exercise and stress management. This network welcomes everyone, offering a space to connect with like-minded individuals and address both significant and everyday challenges in life
- The Parents and Carers network offers support, events, and resources on various topics including single parenting, neurodiversity, internet safety, and family leave. The network also supports informal circles for carers, neurodiverse families, and returners to work.







Our people continued

 Our Pride network continues to play a major role in supporting the company as a place where everyone can bring their whole self to work. This includes supporting our efforts to keep our Silver Award and Highly Commended Network Group for 2024 in the Workplace Equality Index.

In addition, over the past year we launched our new anti-bullying and anti-harassment training program centred on three key areas: inclusive leadership, empowering individuals to become active bystanders, and promoting equality while combating racism.

Diversity and Inclusion

Our People policy covers Diversity and Inclusion at a high level and is underpinned by our Equity, Diversity and Inclusion guidance. Within the People Policy we outline:

Employees will contribute to a culture of diversity and inclusion by treating fellow employees with acceptance, understanding and respect, which includes valuing diversity and inclusivity and not tolerating bullying, harassment, discrimination or victimisation.

People managers will:

- Create a safe and healthy working environment and promote wellbeing.
- Act quickly and appropriately to deal with any acts of bullying, discrimination, harassment and victimisation through the appropriate Employee Relations procedures; and recruit, retain and develop competent employees in the right jobs.
 When doing so, they will not discriminate against any protected characteristics, as defined by the Equality Act 2010; age, sex, marriage or civil partnership, pregnancy or maternity, race, religion or belief, disability, sexual orientation, gender reassignment.
- Treat employees fairly and in line with the employment rights.
- Leadership community will create an environment where employees are treated with respect and able to bring their whole self to work within an inclusive and diverse culture.

Within our equity, diversity and inclusion guidance we outline how we want to inspire everyone to live our values; respecting and valuing each other. We are committed to treating everyone fairly and providing equal opportunities regardless of any protected characteristics. These varied elements are integral to fulfilling our purpose. We also outline our mandatory 'Inclusion Hero's' training to help shape their thinking about diversity and inclusion.

Our gender pay and ethnicity pay gaps

We've delivered 0.8 percentage point reduction in our median gender pay gap and a 0.5 percentage point reduction in our median ethnicity pay gap. On 5 April 2024, which is the date we capture the data each year, our results were:

 $\begin{array}{l} \text{Mean gender pay gap} \\ 5.2\% \\ \text{(2022/23: 5.3\%)} \end{array}$

Median gender pay gap 10% (2022/23: 10.8%)

Mean gender bonus gap -2.5% (2022/23: -53.1%)

Leadership female on 31 March 2024 40%(2023: 42%)

Mean ethnicity pay gap 9.2% (2022/23: 10.0%)

Median ethnicity pay gap 7.3% (2022/23: 7.8%)

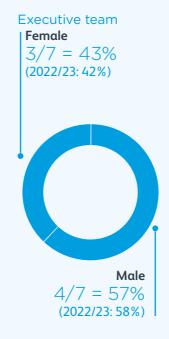
Median gender bonus gap

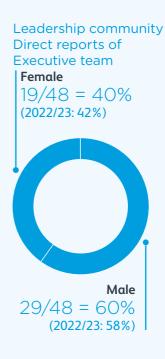
0
0
(2022/23: 25%)

Leadership ethnic diversity on 31 March 2024 2% (2023: 3%)

The data below is presented in accordance with the FCA's Listing Rule 9.8.6R(10). The applicable reference date¹ for this data is 9 July 2024. To collect this data, the Company asked members of the Board and Executive Team² to complete a confidential and anonymous online survey.









The gender pay gap is the difference in the average earnings between men and women, regardless of the work they do.

The median pay gap is the difference in pay between the middle-ranking woman and the middle-ranking man. Similarly, the ethnicity pay gap shows the difference in average earnings of employees of ethnic minority backgrounds, regardless of their jobs.

Gender pay differs from equal pay, which looks at pay differences between men and women carrying out the same or comparable work. Proportion of females (of relevant employees) who received a bonus/incentive payment was 90.7% (2022/23: 40.4%). Proportion of males (of relevant employees) who received a bonus/incentive payment was 95.0% (2022/23: 46.6%).

Gender diversity across Thames Water as of 31 March 2024

In terms of base pay, the gender pay gap has improved from last year to a median of 10% and mean of 5.2%. Female representation is greater in lower paid roles, for example Customer Service Agents, than higher paid roles, for example Process Controllers. Our gender pay gap will reduce further as we attract more women into technical roles. We continue to make good progress with our strategies for Skills and equity, diversity and inclusion (EDI) aims to support the attraction and retention of women into these roles.

In terms of bonus, the mean gender pay gap is now -2.5% from -53.1%, which is primarily as a result of the former CEO not taking a bonus payment. The change in the median gap from 25% to 0% is driven mainly by the payment introduced last year related to the bonus scheme for colleagues at the two lowest grades in our structure.

Strategic report Governance Financial statements







Taskforce for Climate Related Financial Disclosures

Reporting context

In this disclosure, we comply with the requirements of The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, which amended sections 414C, 414CA and 414CB of the Companies Act 2006. Thames Water Utilities Limited is required to comply with TCFD requirements under Condition P of its instrument of appointment, this requires it to report in line with a company listed on the London Stock Exchange. This TCFD disclosure has been prepared in line with the four TCFD recommendations and the 11 recommended disclosures set out in the 'Recommendations of the Task Force on Climate-related Financial Disclosures' report published in June 2017 by the TCFD and the 'Implementing the Recommendations of the TCFD' supplementary guidance published in October 2021. We have considered the TCFD annex and we consider our approach to be consistent with the 11 TCFD pillars.

The following table provides an overview to navigate where the relevant TCFD disclosure can be found in this disclosure.

Here we outline where you can find the relevant TCFD disclosure within this report.

Governance

Disclose the organization's governance around climaterelated risks and opportunities.

- a. Describe the board's oversight of climaterelated risks and opportunities – page 35
- b. Describe management's role in assessing and managing climate-related risks and opportunities – page 37

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning where such information is material.

- a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term – page 38
- b. Describe the impact of climate related risks and opportunities on the organization's business, strategy, and financial planning – page 38
- c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario – page 35

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

- a. Describe the organization's processes for identifying and assessing climaterelated risks – page 37
- b. Describe the organization's processes for managing climate-related risks – page 37-40
- c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management – page 37-40

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- a. Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process – page 40-41
- b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks – page 41
- c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets – page 40

Our approach to tackling climate change

Climate change and population growth will put an increasing strain on both water supply and wastewater systems.

As the provider of essential service, climate change is one of our principal risks (threats), but it also brings opportunity for Thames Water. With that in mind, assessing and addressing climate-related risks and opportunities is, has been, and always will be an important part of how we operate and plan for the future.

Mitigating and adapting to climate change are two pillars of our long-standing sustainability policy with generation of renewable energy beginning in the 1930s.

With the risk increasing, it's important we make the right decisions today to reduce the impact of climate change on future generations and we continue to invest heavily in our approach to climate change. When the Thames Tideway Tunnel goes into operation in 2026, together with our other Thames Tideway improvements, it will reduce sewage discharges into the tidal Thames by 95%.



Reporting on climate change

Thames Water Annual Report 2023/24

We regularly report on our approach to climate change including:

- In response to the Adaptation Reporting Power process in the Climate Change Act 2008, we voluntarily reported on any activities that help us mitigate the current and future risks of climate change to the UK Government's Secretary of State. Our latest submission is available on our website. We anticipate publishing an update at the end of 2024.
- Task Force on Climate-Related Financial Disclosures. In this section we outline our progress against each of the four pillars of TCFD – Governance, Strategy, Risks and Metrics and Targets – and we'll continue to evolve our approach in the coming years, as we address customer needs and align with the evolving regulatory and statutory reporting requirements.
- Our revised draft Water Resources Management Plan (rdWRMP) and Drainage and Wastewater Management Plan (DWMP) – In this disclosure, we refer to a number of documents and plans we've published, which give more detail and important context for our approach to tackling climate change. These plans feed into and inform our five yearly financial plan called the Price Review. The rdWRMP and DWMP describe how we will continue to deliver our essential services over the long-term (at least 25 years), in the face of challenges and risks such as climate change and population growth. It is important to highlight how extensively and explicitly we consider climate change challenges, risk, mitigation, and adaptation in our planning, and we feel it's important to reference these documents. And, given their length and the detail that they reflect, it's not possible to include the documents in full in this report.
- Our Sustainability Report and ESG Statement, which includes further information about our approach to managing climate change, can be found on our website.

1 The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 - https://www.legislation.gov.uk/uksi/2022/31/contents/made.







Governance

Our Board has ultimate responsibility for climate-related risks and opportunities. Together, our Board Directors have significant experience in assessing and managing climate change. You can find more information in our Board skills matrix in the Governance section on page 56.

Taskforce for Climate Related Financial Disclosures continued

The Board approves our overall governance arrangements, oversees the effectiveness of our systems of risk management and internal control, and establishes our risk appetite. Our Director of Risk, Audit and Assurance is responsible for developing and maintaining our Enterprise Risk Management framework and supporting the business in embedding this throughout the organisation. This is overseen by our Chief Financial Officer. Our principal risks (see page 21) include risks relating to the physical and transitional risks of climate change and these are reviewed annually by the Board.

The Audit, Risk and Reporting Committee (ARRC) meets quarterly, where it reviews our principal and emerging risks, including their management. These risks include those related to protecting the environment and meeting the challenges posed by climate change.

See the Governance section of this Annual Report 2023/24 for more information on our governance disclosures (see page 52).

In 2022,, we set up a Climate Change Working Group. The objective of the Climate Change Working Group is to provide oversight and effective governance of our approach to managing climate change with a focus on ensuring compliance with relevant statutory and regulatory obligations and reporting. This includes, but is not restricted to, the five-yearly Periodic Review, Water Resource Management Planning, Drainage and Wastewater Management Planning, our Adaptation Reporting Power response, TCFD, and our Net Zero transition plans.

The group is led by our Asset and Engineering Director and includes senior representation from Engineering and Asset, Corporate Finance, Investor Relations, Risk, Sustainability and Energy and Carbon teams. The group reports to the Executive Team's Executive Decision-Making Committee, led by the CEO and attended by the CFO, and the Board's Health, Safety, Environment and Sustainability Committee.

Strategy

At Thames Water, adapting to and mitigating our contribution to climate change have been important parts of how we do business for a long time, and we're continuing to improve the way climate risk becomes an inherent part of our strategy and business planning.

Our plans for 2025-2030

Every five years, we publish our plans for the next planning period. Over the last 18 months, we've developed our AMP8 plan through extensive engagement with our customers, our communities, our Customer Challenge Group, our supply chain and the active involvement of our Board. We have set out our plans for the 2025–2030 period in the Our Business Plan 2025-2030 that we submitted to Ofwat at the start of October 2023

https://www.thameswater.co.uk/media-library/home/about-us/regulation/our-five-year-plan/pr24-2023/our-business-plan.pdf.

Our Turnaround Plan

We are working to turnaround our business to address our shortcomings, the increasing expectations from our customers, and long-term challenges such as climate change and population growth. Our plan continues the task of addressing the historically under-funded investment in our ageing network. It will improve our readiness to meet the twin challenges of climate change and population growth, while continuing to deliver life's essential service.

Climate Change

Our goal is to maintain customer water and wastewater service and that our plans proportionately accommodate current and future risks such and climate change. We have made significant assessments to understand climate related risks and opportunities, and their impact on our future plans, with more detail in our rdWRMP and DWMP which cover medium-term and long-term planning assessment risk and responses. These plans directly feed into our Periodic Review financial plan which is submitted to our financial regulator who sets how much we can charge our customers. Although climate change is explicitly considered in these plans it is not considered in isolation from the other significant risks that impact on our business including population growth, environmental regulation, financeability and affordability to customers.

Adaptation

We've been using climate scenario analysis for a number of years to understand the different pressures climate change creates – like water resource availability, water demand and flooding potential – so that we make the best strategic and investment decisions to meet the challenges of an uncertain climate future. This includes managing our resources more effectively and improving the resilience of our infrastructure. You can read more about our planning and scenario analysis on pages 35-37.

While climate change impacts are intensifying and increasing global focus, there's still a lot of uncertainty associated with the timing and scale. That's why we're taking an 'adaptive pathways approach', which is a way of making decisions when the future is uncertain. It means our responses to different types of risk can be changed or accelerated if the effects are greater or the pace of climate change is faster than we'd projected. It means that we constantly monitor our progress and adapt our strategy as we learn more about climate change.

Mitigation

We continue to actively support and contribute to the mitigation of Greenhouse Gas emissions to mitigate the devastating impacts of climate change as a consequence of global warming.

However, since we made our Net Zero pledge in 2019 there have been some significant changes to the original assumptions used by ourselves and the wider water sector, which will significantly impact the size of the net zero challenge. We continue to aspire to achieve net zero and are currently reviewing our net zero roadmap given the new challenges/changes detailed below:

- Changes to reported emissions associated with treatment processes reflecting changes to Intergovernmental Panel on Climate Change (IPCC) guidance, in particular Nitrous Oxide, with its global warming potential of 265 has significantly increased the size of the challenge,
- An increase in operational emissions due to an improved understanding of underlying assumptions and changes to scope boundary
- Additional carbon impacts associated with regulatory programmes such as WINEP (Water Industry National Environment Programme) not known in 2019,
- Guidance from Government minister reflecting concerns around customer affordability, deliverability and financeability of Price Review 2024 plans to move non-statutory commitments including net zero to future price review periods.

Whilst these developments do not change our desire to achieve Net Zero, we are still working to fully understand the challenges and opportunities they present and how these will impact on our net zero plans. These challenges have been reflected in the development of our PR24 plan which has been submitted to Ofwat. We will publish an updated overview of our net zero plans as soon as we have completed our review.

As our understanding of our emissions and reduction opportunities continues to develop, we regularly update on progress, challenges, and opportunities.

Scenarios

As part of our five-yearly regulatory planning cycle we already consider and manage a range of climate related risks and opportunities. Risks are listed in the Physical Risk section of this disclosure. Since our first voluntary TCFD disclosure, our use of climate scenarios has continued to develop. Moving this work forward, we're evolving our understanding of the interconnectivity of climate change risks and opportunities, and how best to manage these to reflect climate change risk as part of our wider strategy. We're now using our own UK Climate Projections 2018 (UKCP18) modelling to increase our understanding of how climate will impact our business. We perform a significant amount of modelling to assess the impact of future climate scenarios, looking at key climaterelated risks. This has helped inform our plans. These relate primarily, but not exclusively to water resource availability, water demand and wastewater management. A detailed description of these key risks, the regions that may be impacted, and the strategies in place to manage them are outlined in our rdWRMP24 (covers the period 2025-2075) and DWMP (covers the period 2025-2050).

At a high-level, climate modelling based on the UKCP18, suggests that in a world of 2°C, the UK will experience, on average, 1 to 2°C higher annual temperatures by the end of the century compared to the baseline period (1981-2000). This warming could be higher in the South East, with average summer temperatures increasing 3 to 4°C relative to the 1981-2000 baseline. For precipitation, changes are less certain, but it's projected that the south of the country will experience wetter winters and drier summers. Alongside these changes in average temperature and precipitation, it's generally agreed that climate change will increase the variability of weather, for example extreme events, such as heat waves, floods and droughts, which are expected to be more intense and frequent. However, the timing and extent of these changes is very uncertain.







Taskforce for Climate Related Financial Disclosures continued

There is a large degree of uncertainty in the long-term modelling that we do. This is because of the outcomes from different emissions scenarios and the complexity of climate modelling. Scenario planning helps us to frame our options for strategic infrastructure investment and climate adaptation activities so we can adapt depending on which future pathway emerges.

Representative Concentration Pathways

To model and project future climate it is necessary to make assumptions about the economic, social, and physical changes to our environment that will influence climate change.

Representative Concentration Pathways (RCPs) are a method for capturing those assumptions within a set of scenarios. The conditions of each scenario are used in the process of modelling possible future climate evolution.

The RCP pathways represent a broad range of climate outcomes but are neither forecasts nor policy recommendations. They include a wide range of assumptions regarding population growth, economic development, technological innovation, and attitudes to social and environmental sustainability. Each pathway can be met by a combination of different socioeconomic assumptions.

RCP2.6 – represents a pathway where greenhouse gas emissions are strongly reduced resulting in a best estimate global average temperature rise of 1.6°C by 2100 compared to the preindustrial period.

RCP8.5 – represents a pathway where greenhouse gas emissions continue to grow unmitigated, leading to a best estimate global average temperature rise of 4.3°C by 2100 compared to the preindustrial period.

The spread of future temperatures covered by the RCPs are broadly captured by our previous analysis of a 2°C and 4°C world. We have highlighted this in our latest update to the UK Government in our adaptation report 'Protecting our Water and World', which can be found in the climate change section of our website. The potential implications of climate change on our activities have been reflected in the development of a number of key long-term company plans including:

- rdWater Resource Management Plan 2025-2050
- Drainage and Wastewater Management Plan 2025-2050
- Draft Price Review Business Plan 2025-2030

In addition, we have supported the development of a regional water resilience plan by Water Resources in the South East (WRSE). WRSE is an alliance of the six water companies that cover the South East region of England. Its aim is to secure the water supply for future generations through a collaborative, regional approach to managing water resources resiliently.

Water Resource Management Plan

The impact of climate change on drought risk is very complex and highly uncertain. Consequently, we have undertaken extensive modelling to assess the impact of climate change on our supply capability under different future climate scenarios.

In our latest revised draft Water Resource Management Plan (rdWRMP) we set out that the 50th percentile of results from RCP8.5 probabilistic projections would be considered by Ofwat to be a 'high' (severe) future, and that the 50th percentile of results from RCP2.6 probabilistic projections would be considered a 'low' (benign) future.

Our rdWRMP used the UKCP18 climate change scenarios which provide the most up to date, comprehensive set of climate change projections available for the UK. UKCP18 emissions scenarios are classified on the basis of changes to radiative forcing rather than socio-economic assessment. These projections are named RCP2.6, RCP4.5, RCP6.0, and RCP8.5, where the value following 'RCP' is the radiative forcing in 2100. Further detail is provided in Appendix U of the rdWRMP (https://dn9cxogfaqr3n.cloudfront.net/revised-draft/ Technical+Appendices/rdWRMP24+++Appendix+U+++Climate+Change.pdf).

We have taken an 'Adaptive Planning' approach in our Water Resources Planning for rdWRMP. This adaptive approach means that we will not have a single 'Plan' for the next 50+ years, because the level of uncertainty present over that period would make a single, fixed plan highly inefficient and/or unsuitable. Instead, we have set out investment to solve short-term supply-demand balance risks, and then will have longer term alternative pathways which will set out what investment would be most efficient under different future scenarios (e.g., the actions that we would take and investments we would make should the OxCam (Oxford Cambridge) corridor be developed would be different should this project not go ahead). We will monitor factors such as population growth to establish which pathway we are following and invest accordingly. Figure I below provides a summary illustration for four emissions scenarios for which probabilistic projections were analysed for impact on Deployable Output for London and a 1 in 500-year impact for different time slices and RCP scenarios (RCP2.6, yellow; RCP4.5, green; RCP6.0, blue; and RCP8.5, purple).

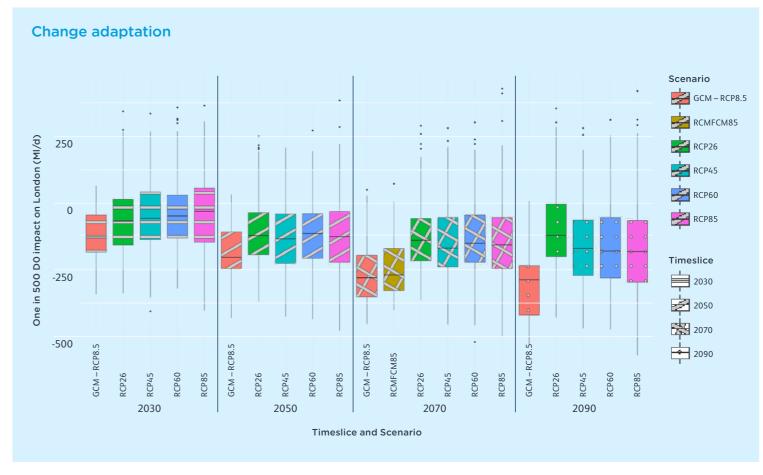


Figure I Emission scenarios against time slices

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Taskforce for Climate Related Financial Disclosures continued

Drainage and Wastewater Management Plan

In a similar way to how we have developed our long-term rdWRMP we have produced our first Drainage and Wastewater Management Plan (DWMP). The plan is based on the national DWMP Framework. The DWMP is a long-term costed plan that is focused on partnership working, which sets out the future risks and pressures for our drainage and wastewater systems. This long-term, collaborative plan aims to provide a resilient and sustainable wastewater service for the next 25 years and beyond. It identifies the actions that are required to make sure we can continue to deliver our services reliably and sustainably, whilst also achieving positive outcomes for our customers, communities, and environment. Where significant uncertainties are identified in developing the plan, we have used adaptive pathways in developing their preferred plan.

Adaptive planning provides a framework for exploring how sensitive a plan may be to alternative scenarios, risks, and uncertainties, in order that the plan is flexible and resilient to different futures e.g., climate change. The approach identifies where thresholds and trigger points for alternative adaptive pathways exist, providing the basis for monitoring and review of the strategy and interventions, mitigating the risk that short-term decision making might reduce or jeopardise choices in the future.

The illustrative figure ii below, is a graphical representation of all nine adaptive pathways identified for our plan. The main trigger to change direction onto a different pathway was climate change with changing forecasts triggering a pathway change review.

The plan has been developed to mitigate the projected impacts of climate change and population growth. For more information see Appendix G. (https://www.thameswater.co.uk/media-library/home/about-us/regulation/drainage-and-wastewater/appendix-g-adaptive-pathway-planning.pdf). In addition, as with the WRMP we have looked at adaptive pathways planning in the context of RCP2.6 and 8.5.

Ofwat

As part of the development of the five yearly business plan we produce for our financial regulator Ofwat, we have reviewed it in the context of RCP2.6 and 8.5. Ofwat's guidance on long-term delivery strategies sets out guidance that within our adaptive planning we should consider a 'low' future scenario based on the 50th percentile of RCP2.6 probabilistic projections, and a 'high' future scenario, based on the 50th percentile of RCP8.5 probabilistic projections.

Our Long-term Delivery Strategy included in the plan includes several leading and lagging monitoring metrics related to climate change (https://www.thameswater.co.uk/media-library/home/about-us/regulation/our-five-year-plan/pr24-2023/delivery-strategy.pdf).

Where to find our detailed public disclosures:

- This Annual Report 2023/24
- Sustainability Report and ESG Statement 2023/24
- Annual Performance Report 2023/24
- Our Draft PR24 Business Plan 2025-2030
- Revised Draft Water Resources Management Plan 2024
- Drainage and Wastewater Management Plan 2024
- Climate Change Adaptation Report (2015-20)
- Drought Plan (2022–27)
- Pollution Incident Reduction Plan (2020–25)

Our preferred plan and nine alternative pathways (AP)

Flooding

7 in 50-yearstorm event*

Stop property flooding Internally (within the home

or business) and externally (outside the home or

business) Irom our sewers where possible, up to a



Storm overflows

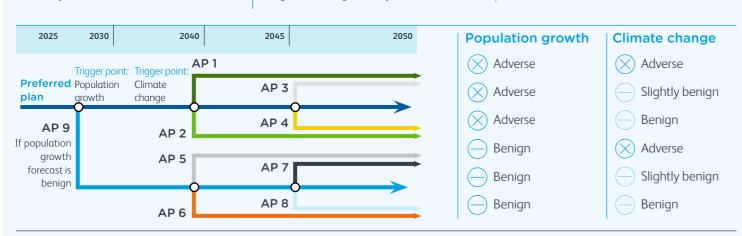
designated bathing waters by 2045**



STW's

Limit environmental impact by discharging on average. No more than 10 times per year, per storm overflow, and no more than three in

Enhance the ability of our sewage treatment works to recover from difficulties, without impacting our services or the environment



- This is a measure of how well our drainage systems can cope in extremely wet weather. The risk of sewer flooding in a 1 in 50-year storm is defined as the likelihood that flooding will occur as a result of rainfall in a storm that has a 1 in 50 (or 2%) probability of happening in any given year.
- ** Our sewers are designed to overflow to the environment to prevent homes and businesses from flooding. However, storm discharges that happen too often, or for too long, can impact the environment.

Risk Management

Climate change has the potential to significantly impact our business and we already consider and manage a range of climate related risks and opportunities. We are evolving our understanding of the interconnectivity of climate change risks and opportunities, and how best to manage these, ensuring climate change risk and its management is fully integrated into our wider strategy. See page 21 for more information about our approach to understanding and managing risks, including those related to climate change.

We have a robust approach to considering and managing our risks so we can deliver our Purpose and objectives, while also managing our risks, including climate change, to an acceptable level rather than eliminating them completely.

How we manage risk

We operate an enterprise risk management ('ERM') framework that is embedded across the business. As part of our risk management process, we identify, assess, and agree mitigation options for climate-related risks. We disclose these risks in documents such as our Water Resources Management Plan, Drainage and Wastewater Management Plan and Climate Adaption Report. All principal risks are disclosed within this Annual Report on page 21.

Our company-wide risk management process also supports the identification of opportunities. For example, generating renewable energy from sludge helps us mitigate both the risk of greenhouse gas emissions as well as the risk associated with increased challenge around recycling sludge to land.

Where we're going

As we evolve our climate change understanding, we're continuing to review the risks and opportunities, building on information already recorded.

Physical risks

Risks caused by physical shocks and stressors to natural systems and infrastructure. For more information see our Adaptation Report on our website.

Transition risks

Risks that arise as a result of economic and regulatory transition toward a low carbon future.

Opportunities

Uncertainties that could bring additional benefits and mitigations. Our WRMP and DWMP explicitly consider climate-related opportunities.

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements







Taskforce for Climate Related Financial Disclosures continued

Physical risks, transition risks, and opportunities are described in these tables:

• Increased population and land cover

• Increased customer awareness of

climate change and associated

wastewater risks e.g., rivers health.

leading to increased runoff.

| Physical Risks | - Water | | |
|--|---|--|--|
| Risk | Drivers | Potential Impacts | Opportunities and Mitigations |
| Failure to provide enough wholesome drinking water | Higher temperatures, hotter, drier summers and increased frequency and intensity of droughts will increase demand and reduce water availability. Population growth will also increase demand and compound climate change pressures. An increased customer awareness of climate change and associated water risks. | Additional infrastructure investment required to secure water supply. Additional operational costs to support supply during droughts, reduce leakage and reduce customer consumption. Regulatory penalties/fines could increase. | Agree Water Resource Management Plan which assesses and plans for future water resource needs including reference to climate change. Reduce leakage by 50% by 2050. Increase penetration of smart water meters Improve our resilience to a 1 in 200-year drought by 2030. Support customers to use less water. |
| Physical Risks | - Wastewater | | |
| Risk | Drivers | Potential Impacts | Opportunities and Mitigations |
| Failure to effectively transport and adequately | More intense bursts of rainfall increasing volumes of water to wastewater systems. Additional demands on wastewater | Additional infrastructure investment required to secure supply. Additional operational costs to support supply e.g., during droughts. | Develop and publish our Drainage and Wastewater Management Plan that takes a 25 year forward look including climate change which will |

increase.

• Potential damage to infrastructure.

• Increased risk of flooding both to

properties and the environment.

- period 2025-30
- Reduce the number of pollutions by 30% by 2030
- Maintain and update River Health Action Plan
- Work with London boroughs to deliver sustainable urban drainage to slow the rate at which rainwater enters sewers, reducing the risk of flooding.

Transition Risks

reductions.

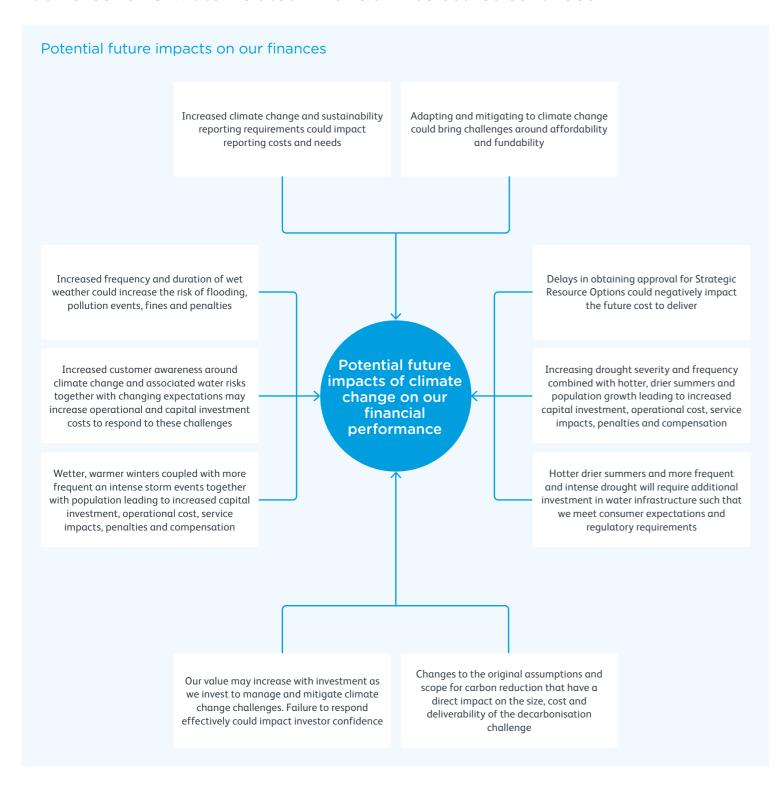
| Risk | Drivers | Potential Impacts | Opportunities and Mitigations | | |
|--|--|--|--|--|--|
| Failure to deliver Net Zero operational emissions by 2030 | Since we made our Net Zero pledge in 2019 there have been some significant changes to the original assumptions used by ourselves and the wider water sector, which will significantly impact the size of the net zero challenge. | Increasing size of the Net Zero challenge due to higher emissions because of changes to assumptions and emissions factors for wastewater process emissions. Achievement of Net Zero delayed. Reputational impacts. Potentially higher future costs to deliver Net Zero. | Work with key stakeholders to understand the size of the challenge and costs so they can be reflected in government guidance and policy. Increase understanding and optimisation of existing treatment processes to reduce emissions. Access innovation funding and collaborate on emission reduction projects via the Ofwat innovation fund. Improving our sludge treatment processes to reduce fugitive emissions and recover more energy. Identify, develop, and deliver process emissions avoidance e.g. alternative fuels, materials, and technologies. | | |
| UK electricity grid fails to decarbonise in line with Government policy | Carbon emissions associated with grid electricity are a significant element of our location based operational emissions and their reduction is central to achieving Net Zero. | Any delay to the decarbonisation of the electricity grid will impact on the timing and cost of achieving Net Zero using the location-based reporting approach. | Although we have assumed that the UK electricity will decarbonise in line with Government policy, we are exploring renewable energy generation opportunities to reduce our emissions associated with energy and to buffer us from price volatility within the energy market. | | |
| Lack of availability and affordability of low carbon goods and services | The need to reduce the carbon intensity of delivering water and wastewater infrastructure. Need to reduce the carbon intensity of operational goods and services. | Avoidable carbon emissions locked into solution delivery. Higher project delivery costs. Reputational impacts. | Actively engage with delivery partners and supply chain to highlight our plans and the requirement for low carbon goods and services. | | |
| Financeability and affordability of moving to an adapted low carbon future | Not all identified carbon emissions reductions are funded through the five yearly price review cycle and delivery is delayed. Delivering Net Zero could impact on customer bills. | Delay in achieving Net Zero. Additional future costs to deliver Net Zero due to delay in delivering solutions. Affordability issues for some customers. | Engage with regulators and government bodies to align our plans and encourage incentives in areas of need. Provide additional support to struggling bill payers. | | |
| Changes to/ conflicting challenges of Government policy and Regulatory guidance relating to climate change and carbon | Not all regulatory drivers are aligned in terms of managing and reducing carbon emissions which could lead to increased emissions. | Increase in scale and scope of carbon emissions. Increase in unfunded and undeliverable emission reductions requirements. | Work with supply partners to reduce our capital carbon emissions. Seek to proactively reflect any changes in statutory business plans. Work with key stakeholders including Government and Regulators to understand the impact of changes to standards on carbon emissions. | | |

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Taskforce for Climate Related Financial Disclosures continued



Time horizons

Our current climate risk assessment processes look at various timelines, in step with our wider risk management process and our business and strategic planning timelines. The short-term horizon reflects day to day operational challenges. The regulatory time horizon relates to the five yearly financial regulatory planning cycle. The strategic long-term period reflects a longer time frame beyond but linked to the regulatory review period. The time horizons are described in more detail below:

| | Tactical Short-term | Regulatory Review Period | Strategic Long-term |
|--|---|--|--|
| Time Horizon | 0-2 years | 5-year regulatory period | 6 to 25 years |
| Approach | Implementing tactical response plans for delivery of our annual performance targets in the face of acute physical risks informs needs for future improvements | Every five years we produce a business plan that describes what we need to deliver in the next five-year period so that we can deliver water and wastewater services within a longer | Long term plans exploring & accounting for the future potential risks we may face, including climate change uncertainty. How we will meet future challenges, and the steps that need to be considered. |
| management plar driven response pla and localised response This is considered | Focus includes incident management plans & process driven response plans, drought plan and localised response strategies. | 25-year context. These five yearly financial plans are called Periodic Reviews and result in a Regulatory agreed rolling 5-year | Our Long-term Delivery Strategy in the plan includes several leading and lagging monitoring metrics where the driver is climate change. |
| | This is considered an operational timeframe reflecting weather events. | investment plan. For AMP8, we will have a key focus on river, leakage, required to accommodate climate change, | Water Resources Management Plan, produced every five years with a 25 year plus outlook. Our latest revised draft WRMP was published in August 2023. |
| | | population growth and urbanisation | Publishing our first Drainage and Wastewater Management Plan looking at wastewater requirement in 2023. |
| Includes | Undertaking an appraisal of the health of our assets to inform our Asset Health Insight Dashboard. | Engaging with key stakeholders to agree response plans including Environment Agency, Ofwat, | Active consideration of the potential long- term impacts of climate change on our essential services in Water Resources |
| | Assessing and delivering operational tasks/operation & | Customers and local communities. Use of scenarios to determine | Management Plan and Drainage and Wastewater Management Plan |
| | maintenance of assets. | responses. Assessment of Capital investment needs including the promotion and delivery of large-scale capital solutions. | The Long-term Delivery Strategy metrics will have clear owners and executive sponsors, trigger points and at least annual monitoring. |
| Relationship | The time horizons represented here | are dynamic and interrelated. | |

Time horizons are considered as part of our climate risk assessment process – see risk section on page 21 for more information.

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Taskforce for Climate Related Financial Disclosures continued

Metrics and Targets

We're measuring and monitoring our response to climate-related risks and opportunities. Our well-established approach to climate change mitigation and adaptation means that we've incorporated a range of climate-related metrics and targets into our business plan and our Annual Report and Accounts, Annual Performance Report and our Sustainability Report and ESG Statement.

The following metrics and targets are used to help us assess and manage climate change related risks and opportunities:

Metric description

| Aicu | Wette description | iiciid/data | Related Activities/ Targets/Actilevellients |
|------------------|---|-------------|--|
| GHG Emissions | Net Scope 1, 2 and 3* GHG operational emissions (ktCO₂e) market based. See Directors report p96 and Annual Performance Report Table 11A for more detail. | 350.4 • | Meet our share of the Government's sixth carbon budget by limiting the volume of operational and capital greenhouse gases by 78% by 2035 Publish an updated overview of our net zero plans 100% of purchased electricity is renewable to reduce emissions 811GWh of self-generated renewable energy by 2030 |
| Transition Risks | Failure to increase GWh of energy consumption from self-generated renewable energy. | 531 💿 | Improve energy security and reduce impacts of price volatility by generating more renewable energy. Generate more renewable energy increasing to 811 GWh of self-generated renewable energy by 2030. Use energy more efficiently. |
| | % self-generated renewable electricity produced to help reduce energy costs and volatility. | 21.1 • | Improve energy security and reduce impacts of price volatility by generating more renewable energy. |
| Physical Risks | Failure to maintain Security of Supply Index at 100%. | 99% • | Maintain Security of Supply Index (SOSI) of 100% reflecting our ability (resilience) to maintain a water supply, particularly during a drought, both in the short and long-term reflecting climate change. 0% of customers at risk from a 1 in 500-year drought by 2040 |
| | Reduce % of the population at the risk of sewer flooding in a storm from a 1 in 50-year storm. | 10.25 | Produce and agree the 25-year Drainage and Wastewater Management Plan with targets that accommodates climate change by 2025. 9.90 % of the population at the risk of sewer flooding in a storm from a 1 in 50-year storm by 2025. Protect c187,000 properties that will be at risk in the future, due to population growth and climate change from sewer flooding, by 2050 |

Trend/data

Related Activities/Targets/Achievements

| Aleu | Metric description | mena/aata | Related Activities/ rargets/Activernetits |
|---|--|--------------------------------------|---|
| Climate related Opportunities (material opportunity) | Reduce Per Capita Consumption MI/d (three-year rolling average) through reducing customer water consumption. Decrease pressure on available resources and enhanced resource efficiency through leakage reduction (%). | 146 • 10.7 • | Reduction in domestic PCC of 5.5% compared to a 2019/20 baseline by 2030 Water efficiency activities Per capita consumption plan Deliver a reduction in leakage of 20.5% compared to our 2019/20 baseline by 2025 Achieve 50% Leakage reduction by 2050 |
| | Reduce pressure on sewer network by removing impermeable surfaces draining into our sewers. Hectares of impermeable surfaces removed since 2020. | >1 | We are targeting removal of an additional 73 hectares of impermeable surface via SuDS between 2025 and 2030 Planning to remove over 7000 hectares of impermeable surfaces by 2050 Collaborating with Local Authorities to deliver projects |
| | End purchase of new fossil fuelled powered LGV vehicles (subject to availability of vehicles and infrastructure). | 31/03/26 | Trialling electric powered LGV vehicles. Exploring the use of alternate low carbon fuels in existing fleet. |
| | Net operational carbon kilotonnes (location based) per £million revenue = Net Carbon (kt CO ₂ e)/Revenue £m (location based) | 578.9/2401.4 = 0.24 (location based) | Increase the amount of self-generated renewable energy. Use energy more efficiently. Reduce operational emissions. Produce 811GWh of self-generated renewable energy by 2030. |
| Capital /Financial | CEO/CFO Performance Related Plan are linked to environmental outcomes. | ✓ | 35% of the CEO/CFO Performance Related Plan is linked to environment outcomes including net energy usage Linking to Managers Performance Related Pay Plan and environmental outcomes |
| Remuneration | Percentage of performance related pay related to environmental outcomes | 35% | Public Health Transformation Plan Certified FFT Meter Installations Installation of Storm Overflow Monitors Wastewater Asset Assurance Plan Total Net Energy (GWh) |
| | | | |

Trend/data

Metric description

Related Activities/Targets/Achievements







Taskforce for Climate Related Financial Disclosures continued

Thames Water Net Zero

The UK Government has set a national target of Net Zero Carbon Emissions by 2050. Thames Water and the water industry has a significant role to play in achieving the national target since it directly contributes around 1% of the UK's greenhouse gas (GHG) emissions. This was recognised in Ofwat's 2022 position paper, which set an expectation for the Water Industry to align with national government net zero targets for 2035 and 2050, and for operational and capital carbon emissions to be addressed "in parallel". See our Operational greenhouse gas emissions and energy management and Our carbon target sections for further details on pages 99 to 100.

When developing our plans to address carbon emissions, there are four partly overlapping objectives:

- 1 Mitigating our contribution to climate change, to limit the effect it has on the business.
- 2 Addressing an issue which is important to customers.
- 3 Taking action to reduce operating or capital cost in the long term (especially when the costs of carbon are considered).
- 4 Supporting UK government targets and meeting the expectations of our regulator.



All material metrics are included above, our Long-term Delivery Strategy included in the plan includes several additional leading and lagging monitoring metrics related to climate change. We are working to embed the monitoring of the LTDS monitoring metrics into our existing framework so that there will be: clear owners and executive sponsors for each trigger point, an assessment of the monitoring metrics at least annually, and an established tracking and governance framework, with escalations to the Board where necessary.

We aim to meet our share of the Government's sixth carbon budget by limiting the volume of operational and capital greenhouse gases by 78% by 2035 compared to 1990 levels and to achieve net zero by 2050. By reducing emissions, we will provide a better environmental outcome for customers and reduce our contribution to the causes of climate change.

For the period 2025-30 concerns regarding companies' deliverability, financeability and customer affordability have been highlighted, resulting in the Environment Agency writing to companies on behalf of the Secretary of State for the Environment, providing a steer that companies are expected to explore opportunities to phase non-statutory commitments, including net zero, to future price review periods where appropriate.

Emissions by scope*

Greenhouse Gas (GHG) emissions are measured and reported in carbon dioxide equivalents and defined by reporting scopes. Carbon accounting is an evolving subject, and we will regularly review standards and best practice to seek to ensure appropriate reporting is applied and compliance with annual reporting requirements.

The most common GHGs are carbon dioxide (CO_2), methane (CH4) and nitrous oxide (N2O), with the impact from a unit of carbon dioxide used as a reference for all GHGs. Each has a different global warming potential (GWP) impact (1, 28 and 265 GWP respectively). Combining the quantity of each gas emitted with its GWP, allows GHGs to be reported in tonnes or kilotons of carbon dioxide equivalent (CO_2 e).

The Greenhouse Gas Protocol defines three emission scopes:³

- Scope 1: Direct Emissions the emissions from owned or operated assets.
- Scope 2: Indirect Emissions the emissions from purchased energy.
- Scope 3: Indirect Emissions other emissions from suppliers, distributors, and product use.

The water industry uses the following terms to describe its emissions across these scopes:³

- Operational Emissions: Emissions associated with the day to day running of the business, and the operation and minor maintenance of an asset.
- Capital Emissions: Emissions associated with capital assets; the creation and end-of-life treatment of an asset, and its capital maintenance and refurbishment which would materially extend the asset life.

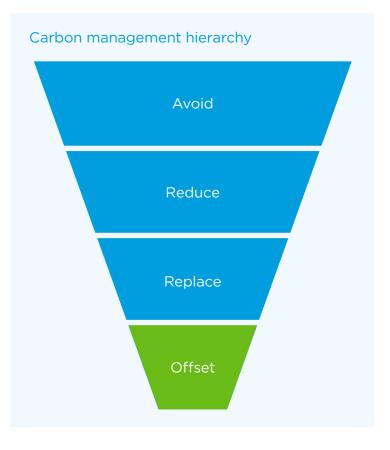
| Scope 1 | Scope 2 | Scope 3* |
|---|------------------|--|
| Water and wastewater treatment process and fugitive emissions | Grid electricity | Outsourced activities* (to meet licence conditions) |
| Own vehicle emissions | | Energy well to tank (extraction, production, transmission, and distribution) |
| Fossil fuel combustion | | Business travel |
| | | Private vehicles used on company business Chemicals used |
| | | Disposal of wastes from operational activities |
| | | Capital Carbon (not operational) |

We have been reporting operational emissions since 2008/09. The baseline year for government reduction targets is 1990. Against this baseline, we have achieved a 73% absolute reduction in Scope 1 and 2 emissions from 846 ktCO $_2$ e to 225 ktCO $_2$ e in 2023/24 using a market-based methodology (which includes the impact of our green power purchases and is the methodology adopted by government). These reductions have been achieved by purchasing green energy, investment in sludge treatment processes, and by doubling on-site renewable energy generation, while actively managing the use of fossil fuels.

We are following a greenhouse gas management hierarchy, which sets out the sequence of actions we should take to reduce our emissions, and which is summarised below.

This hierarchy is consistent with the views of customers and the regulators, namely, that priority should be given to avoiding and reducing emissions before the use of carbon offsets. Our approach is an adaptation of the Institute of Environmental Management and Assessment's (IEMA's) greenhouse gas Management Hierarchy.

While we do not control our supply chain, we work with to encourage it to change and find solutions to reduce carbon emissions or develop alternate offerings, for example emissions associated with the chemicals we use to treat water to meet drinking water standards. We are currently exploring scope 3 emissions associated with purchased goods and services and capital projects.



- 1 https://www.ofwat.gov.uk/wp-content/uploads/2022/01/Net_Zero_Principles_Position_Paper_ Jan_2022.pdf.
- 2 https://www.water.org.uk/news-views-publications/publications/net-zero-2030-routemap
- 3 https://ghgprotocol.org/corporate-standard.







Taskforce for Climate Related Financial Disclosures continued

We will apply this strategy in the following way:

- Avoid Where possible we will avoid producing emissions. This will
 include actions to reduce demand, limit travel and avoid building
 by looking for other solutions to deliver the required outcomes.
- Reduce Where economically and technologically possible, we will reduce emissions from our activities. This includes our actions to reduce waste by changing behaviours and optimising processes, improving our efficiency, building less by making the most of our existing assets, and building efficiently with low carbon designs, techniques, and equipment.
- Replace Where economically and technologically possible, we
 will replace emission sources with alternative fuels and materials.
 This includes our purchase of renewable energy, and our actions to
 maximise renewable energy generation, replace fossil fuels with
 low carbon alternatives, and use vehicles that use low carbon fuels.
- Offset Carbon offsetting describes when a company or individual financially contributes to a third party to create a positive environmental impact that will counteract their own internal emissions. Activities could include tree planting, peatland restoration and CO₂ sequestration. Offsets provide the final option to net-off emissions that can't be practicably avoided, reduced, or replaced. Offsets can be internal (generated by us) or external (generated by a third party) and include emissions displacement, capture and sequestration. Examples of internal offsets are Renewable Energy Guarantee of Origin (REGOs) for exported renewable Gas Guarantee of Origin (RGGO) for exported renewable biomethane.

In 2023/24 our emissions were 350.4 ktCO $_2$ e. For the remainder of In AMP7, we are continuing implement low-cost measures to reduce operational carbon consistent with our carbon management hierarchy. In particular:

- We are aligning our asset standards so that asset investment decisions promote low carbon technology.
- We are developing revised operational and capital carbon baselines in line with the new PR24 Ofwat requirements.
- We continue to reduce our fossil fuel use in our processes
- We will generate on-site renewable energy. We generate about 531 GWh's of renewable energy annually and we have commissioned our second biomethane plant at Mogden STW. Together with Deephams biomethane plant, we will have the potential to off-set up to 15.5 kTCO₂e of natural gas within the gas grid. In AMP8 we will continue to enhance our capability in measuring and reporting capital carbon by developing a more granular, efficient, and robust methodology, updating our tools, and working collaboratively with our delivery partners. This will enable improved understanding of capital carbon; more sophisticated target setting and inform the pathway to 2050.

Our draft plans for carbon reduction between 2025-30 can be found in Appendix TMS49: Our AMP8 Carbon Reduction strategy and Net Zero Bid (https://www.thameswater.co.uk/media-library/home/about-us/regulation/our-five-year-plan/pr24-2023/amp-8-carbon-reduction.pdf).

Reports and plans containing more information about our understanding and response to climate change:

| Plan/Publication | What the reports cover | Period covered |
|--|--|----------------|
| Our draft PR24 Business Plan 2025-2030 | Our business plan draws together insights from our modelling, engagement with stakeholders, and our regulatory environment – and sets out our key plans, priorities, and targets as a business for the next five years so that we're focusing on the most important areas. These clear focus areas will help us to manage and mitigate the challenges of climate change and population growth. https://www.thameswater.co.uk/media-library/home/about-us/regulation/our-five-year-plan/pr24-2023/our-business-plan.pdf | 2025 – 2030 |
| Climate Change Adaptation Report | Our Climate Change Adaptation Report (which was submitted to Defra in December 2021) describes our climate-related risks and how we've been working with our stakeholders to address those risks. https://www.thameswater.co.uk/media-library/home/about-us/responsibility/climate-change/climate-change-adaptability-report.pdf | 2015 – 2020 |

| Plan/Publication | What the reports cover | Period covere | ed |
|---|---|---------------|-----|
| Drainage and Wastewater Management Plan | Our Drainage and Wastewater Management Plan (DWMP) is a 'long-term strategic plan that will set out how wastewater systems, and the drainage networks that impact them, are to be extended, improved, and maintained so that they are robust and resilient to future pressures'. The plan is over 25 years, 2025 to 2050. The DWMP will be renewed on a 5- year cycle with cycle 1 published in May 2023 (this release). The plan has been developed to mitigate the forecast impacts of climate change and population growth up to 2050. The DWMP follows a multi-step process that identifies the impact climate change and population growth will have on our systems and then develops a strategic-level investment plan for areas most affected. It provides a long term (25-year) view of investment so that our systems remain resilient to future demands. https://www.thameswater.co.uk/media-library/home/about-us/regulation/drainage-and-wastewater/technical-summary.pdf | 2025 – 20 | 050 |
| Water Resources Management Plan | The WRMP is a strategic plan which sets out how the company plans to achieve a secure supply of water for customers and a protected and enhanced environment. The plan takes a 50 year forward look to 2075 and includes: | 2025 – 20 | 075 |
| | Forecasts for the likely demand for water taking account of population growth, climate change, and changes in water use due to new housing standards, improved efficiency of water fixtures and fittings and the impact of smart water meters. Forecasts for the amount of water available for public water supply including the impacts of climate change. A range of feasible options to reduce demand for water, called demand reduction options, and options to increase the amount of water available, called new water sources, as well as catchment and nature-based solutions. An assessment of the environmental impacts and opportunities. An adaptive approach to planning to accommodate uncertainties including climate change in developing a long-term plan with a preferred, or reported, programme of investment, including both demand and supply options, so that a secure water supply and one that provides best value to society and the environment. | | |
| | https://thames-wrmp.co.uk/document-library/ | | |
| Drought Plan | Our Drought Plan shows how we will react to a period of unusually low rainfall. It also sets out our plan to protect our business against more severe droughts as weather patterns change. The plan doesn't directly reflect the future impacts of climate change, but it's used to understand how severe drought will impact our water supply, and how the risk can be managed effectively. We are currently developing the next update of this plan. https://www.thameswater.co.uk/media-library/home/about-us/regulation/drought-plan/drought-plan-2022/thames-water-drought-plan-2022.pdf | 2022 – 20 | 027 |
| Our Pollution Incident Reduction Plan | Our plan investigates the causes of pollution and explores the initiatives we're putting in place to tackle the problem. It also highlights some of the activities we're doing to address pollutions, like increased sewer cleaning, investment in our infrastructure, and public campaigns like 'Bin it – don't block it'. These types of actions will help manage pollution risks in a variable climate future. https://www.thameswater.co.uk/about-us/regulation/pollution-incident-reduction | 2020 – 20 | 025 |
| Roadmap to net zero | Our roadmap to net zero, published in May 2021, set out our key metrics and targets relating to our carbon reduction commitments. The route map is under review. https://www.thameswater.co.uk/about-us/regulation/pollution-incident-reduction | 2021 – 20 | 030 |







Our Chief Financial Officer's statement

Financial review



Financial performance improved in 2023/24 with growth in revenue, profits and operating cash flow largely reflecting inflation-linked tariff increases, operating cost discipline and a reduction in net financing costs"

Alastair Cochran
Chief Financial Officer

Financial performance

Financial performance improved in 2023/24 with growth in revenue, profits and operating cash flow largely reflecting inflation-linked tariff increases, operating cost discipline and a reduction in net financing costs. During the year, we also delivered a record level of capital expenditure as we continued to ramp up investment in our infrastructure.

Our business plan for the 2025-30 price control period proposes investing significantly more than the current regulatory period to improve asset resilience, to deliver environmental improvements and to improve performance for our customers and the communities we serve. This relies on securing additional debt and equity funding.

The decision by shareholders not to commit new equity in March 2024, reflecting uncertainty concerning the outcome of the PR24 price review, has resulted in credit rating downgrades, a liquidity runway of c.11 months and forecast trigger events in our 2024/25 financial covenants. These all highlight this near-term funding challenge.

The success and timing of securing the capital we need to finance our ambitious business plan, turnaround performance and increase financial resilience depends on securing a PR24 price determination that is both financeable and investable. We are therefore committed to continuing to engage with our regulators to agree a determination that will deliver improvements for our customers and the environment and give our investors the opportunity to earn a fair return on their investment.

| Year ended | 31 March 2024 | | | | 31 March 2023 | | |
|------------------------------------|---------------|--------------------------------|------------------|---------|---------------|------------------|---------|
| (£m) | Underlying | Exceptional items ¹ | BTL ² | Total | Underlying | BTL ² | Total |
| Revenue | 2,401.4 | - | 116.8 | 2,518.2 | 2,180.7 | 84.5 | 2,265.2 |
| EBITDA | 1,208.0 | (43.9) | 116.6 | 1,280.7 | 1,001.8 | 84.4 | 1,086.2 |
| Operating profit | 444.5 | (43.9) | 116.6 | 517.2 | 271.6 | 84.4 | 356.0 |
| Net finance expense | (393.3) | _ | _ | (393.3) | (476.5) | _ | (476.5) |
| Net gains on financial instruments | 152.3 | _ | _ | 152.3 | 122.3 | _ | 122.3 |
| Net impairment losses | _ | (118.9) | _ | (118.9) | _ | _ | _ |
| Profit/(Loss) before tax | 203.5 | (162.8) | 116.6 | 157.3 | (82.6) | 84.4 | 1.8 |
| Tax | (63.7) | 11.0 | (29.2) | (81.9) | (49.7) | 17.8 | (31.9) |
| Profit/ (Loss) after tax | 139.8 | (151.8) | 87.4 | 75.4 | (132.3) | 102.2 | (30.1) |

- 1 Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Exceptional items have been split out from our underlying figures to support users of the financial statements understand underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements
- 2 Our financial statements include the amounts billed in relation to the construction of the Thames Tideway Tunnel, which are passed to Bazalgette Tunnel Limited ("BTL"), the independent company responsible for the construction of the tunnel. As this money is not retained by us, we exclude it from our underlying results.

Revenue

Underlying revenue for the year ended 31 March 2024 increased by 10% to £2,401 million largely reflecting the increase in our charges for water and wastewater services. These annual tariff increases reflected high CPIH inflation, 'k' factors and adjustments to collect allowed revenue that had not yet been recovered in prior periods, offset by wholesale and retail outcome delivery incentives ("ODI") penalties. Including BTL, total revenue increased by £253 million in 2023/24 to £2.518 million.

Appointed revenue generated from our regulated activities was £2,428 million in the financial year, an increase of £202 million in line with tariff growth. Household and non-household revenue grew by 9% and 10% respectively, reflecting changing consumption patterns across our customer base. Other appointed revenue, which comprises income generated from bulk supplies and providing services to developers, also benefited from tariff increases.

Non-appointed revenue remained flat year-on-year at £22 million, with growth in off-network sewerage and other revenues offset by a decline in property searches.

EBITDA

Underlying EBITDA increased by 21% to £1,208 million largely reflecting higher revenue and other operating income, as well operating cost discipline.

Operating costs increased by £89 million (4%) reflecting cost control measures to mitigate the impact of inflation in our core cost base. Employment costs increased by £53 million driven by higher headcount as we invested to improve operational performance and service for our customers, as well as wage awards. Higher energy costs resulted in an £18 million increase in both power and raw material costs, whilst business rates increased by £15 million reflecting an uplift in rateable values. Other operating costs grew by 2%, significantly less than CPIH inflation.

Bad debt charges reduced by 2% to £89 million, equivalent to 4.3% of total household appointed revenue (2022/23: 4.8%). Of this, £49 million related to current year bills, which is a deduction to revenue. We are continuing to work diligently to improve bad debt performance and support our financially vulnerable customers who cannot afford to pay their bill in full, with 358,000 households benefiting from our social tariffs at the end of the financial year, a 17% increase in the year.





Our Financial Review continued

Other operating income increased by $\pounds 41$ million year-on-year driven primarily by land sales and compensation for the relocation of the Guildford Sewage Treatment Works.

Total EBITDA increased by £195 million to £1,281 million in 2023/24 and included BTL revenue and exceptional costs of £44 million incurred in relation to restructuring, transformation and severance costs.

Operating profit

Growth in EBITDA, combined with a £33 million increase in depreciation, amortisation and impairment as we continued to invest in our water, wastewater and digital infrastructure, generated a £173 million increase in underlying operating profit to £445 million.

Total operating profit increased by £161 million to £517 million, reflecting the impact of exceptional costs and BTL revenue in the period.

Profit before tax

Underlying profit before tax of £204 million compared to the underlying loss before tax of £83 million last year. The £287 million year-on-year improvement reflects higher operating profit and net gains on financial instruments, as well as a reduction in net finance expense.

Thames Water uses financial instruments to hedge financing risk and reduce the risk of adverse movements in financial markets. Changes in interest, inflation and foreign exchange rates, together with cash settlements, generate changes in the balance sheet value of these financial instruments which are accounted for as gains or losses that impact profits. This year, changes in expectations for interest rates and inflation, the appreciation of Sterling, higher own credit spread, a debt repurchase and loan extensions all contributed to a ${\rm \cite{2}} 30$ million increase in net gains on financial instruments.

In addition, our net finance expense decreased by £83 million to £393 million largely reflecting lower accretion on borrowings and capitalised borrowing costs, partially offset by higher net interest. Total profit before tax for the year was £157 million, an increase of £155 million compared to last year. This includes the impact of an exceptional net impairment loss for the period of £119 million reflecting an expected credit loss provision on intercompany loans receivable recognised in accordance with IFRS 9.

Tax

During this financial year, we paid £287 million to HMRC in business rates, PAYE, National Insurance Contributions and other taxes. Of this, £179 million was incurred directly mostly through business rates, £98 million was collected and paid on behalf of our employees, and £10 million was incurred through indirect taxes such as the Climate Change Levy, Landfill Tax and Insurance Premium Tax. Consistent with prior years, the Group has not paid any corporation tax due to allowable tax deductions for interest costs and capital investment.

The Group incurred an underlying tax charge of £64 million in the year, comprising a current tax credit of £31 million and a deferred tax charge of £95 million. The current year tax credit comprised a charge to cover payments for group relief, more than offset by a credit to reflect the sale of prior year tax losses to other group companies. The deferred tax charge largely related to the decrease in carrying value of the deferred tax asset following movements in the fair value of financial derivatives in the year.

The total tax charge was £82 million in the financial year, a £50 million year-on-year increase mainly due to tax being payable by BTL.

Profit after tax

Underlying profit after tax was £140 million in the period, a £272 million improvement compared to the loss after tax reported last year.

Total profit after tax was £75 million for the year ended 31 March 2024, an increase of £105 million compared to the prior period.

Capital investment

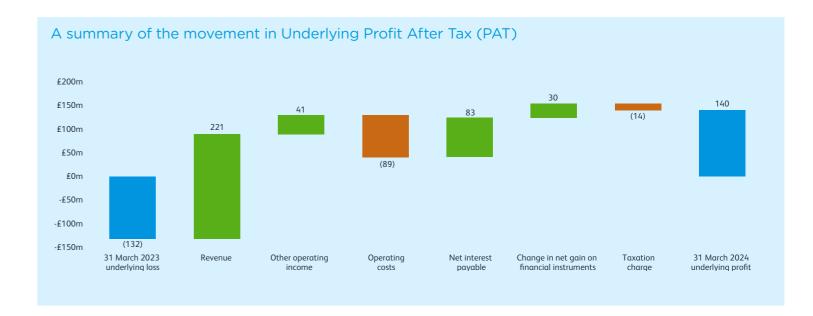
During the year, the Group invested £2,084 million in its infrastructure, including capitalised borrowing costs. The 18% year-on-year increase reflected the planned increase in investment in our infrastructure in the current AMP7 price control period to increase resilience in our network and help mitigate the dual impacts of climate change and population growth.

The record level of capital expenditure in the financial year included: $\pounds 582$ million invested through our in-house Capital Delivery vehicle on major programmes including water distribution mains replacement and rehabilitation, and the installation of new water trunk mains in London and the Thames Valley; $\pounds 238$ million invested in our water network to reduce leakage and improve our trunk main network; $\pounds 169$ million invested in large projects, including upgrading our major sewage treatment works at Beckton, Mogden, Greenwich and Crossness; $\pounds 25$ million invested to connect our network to the Thames Tideway Tunnel, including the Beckton Inlet works; and $\pounds 84$ million invested in our metering programme.

Pensions

As at 31 March 2024, the total net IAS19 accounting pension deficit for the Group's two independently administered defined benefit schemes, the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"), was £119 million. The £57 million year-on-year decrease was due to actuarial gains driven by changes in actuarial assumptions occurring across all industries, as well as £49 million of Company contributions made during the year into both schemes. As part of the triennial valuation dated 31 March 2019, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027 by making regular contributions and deficit repair payments.

The latest triennial valuations at 31 March 2022 have been prepared and the TWMIPS valuation was agreed in March 2024. Discussions are continuing with the Trustee and the Pensions Regulator to complete the triennial valuation for TWPS, which is now significantly overdue.







>

Our Financial Review continued

Cash flow statement

| Year ended | 31 March 2024 | | | 31 March 2023 | | |
|--|---------------|------------------|------------|---------------|------------------|------------|
| (£m) | Underlying | BTL ² | Total | Underlying | BTL ² | Total |
| Operating cash flow | 1,382.0 | (0.7) | 1,381.3 | 1,114.4 | 1.8 | 1,116.2 |
| Cash capex | (1,995.5) | _ | (1,995.5) | (1,605.4) | _ | (1,605.4) |
| Free cash flow | (613.5) | (0.7) | (614.2) | (491.0) | 1.8 | (489.2) |
| Net interest (paid) / received | (143.1) | _ | (143.1) | 42.8 | _ | 42.8 |
| Repayments of loans by parent | _ | _ | _ | 444.3 | _ | 444.3 |
| Cash inflow from financing activities | 271.3 | _ | 271.3 | 1,458.6 | _ | 1,458.6 |
| Dividends paid | (195.8) | _ | (195.8) | (45.2) | _ | (45.2) |
| Net cash (outflow)/inflow | (681.1) | (0.7) | (681.8) | 1,409.5 | 1.8 | 1,411.3 |
| Gross debt | _ | _ | (16,528.2) | _ | | (15,794.9) |
| Cash and cash equivalents ¹ | - | _ | 1,281.2 | _ | _ | 1,836.3 |
| Closing net debt | _ | _ | (15,247.0) | _ | _ | (13,958.6) |

1. Gross cash and cash equivalents excluding bank overdraft

Underlying operating cash flow increased by £268 million to £1,382 million due to higher EBITDA, a reduction in working capital and proceeds from the sale of group tax relief. This partly funded the Group's capital investment programme, interest and dividend payments, with the balance being funded by debt issuance and cash.

Net interest paid of £143 million in the year (excluding capitalised interest) represents a £186 million increase versus the £43 million net cash received reported last year, mainly due to the impact of new debt issued at higher rates of interest and a reduction in interest received on swaps and inter-company loans. Net cash interest paid for senior covenant calculation purposes was £312 million, a £77 million increase year-on-year.

These cash flows, including dividends paid, resulted in an underlying net cash outflow of £681 million in the year. The net cash outflow was £682 million, reducing cash and cash equivalents held at 31 March 2024 to £1,281 million.

Gearing and interest cover

The net cash outflow for the year, together with non-cash changes to the carrying value of borrowings and leases (consisting of accrued interest and debt accretion), increased statutory net debt to £15,247 million, a year-on-year increase of £1,288 million. Net debt on a covenant basis (as defined in Note 19 to the consolidated financial statements), was £16,071 million at 31 March 2024.

The increase in net debt was accompanied by a £1,002 million increase in Regulatory Capital Value to £19,947 million as at 31 March 2024. This resulted in senior gearing increasing to 80.6%, below the covenant event of default threshold of 95.0%. At the same date, our Post Maintenance Interest Cover Ratio ("PMICR") was 1.76x, above the minimum Trigger Event covenant requirement of 1.10x.

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by credit rating agencies as part of their analysis when determining credit ratings.

Under the terms of its Common Terms Agreement, Thames Water is required to publish forecast financial covenant ratios for the next two financial years. Following the decision by shareholders not to commit new equity in March 2024, the Board has reviewed whether it is reasonable to assume that new equity will be received within the current 2024/25 financial year for the purposes of calculating these forecasts. This review also considered delays in the PR24 price review announced by Ofwat, the consequential impact on the timetable for engaging equity investors, and that new capital is dependent on securing a financeable and investable final determination.

The Board has concluded that although it is possible that equity will be received by 31 March 2025, this should no longer be assumed for financial covenant forecast calculation purposes. Consequently, the compliance certificate to be submitted to the Security Trustee in July 2024 shows non-compliance of certain forecast ratios for gearing and interest cover with Trigger Event thresholds. This places restrictions on the Group's ability to incur debt, pay dividends, and make payments to associated companies, and requires Thames Water to prepare a remedial plan for our lenders.

Credit ratings

| Long term rating | Corporate Family | Class A | Class B |
|-------------------|------------------|----------------|--------------|
| Moody's | Baa3 (negative | Baa2 (stable | Ba3 (stable |
| | outlook) | outlook) | outlook) |
| Standard & Poor's | _ | BBB- (negative | BB (negative |
| | | outlook) | outlook) |

Under the terms of our Instrument of Appointment, the Group is required to maintain two 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.

Our credit ratings were downgraded by Moody's and Standard & Poor's in April 2024 following the announcement that £500 million of new equity that had been anticipated by 31 March 2024 would not be provided by Thames Water's shareholders. As a result of these downgrades, the Group is now operating in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

A future downgrade to a sub-investment grade credit rating could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements

The Group aims to secure a PR24 regulatory determination that is affordable, deliverable and financeable. Accordingly, our PR24 business plan submitted to Ofwat targets credit ratios consistent with a long-term investment grade credit rating of Baa1/BBB+. Following receipt of the draft PR24 determination in July 2024, the Group intends to pursue all options to secure equity investment from new or existing shareholders.

Financing our investment

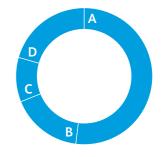
We finance our investment in our water, wastewater and digital infrastructure through a combination of operating cash flows, debt issuance and new equity. Our funding strategy focuses on diversifying sources of finance, pre-funding maturities and maintaining a balanced debt maturity profile. The average debt maturity at the end of the year was 12 years. In the year, the Group completed the following new debt issuance and debt extensions:

- a £300 million Class A bond due 2040 was issued in October 2023;
- a £275 million Class A bond due 2031 was issued in January 2024;
- a £575 million Class A bond due 2044 was issued in January 2024.
- a £100 million Class A RPI loan agreement originally due 2025 and with accreted principal of £145 million was extended to 2033 in October 2023
- a £125 million Class A RPI loan agreement originally due 2026 and with accreted principal of £180 million was extended to 2033 in October 2023

In addition, a total of £164 million was drawn from loan facilities signed in December 2022, consisting of a £99 million Class A loan due 2029 which was fully drawn in October 2023 and a £65 million Class B loan due 2027 which was fully drawn in October 2023.

In January 2024, £186 million of a £500 million Class A bond due to mature in June 2025 was bought back following a tender offer to bondholders.

Total borrowings including accrued interest, lease liabilities and bank overdrafts increased by £733 million to £16,528 million as at 31 March 2024. Of this, £16,106 million comprised bonds, secured bank loans and private placements.



| Α | GBP bonds | 8,396 |
|---|----------------------------------|-------|
| В | Foreign currency bonds | 2,705 |
| C | United States Private Placements | 1,716 |
| D | GBP loans | 3,289 |







Our Financial Review continued

We also continue to tie the interest cost on our main £1,646 million Revolving Credit Facility (RCF) to our sustainability performance, via our participation in the annual Infrastructure GRESB assessment. GRESB is an independent external ESG benchmark that assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Our latest GRESB score is 91 out of 100, which, while slightly lower than last year's 92, still represents an excellent outcome and triggers a small reduction in the standard margin paid on the RCF. We promised to pass on any financial gains to charitable causes, and as a result they will benefit by over £106,000.

Cost of interest

The Group uses derivative financial instruments where appropriate to manage the risk of fluctuations in interest rates. As at 31 March 2024, interest rates for 35% of our gross debt were fixed, 56% were index linked to RPI, and 9% were floating on a post swap basis. Overall, the Group's effective cost of interest including accretion on index-linked debt was 5.8%; the effective cash cost of interest was 2.0%.

During the year, £58 million of accretion was settled on index-linked swaps when falling due in August 2023 and September 2023, and £101 million of accretion was prepaid on index-linked swaps (£94 million was paid to early settle £101 million accretion on index-linked swaps, the difference of £7 million reflecting the discount for early repayment), bringing the settlements forward to September 2023 from October 2024 and February 2025.

Liquidity

As at 31 March 2024, the Group had total liquidity of £2,456 million, comprising available cash of £1,285 million and undrawn committed bank facilities of £1,171 million. This excludes £550 million of undrawn Debt Service Reserve and Operation and Maintenance Reserve liquidity facilities, which can only be drawn in limited circumstances.

The Board has previously announced its intention to seek sufficient equity investment to finance operations for the period ended 31 March 2030 from investors following publication of the PR24 Draft Determination on 11 July 2024. In addition, Class A revolving credit facilities and term loans totalling £2.2 billion were fully drawn after the year end, thereby significantly increasing the amount of cash held on balance sheet. Consequently, as at 30 June 2024, the Group had total liquidity of £1,809 million, comprising available cash of £1,513 million and undrawn committed bank facilities of £296 million, providing approximately 11 months of liquidity from the date of signing the financial statements.

Going concern

In assessing whether the Group and Company have adequate resources, for a period of at least 12 months from the date of approval of the financial statements, the Directors have taken a number of factors into account including its committed liquidity; its intention to take actions to extend the Group's and Company's liquidity runway, which could be achieved through a combination of actions including securing equity or debt funding, implementing cash conservation measures that do not threaten the Group's or Company's statutory duties, or securing creditor support; the need to secure a PR24 determination that is affordable, deliverable, financeable and investable; its intention to pursue all options to secure equity investment to fund the Group's PR24 business plan from new or existing investors following receipt of the PR24 draft determination; the risks associated with failing to comply with the Company's Instrument of Appointment; and the consequences of a Trigger Event in relation to its forecast financial covenant ratios in the 2024/25 financial year.

Accordingly, the Directors have concluded it is reasonable to assume that actions can be taken such that the Group and Company 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. However, there exist material uncertainties in relation to the going concern basis adopted in the preparation of the financial statements given:

- the Group and Company do not have sufficient committed liquidity for a period of 12 months from the approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- a future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements.

Dividends

TWUL settled a total of £195.8 million in dividends in the year comprising:

- two interim dividends totalling £37.5 million in October 2023, which enabled Kemble Water Finance Limited and its financing subsidiary to service external debt obligations through to 31 January 2024
- two interim dividends totalling £158.3 million in March 2024 to enable Kemble Water Eurobond plc and Thames Water Limited to settle amounts owing to the Company for group relief surrendered, and Kemble Water Eurobond plc to make pension contribution payments to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme defined benefit schemes on behalf of the Company.

For the seventh year in a row, no distributions were earned by our shareholders, who own shares in our ultimate parent company, Kemble Water Holdings Limited.

After the year end, credit rating downgrades by Moody's and Standard & Poor's resulted in the Group entering a licence cash lock-up, which restricts the payment of future dividends without the prior approval of Ofwat.

The TWUL Group cash balance of £1,285 million as at 31 March 2024 represents cash held in bank accounts and short-term investments, so excludes the impact of £130 million of committed external payments, where cash settlement occurred on 2nd and 3rd April 2024







Non-Financial and Sustainability Information Statement

The table below outlines where the key content requirements of the non-financial and sustainability information statement can be found within this document (as required by sections 414CA and 414CB of the Companies Act 2006).

| Reporting requirements | Our policies and approach | Section within Annual Report | Page(s) |
|------------------------|---|---|---------|
| Environmental | Environmental policy | ESG highlights | 31 |
| matters | Climate change policyBiodiversity policy | Stakeholder engagement | 19 |
| | Energy policy | Taskforce on climate-related financial disclosures | 34 |
| | Sustainability policyPublic value and heritage policy | Health, Safety, Environment and Susainability Committee Report | 69 |
| Employees | The way we work | Our people | 32 |
| | People policyBoard diversity policy | Gender pay and ethnicity pay gaps | 33 |
| | Health, safety and wellbeing policy | Workforce engagement | 65 |
| | Employee relations corporate standard Mandatory training corporate standard | Stakeholder engagement | 19 |
| | , <u> </u> | Governance section (board diversity) | 70 |
| Social matters | Public value and heritage policy | ESG highlights | 31 |
| | Procurement framework standard Tax management | Stakeholder engagement | 19 |
| | | Financial Review | 43 |
| Respect for | Modern slavery act statement | Our people | 32 |
| human rights | Privacy notice Data governance, privacy and information | Gender pay and ethnicity pay gaps | 33 |
| | security policy | Stakeholder engagement | 19 |
| | Charitable matched funding and paid 'Time to Give' | Our principal risk and uncertainties | 21 |
| | 'Hear 4 you' employee engagement | | |
| Anti-corruption and | Honest and ethical behaviour policy | Strategy, purpose & vision section | 6 |
| anti-bribery matters | and standardsCompetition compliance policyCorporate criminal offence statement'Speak-Up' | Our people | 32 |

| Reporting requirements | Section within Annual Report | Page(s) |
|--|--|---------|
| Description of business model | Business model | 10 |
| Policy embedding, due diligence and outcomes | Our principal risk and uncertainties | 21 |
| | Strategy, purpose & vision section | 6 |
| Description of principal risks and impact of business activity | Our principal risk and uncertainties | 21 |
| Non-financial key performance indicators | Key performance indicators | 2 |
| Climate related financial disclosures | Taskforce on climate-related financial disclosures | 34 |







Section 172

Our approach

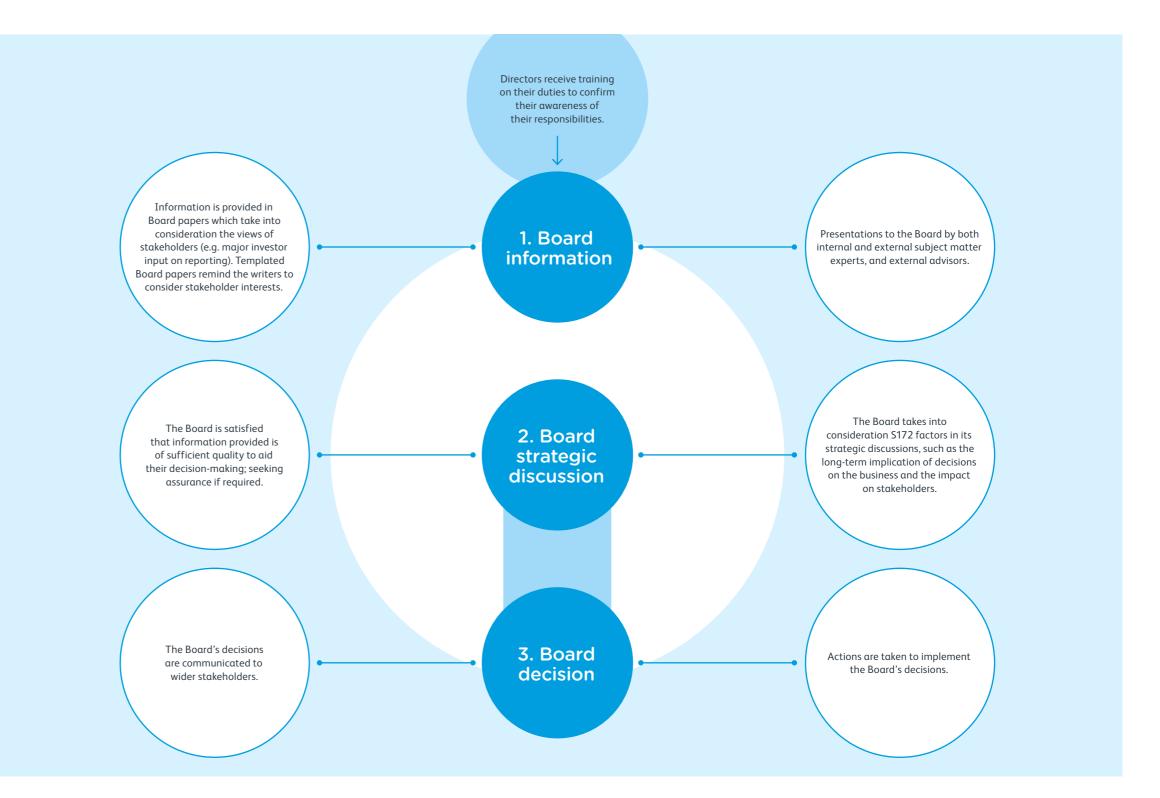
Under S172(1) of the Companies Act 2006 ('S172'), the Directors of Thames Water must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and in doing so have regard (among other matters) to:

- The likely consequences of any decision in the long term
- The interests of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly as between shareholders of the Company.

Our Company purpose is to deliver life's essential service so our customers, communities and the environment can thrive. As a provider of an essential public service, Thames Water's governance framework is conducive to Board-level decisions being made with stakeholder interests, and the longer-term impact, in mind. In this section we set out some examples of how, over the course of this year, the Board discharged its duties under \$172.

The induction process for new Directors is managed by the Company Secretary and, if considered necessary, includes input from external advisors. Each new Director receives a formal introduction to the business and the Executive team, as well as a full briefing on their legal duties as a Director, including those covered by S172 and training on Thames Water's wider legal and regulatory obligations including those obligations arising under the Water Industry Act 1991 and the Company's instrument of appointment (commonly referred to as its licence).

All Directors receive a monthly report on the performance of the business. The report provides a broad spectrum of information that includes health and safety, customer experience, service delivery for customers and the environment (including operational performance), digital strategy and transformation, asset management, strategy and regulation, capital delivery, corporate affairs and sustainability, people, finances and financial resilience and management of risk.









Section 172 continued

As set out in the Governance Report (from page 51), the Board met 36 times during the year The Board has nine sub-committees, all of which report up to the Board. Details of how Board members engage directly with stakeholders, including customers, employees, investors, community groups and policymakers can be found on page 64.

The likely consequences of any decision in the long term - s172(1)(a)

The Company's governance structure, based on appropriate delegation of management responsibility, allows the Board to remain focused on the longer-term strategic issues affecting the business.

The Company takes a comprehensive and long-term approach to risk management, an activity which is overseen by the Audit, Risk and Reporting Committee ("ARRC"). Board Directors receive regular updates from ARRC, as they do from all Board Committees.

The ARRC report for this year can be found on page 73, while an overview of the Company's risk management system, and the long-term viability statement, can be found starting on page 28.

During the year, the Board approved and established an Operational Oversight Committee (OCC) that is responsible for reviewing and monitoring matters relating to operational performance across the Company. As a very long-term business, one of the main objectives of this Committee is to provide oversight and effective governance of the Company's overarching long-term asset management strategy, polices and resulting procedures and processes.

In November 2023, the Board approved and established the Turnaround Committee. The Turnaround Committee is responsible for providing oversight and effective governance of the Company's prioritised and refocused turnaround activities for the purposes of the long-term benefit of the Company.

In January 2024, the Board held its annual day-long strategy session, at which it reviewed, among other matters, development of our Vision 2050 and strategic enablers which underpin delivery.

The interests of the Company's employees - s172(1 b)

The health, safety and well-being of the Company's employees (and its contractors) is critical to the business and an area of focus for the Board and the Health, Safety, Environment and Sustainability Committee, whose report can be found on page 69. Detailed reports and updates relating to health and safety and to employee wellbeing and engagement are standing items regularly presented to Board meetings.

Ian Pearson continues to act as our designated Non-Executive Director for Workforce Engagement, to take accountability for ensuring that workforce issues are appropriately considered by the Board. This year, Ian continued to visit an operational site every month, plus holding virtual sessions with office-based teams. You can read more information on our workforce engagement programme on page 65. We have also increased our senior leadership's health and safety visibility, with each member of our senior leadership community visiting at least two sites throughout the year to discuss health and safety with their teams.

The Board also visited and toured our waste treatment facilities at Mogden and heard from employees about the challenges facing the industry and what we are proactively doing to reduce pollutions and operate those facilities in a more sustainable manner. Further details on the Board-led workforce engagement programme and the feedback generated by it can be found on page 65.

Details on how the Company as a whole engages with employees more generally can be found in the Stakeholder Engagement section on page 19, while its approach to workplace environment, diversity and inclusion and culture can be found in our people section on page 32.

The need to foster the Company's business relationships with suppliers, customers and others – s172(1)(c)

Day-to-day business relationships are managed by the Executive team under the supervision of the Board. Details of how the wider Company engages with suppliers are included in the Stakeholder Engagement section on page 19.

Oversight of customer service and engagement issues are within the remit of the dedicated Customer Service Committee of the Board. Directors also maintain regular contact with the Customer Challenge Group (CCG) (see page 67). The Chair of the CCG has attended Customer Service Committee meetings to discuss customers' priorities and our investment and service improvement plans.

The impact of the Company's operations on the community and the environment - s172(1)(d)

The Company's interaction with and impact on the communities it serves and the environment are of particular interest to the Directors. Environmental protection and climate change are considered under our principal risks requiring the Board's attention. The ARRC leads on mitigation of that and other risks on behalf of the Board, while environmental considerations are a key part of the remit of the Health, Safety, Environment and Sustainability Committee.

The Company's engagement with community groups and NGOs is explained in the stakeholder engagement section on page 19, while the Board's direct role in such engagement is set out on page 64 of the Governance section. You can also read more about our approach to managing sustainability and climate risks in the Sustainability Report and ESG statement and Taskforce on Climate-Related Financial Disclosures (TCFD) report on page 34. Our Board has ultimate responsibility for climate-related risks and opportunities. Together, our Board Directors have significant experience in assessing and managing climate change.

The desirability of the Company maintaining a reputation for high standards of business conduct - s172(1)(e)

The Board is clear about the need for Thames Water, as a high-profile Company running a critical public service and operating in a tightly regulated environment, to maintain the highest standards of business conduct. ARRC is charged with managing oversight of the Company's systems for managing compliance, fraud and whistleblowing and of the internal audit function, and making appropriate recommendations on policy and actions to the Board.

The Board also has strong regard to Ofwat's Board leadership, transparency and governance principles. Amongst other things, these principles require the Board to: (i) establish the Company's purpose, strategy and values and satisfy itself that these and its culture reflect the needs of those it serves (ii) to maintain an effective Board with full responsibility for all aspects of the business for the long-term and (iii) ensure that the Board and its subcommittees are competent, well run and have sufficient independent membership so that they can make high quality decisions that address diverse customer and stakeholder needs.

The Company has established an internal control framework which includes 'The Way We Work' (being our Code of Conduct), policies and standards. Collectively, these guide and direct the behaviours, decisions and actions of colleagues working for or on behalf of the Company. Examples of our policies are included in the Non-financial and Sustainability Information Statement on page 47.

The need to act fairly as between members of the Company - s172(1)(f)

Since Thames Water is ultimately owned by a limited number of institutional shareholders, there is direct and regular contact between all equity investors and the Board.

In July 2023, the Company announced that its ultimate shareholders had agreed to provide a further £750 million in new equity funding across the current regulatory period (AMP7), the first £500 million tranche of which was anticipated by 31 March 2024.

This funding was subject to satisfaction of certain conditions, including the preparation of a business plan that underpins a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over the next three years and is supported by appropriate regulatory arrangements. In addition, in July 2023, the Kemble Shareholders acknowledged the possibility of further equity investment in the medium-term, indicatively to be in the region of £2.5 billion.

During the final quarter of 2023 and the first quarter of 2024, the Company was in dialogue with Ofwat to seek feedback on its initial business plan submitted in October 2023 as part of the PR24 process. Thames Water and its shareholders announced on 28 March 2024 that, based on the feedback provided by Ofwat at that time, the regulatory arrangements that would be expected to apply to Company in AMP8 made the PR24 Business Plan uninvestable. As a result, the conditions attached to the £750 million of new equity were not satisfied at that time and the Company's shareholders did not provide the first £500 million tranche of new equity that was originally anticipated in March 2024.

Following discussions with various regulatory bodies, the Company submitted a revised PR24 business plan in April 2024 which included an additional £1.1 billion expenditure to the initial submission on 2 October 2023. This revised business plan was approved by the Board and Ofwat will publish its Draft Determinations on 11 July 2024.

In December 2024, Thames Water is expecting to receive its PR24 Final Determination that will confirm its allowed revenues and performance targets for AMP8. There is no assurance currently as to what level of customer funding will be determined by Ofwat. However, the Board notes that Ofwat is required to exercise and perform its duties in the manner which it considers is best determined to ensure that a notional company is able (in particular, by securing reasonable returns on its capital) to finance the proper carrying out of its functions and that such a company will need to secure a price control for AMP8 that, in the round, allows it to both deliver record levels of investment and offer investors an opportunity to earn a reasonable rate of return.







Section 172 continued

The table below sets out a sample of how the above matters were factored into individual decisions taken by the Board and its Committees during the year:

Providing a reliable supply of safe, clean, wholesome drinking water

Discussion/Action

As the provider of an essential public service, the Board places great emphasis on the critical importance of the Company providing a reliable supply of safe, clean, wholesome drinking water to its customers. Several related initiatives including those relating to water quality, supply interruptions and leakage form part of our refocused Turnaround Plan with progress being reviewed on a regular basis by both the Board and the Turnaround Committee.

Outcome/Impact

As set out in the Annual Performance Report we made significant progress on our Compliance Risk Index (CRI) during FY24, reporting an outturn of 1.43 compared to 10.96 in FY23. We have also seen a corresponding improvement in unplanned outages (% of water we were unable to supply due to unforeseen circumstances), reporting an outturn of 0.04% against a regulatory target of 3.29%. The Company delivered a supply interruption outturn of 16 mins 56 secs in FY24 compared to 19 mins 54 secs in FY23 – with the incident at Guildford accounting for 8 mins 58 secs of the total. Excluding Guildford we ended the year at 8 minutes and 4 seconds – much closer to our regulatory target of 5 mins 23 secs. It remains an ongoing area of focus. We delivered a 43 MI/d reduction in leakage during FY24, a 7% year on year improvement. Leakage is now at its lowest ever level assessed on an annual average basis. However, given the impact of the 2022 summer drought and freeze thaw, we missed our regulatory target which assesses performance on a three-year rolling average basis, delivering a 12.0% three year rolling average improvement compared to our target of 17.4%.

Taking away waste responsibly

Discussions/Action

The Company's performance – particularly in relation to pollutions and sewage discharges is not where it needs to be and the Board is acutely aware that the Company needs to reduce its impact on the environment. Taking away waste responsibly is therefore a key area of focus in the Company's turnaround plan.

The Board continues to challenge the Executive team to reduce the Company's impact on the environment. As a key part of our turnaround plan we are addressing and mitigating major drivers of pollution, from drain to river, through our sewage network, pumping and treatment works.

This includes initiatives to tackle blockages including more proactive network cleaning and monitoring, and better prioritised reactive responses.

Outcome/Impact

Whilst serious pollutions have fallen over the last year to 14 (compared to 17 in the previous year) there is still much to do. The Board continues to support the Chief Operating Officer as the Company takes action to address its performance and the £4.5 billion investment in the Thames Tideway Tunnel that will go live in 2024/25, together with existing Thames Tideway improvements, will support a reduction in annual discharges into the Tidal Thames by around 95%.

PR24 Business Plan

Discussions/Action

The Regulatory Strategy Committee ("RSC") and the Board were fully engaged throughout the submission of the PR24 business plan to Ofwat on 2 October 2023 and in the Business Plan update which was submitted in April 2024. Both the RSC and the Board received regular updates on our engagement with regulators, the evolution of the plan, draft determination preparation and strengthening the delivery of the PR24 programme.

Outcome/Impact

Ofwat will publish its draft determination of the Company's PR24 Business Plan on 11 July and will consult on these proposals ahead of publishing its final determinations in December 2024. As such the outcome of the Board's engagement on PR24 will not be clear until later in the year. As and when Ofwat publishes its final determination the Board will be fully engaged in the assessment of Ofwat's final determination and the decision as to whether to accept it or ask Ofwat to refer the matter to the Competition and Markets Authority for a redetermination.

Living within our means

Discussions/Action

It is critical that the Company lives within its means. During the year the Board met 36 times and had in-depth discussions about the Company's performance against its 2023/24 budget and 2024/25 budget proposals in addition to wider discussions about finance and treasury matters. The Board has maintained oversight of business and financial controls and has taken steps so that effective risk management processes are in place. The annual budget for financial year 2024/25 was approved by the Board and endorsed by external shareholders.

Outcome/Impact

Financial performance improved in 2023/24 with growth in revenue, profits and operating cash flow largely reflecting inflation-linked tariff increases, operating cost discipline and a reduction in net financing costs. During the year, the Company also delivered a record level of capital expenditure as it continues to ramp up investment in its infrastructure. During 2024/25, the Board will continue to engage with our regulators, and the Government, to agree a determination that will deliver improvements for our customers and the environment and give our investors the opportunity to earn a fair return on their investment. This in turn will unlock the equity that is needed to finance our ambitious business plan, turnaround performance and increase financial resilience.

Delivering our turnaround

Discussions/Action

In November 2023 the TWUL Board approved the Company's refocussed three-year turnaround plan and the standing up of the Turnaround Committee – a new sub-committee of the Board. The objective of the Turnaround Committee is the provision of oversight and effective governance over Thames Water's prioritised, refocused turnaround activities.

Outcome/Impact

The Turnaround Committee continues to review progress of the turnaround implementation, regularly and in detail, on behalf of the Board, and raising any concerns identified, challenging management and holding the Company accountable for delivering on the commitments it has made in the Turnaround Plan.

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Corporate Governance

Chairman's Statement



I'm pleased to present our Corporate Governance Report for FY24. It covers the activity of the Board and its committees during the year and how we seek to maintain the highest levels of governance at Thames Water Utilities Limited.

Sir Adrian MontagueChairman of Thames Water Utilities Limited

New leadership

My first priority as Chairman was to appoint a new CEO, and the Nominations Committee launched a rigorous process to seek a highly experienced candidate for the role, with the support of Russell Reynolds. The appointment of Chris Weston was of great significance for the business and, as a Board, we have great confidence in his leadership. He's laid out clear priorities for the business and has streamlined the Executive team to align goals and increase accountability.

Purpose, culture and engagement

With the challenges the business is facing, the monitoring of culture and Purpose has continued to be an important focus for the Board. Ian Pearson, our Workforce Lead Director has continued the programme of workforce engagement, with full details on page 65 of this report.

We also held a Board strategy day which looked at the political landscape, environmental challenges including the impact of climate change in London, the changing expectations of customers and the challenges and opportunities to reflect this, along with the appetite for regulatory reform.

Governance

It's been an extremely busy year for the Board, with a significant step up in the number of Board meetings to increase oversight of the delivery of the turnaround, and as the business addresses the challenges it faces.

The preparation, focus and development of our PR24 business plan has been heavily scrutinised by the Board throughout the year, as well as the Company's liquidity position, capital structure and financing arrangements. Throughout the year, the Board has been supported by advice from Linklaters LLP (legal) and Rothschild & Co (financial) on these areas of focus.

Given the challenges facing the Company we've created three new Board Committees for the purpose of increasing oversight of operations, the delivery of the turnaround plan and the business' finances. We also renamed the Health Safety and Environment Committee to become the Health, Safety, Environment and Sustainability Committee to further elevate the importance we place on sustainability and ESG at Board level.

When I was appointed Chairman, I was also appointed chairman of Kemble Water Holdings Limited (KWH), the Company's ultimate parent. I was confident that this arrangement did not give rise to any conflict and felt that this would provide an opportunity for me to run the Company's and KWH's board meetings concurrently, which would result in improved symmetry of information between the Board and the Company's ultimate shareholders. Our advisers conducted a full legal review of this arrangement and we developed a protocol so that meetings complied with the requirements of relevant law and regulations. I also shared this protocol with our principal regulator, Ofwat. I was pleased with this arrangement until February of this year when I concluded that I could no longer continue to be chairman of both the Company and KWH, due to the risk of potential conflicts of interest. I ceased to be the chairman of KWH on 17 February 2024 and the Company's and KWH's board meetings are no longer held concurrently.

Board evaluation

As a Board, we follow the UK Corporate Governance Code with some minor exceptions as set out in the Compliance section, and the Ofwat Principles on Leadership, Transparency and Governance.

The Board conducted its annual review of effectiveness in December 2023, which was facilitated by an external consultant, Independent Audit. This review included an evaluation of board composition and dynamics, board oversight, meeting focus and support, and succession planning. The 2023 review reflected, in the main, the Board's wish for greater engagement and closer oversight of executive management. The changes in governance and process to achieve these objectives will be extensive and, given the Company's general situation, are still being worked through between management and the Board. It is expected that the results of this process will be consolidated with the outcome of the forthcoming 2024 review of board effectiveness and published in full in the Company's 2024-25 Annual Report.

Sir Adrian Montague

Chairman of Thames Water Utilities Limited







Corporate Governance

Compliance Statement

We're committed to robust standards of corporate governance, and we follow the requirements of both the UK Corporate Governance Code (the 'Code') and Ofwat's Board Leadership, Transparency and Governance Principles ('BLTG Principles'). We've complied with all aspects of the relevant provisions of the Code throughout the year except, to the extent set out below, Provisions 24 and 32.

Provision 24 of the Code requires that the Audit Committee is comprised of independent Non-Executive Directors. Although there are three independent members, one Non-Executive Director representing shareholders also sits on the Committee. The Board is satisfied that this arrangement, which meets the BLTG standard of having an independent majority, does not compromise the activities of the Committee and assists shareholder scrutiny and oversight of the Company's activities and with effective engagement between the Committee and shareholders on audit and risk issues.

Provision 32 of the Code requires that the Remuneration Committee should comprise independent Non-Executive Directors. Although there are three such members, the Committee also includes our Chairman (who was independent on appointment and is therefore permitted to be a member of the Committee pursuant to Provision 32) and one Non-Executive Director who represents the Company's shareholders. The Board is satisfied that this arrangement, which meets the BLTG standard, should not compromise the activities of the Committee and supports effective shareholder oversight of remuneration policy at an early stage.

Corporate Governance Code Principles

Section 1: Board leadership and Company Purpose See page Our Chairman's statement Page 3 Business model Page 10 Looking after our people Page 13 Stakeholder engagement Page 19 S172 statement Page 48 Chairman's introduction to Page 51 Corporate Governance Board stakeholder engagement Page 64 Board activities to drive strategy Page 63 Section 2: Division of responsibilities See page Meet our Board Page 54 Roles and Responsibilities Page 60 **Board Committees** Page 66 Section 3: Composition, succession and evaluation See page Our Chairman's statement Page 3 Chairman's introduction to Corporate Governance Page 51 Appointment and induction Page 62 Training and professional development Page 62 Nomination Committee report Page 70 Directors and their other interests Page 62 Section 4: Audit, risk and internal control See page Managing Risk Page 21 Our Principal Risks and Uncertainties Page 21 Long-term Viability Statement Page 28 Audit Risk & Reporting Committee report Page 73 Directors' confirmations Page 98 Risk and Compliance Statement in Page 193 our Annual Performance Report **Section 5: Remuneration** See page Remuneration Committee Report Page 78 Remuneration at a glance Page 80 Annual Remuneration Report Page 82 Summary of Executive Directors' Page 88 Remuneration Policy

BLTG Principles Section 1: Purpose, value

| Section 1: Purpose, values and culture | See page |
|--|----------|
| Our purpose | Page 6 |
| Delivering our turnaround plan | Page 12 |
| Stakeholder engagement | Page 19 |
| Meet the Board | Page 54 |
| Roles and Responsibilities | Page 60 |
| Section 2: Standalone | |
| regulated company | See page |
| Our Chairman's statement | Page 3 |
| Meet our Board | Page 54 |
| Roles and Responsibilities | Page 60 |
| Board Committees | Page 66 |
| Directors' Report | Page 95 |
| Section 3: Board leadership | |
| and transparency | See page |
| Our CFO's statement, including | Page 43 |
| statement on dividends | |
| Our Principal Risks & Uncertainties | Page 21 |
| Meet our Board | Page 54 |
| Remuneration Committee Report | Page 78 |
| Remuneration at a glance | Page 80 |
| Annual Remuneration Report | Page 82 |
| Summary of Executive Directors' | Page 88 |
| Remuneration Policy | |
| Section 4: Board structure | |
| and effectiveness | See page |
| Meet our Board | Page 54 |
| Roles and Responsibilities | Page 60 |
| Board Committees | Page 66 |

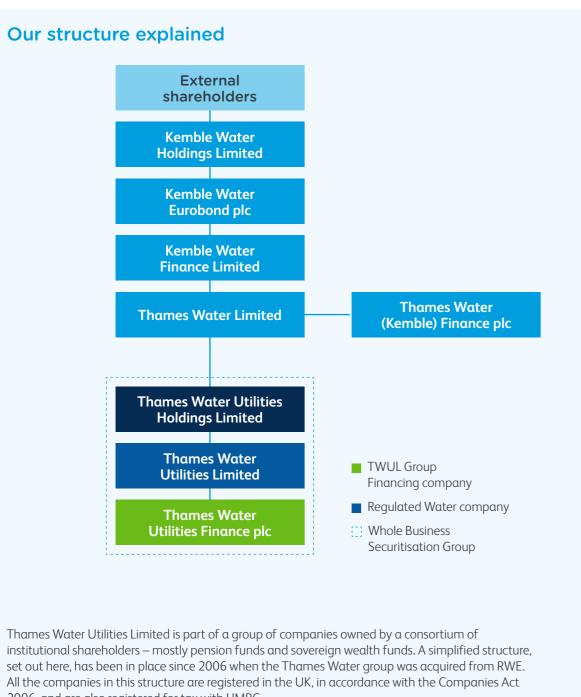
Thames Water Annual Report 2023/24 Strategic report Governance Financial statements







Corporate Governance continued



| Thames Water Utilities Limited is part of a group of companies owned by a consortium of |
|---|
| institutional shareholders – mostly pension funds and sovereign wealth funds. A simplified structure, |
| set out here, has been in place since 2006 when the Thames Water group was acquired from RWE. |
| All the companies in this structure are registered in the UK, in accordance with the Companies Act |
| 2006, and are also registered for tax with HMRC. |

| Further details of the functions of each of these companies can be found on our website |
|---|
| |

| Who | How much | What they do | When |
|---|----------|---|------------|
| Ontario Municipal Employees Retirement System | 31.777% | One of Canada's largest pension plans, with C\$105 billion of net assets and global experience managing essential infrastructure | 2017-2018 |
| Universities Superannuation Scheme | 19.710% | A UK pension scheme for the academic staff of UK universities | 2017, 2021 |
| Infinity Investments SA | 9.900% | A subsidiary of the Abu Dhabi Investment Authority and one of the world's largest sovereign wealth funds | 2011 |
| British Columbia Investment Management Corporation | 8.706% | An investment management services provider for British Columbia's public sector | 2006 |
| Hermes GPE | 8.699% | One of Europe's leading independent specialists in global private markets and manager of the BT Pension Scheme (BTPS), one of the largest UK pension schemes for the private sector | 2012 |
| China Investment Corporation | 8.688% | One of the world's largest sovereign wealth funds | 2012 |
| Queensland Investment Corporation | 5.352% | A global diversified alternative investment firm and one of the largest institutional investment managers in Australia | 2006 |
| Aquila GP Inc. | 4.996% | A leading infrastructure management firm and a wholly owned subsidiary of Fiera Infrastructure Inc., a leading investor across all subsectors of the infrastructure asset class | 2013 |
| Stichting Pensioenfonds Zorg en Welzijn | 2.172% | A pension fund service provider managing several different pension funds as well as affiliated employers and their employees | 2006 |

Thames Water Board

Our Board*

The Thames Water Board is responsible for ensuring our long-term success.

The Board is made up of our Chairman, two Executive Directors, five independent Non-Executive Directors and, currently, one shareholder appointed Non-Executive Director, also known as our Investor Director. Together, they give us a strong mix of experience to offer a broad perspective, challenge the Executive Directors on the development of strategy and performance, and provide guidance on how to address our diverse customer and stakeholder needs. We've ensured that the Board has an appropriate combination of Directors so that no one individual dominates the Board's decision making, and we continue to meet Ofwat's expectation that Independent Non-Executive Directors form the largest single group on the Board and the Code requirement that, excluding the Chairman, Independent Non-Executives make up at least half the Board membership. The Board considers that each Director has sufficient time to fulfil their roles. including preparing for and attending Board and Committee meetings. It also looks closely at the other appointments held by its Directors – see page 62 for our Directors' other interests. All Directors are subject to formal annual re-election.

* As of 9 July 2024

Key to Committees

- (A) Audit, Risk and Reporting Committee
- (\$) Regulatory Strategy Committee
- Remuneration Committee
- Nominations Committee
- © Customer Service Committee
- (H) Health, Safety, Environment and Sustainability Committee
- Operational Oversight Committee
- (F) Finance Committee
- Turnaround Committee
- Committee Chair

Chairman



Sir Adrian Montague Chairman – Thames Water Utilities Limited

Appointed as Chairman: July 2023





Relevant skills and experience:

- Highly experienced Chairman and Non-Executive Director of both privately owned businesses and listed companies with a focus on the utilities and infrastructure sectors.
- Expertise in governance, finance, regulation, and private finance for public infrastructure.

Previous roles include Manchester Airports Group, Chairman of The City UK Advisory Council, Aviva Group plc, 3i Group, Anglian Water Group, Michael Page International plc, London First, British Energy Group plc, Friends Provident plc, Cross London Rail Links Ltd and Hurricane Exploration plc. Adrian was a former Deputy Chairman of Network Rail Ltd, Partnerships UK plc and UK Green Investment Bank plc.

From 1999-2001 he held senior positions connected with the implementation of Government's policies to expand the use of private finance in the provision of public infrastructure, first as the Chief Executive of the Treasury Taskforce, then as Deputy Chairman of Partnerships UK plc. Before 1999, he was the Global Head of Project Finance at Dresdner Kleinwort Benson, having joined the bank in 1993, after 20 years as a lawyer with Linklaters & Paines.

Sir Adrian was awarded a CBE in 2001 and is a law graduate of Trinity Hall Cambridge.

Executive Directors



Chris Weston Chief Executive Officer Appointed as CEO: January 2024

Relevant skills and experience:

- Strong operational and strategic leadership expertise
- Turning round business performance
- Improving customer experience
- Working in regulated environments

Chris Weston is an experienced business leader who has held many senior roles in the energy and infrastructure sectors, both in the UK and around the world.

Before joining Thames Water, Chris was CEO of Aggreko, an energy and temperature control company operating in 45 countries. Aggreko was bought in a public markets' transaction in 2021.

Before this, Chris worked at Centrica, the parent company of British Gas. He held several leadership roles, including Managing Director of International Downstream. Chris was responsible for Direct Energy, Centrica's North American subsidiary. Chris covered upstream oil and gas operations, as well as downstream customer operations. At Centrica, Chris was also Managing Director of British Gas Services and British Gas Business. Prior to Centrica, Chris worked in the telecommunications sector for the Cable & Wireless Group. He held senior roles in Mercury Communications in the UK and Optus in Australia. Chris was a Non-Executive Director of the Royal Navy from 2017 until 2023. He has been a Non-Executive Director of Barratt Homes since 2021 and became a Non-Executive Director of Water UK in January 2024. Before his career in business, Chris served in the Armed Forces in the Royal Artillery. He has a PhD and MBA from Imperial College London.



Alastair Cochran Chief financial Officer

Appointed as CFO: September 2021 Interim co-CEO with Cathryn Ross: June 2023 to January 2024

Relevant skills and experience:

- Extensive financial experience in industry-leading capital-intensive businesses
- Proven track record of developing, leading and delivering value-creating strategies, including business transformations

Alastair was previously Chief Financial Officer of Petrofac, where he developed and led the sustainability, digital and finance transformation initiatives, which focused on reinforcing the group's long-term cost competitiveness and delivering value for stakeholders through effective business partnerships. Prior to that, Alastair was at BG Group plc, where he was responsible for M&A, Treasury, Corporate Finance, Global Strategy and Business Development.

A member of the Institute of Chartered Accountants in England and Wales, he started his career with KPMG before enjoying a successful career in investment banking with Barclays de Zoete Wedd, Credit Suisse First Boston and Morgan Stanley.

Former Directors

The following people served as Chairman and Directors within the year ended 31 March 2024

David Waboso

resigned as INED on 12 May 2023

Sarah Bentley

resigned as CEO on 27 June 2023

Ian Marchant

resigned as Chairman on 10 July 2023

Guy Lambert

resigned as NED on 27 March 2024

Michael McNicholas

resigned as NED on 16 May 2024







Strategic report Thames Water Annual Report 2023/24 Governance Financial statements

Board of Directors continued

Independent Non-Executive Directors



Nick Land Deputy Chairman/ Senior Independent Non-Executive Director

Appointed to the Board: February 2017



Relevant skills and experience

- Significant experience on the Boards of leading, global companies
- Highly experienced Chartered Accountant, with global financial and governance experience spanning more than three decades

Nick brings a wealth of multi-sector finance and governance experience following 11 years as Chair and CEO of EY as part of his 36-year career at one of the world's largest accounting firms. He currently Chairs The Instant Group and is a Non-Executive Director of IHS Towers. He also Chairs the Vodafone Group Foundation and the Private Equity Reporting Group of the British Venture Capital Association. His is a former Non-Executive Director of the Financial Reporting Council and has a long history of Non-Executive Director roles at global companies such as Vodafone, Alliance Boots and Shell.



Catherine Lynn Independent Non-Executive Director Appointed to the Board: November 2018



Relevant skills and experience

- Expertise in strategic business management within a regulated, highly dynamic environment
- Proven success embedding customer needs at the heart of business decision making in a large scale, complex organisation serving millions of customers

Catherine brings a wealth of commercial, operational, strategic and senior management experience having played a leadership role in Europe's low-cost aviation sector for 20 years, with a focus on delivering outstanding customer service. She was formerly the Chief Customer Officer for Parkdean Resorts, the UK's largest holiday park company, and the Group Strategy and Commercial Director of easyJet, where she was directly responsible for a number of major initiatives underpinning easyJet's successful exponential growth. Catherine also has 18 years' experience as a Non-Executive Director



Ian Pearson Independent Non-Executive Director* Appointed to the Board: September 2014 (T)(R)(N)(A)(S)

Relevant skills and experience

- Experienced Company Chairman, Non-Executive Director and adviser, with expertise in strategic orientation and value creation
- Wealth of experience in the development of public policy relating to climate change and the environment
- Ian brings extensive business and public sector insight to the Board.

During a distinguished Ministerial career from 2001-2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury. He is currently Chairman of Egtec plc, a clean gas technology solutions company, and Quantum Exponential plc, and has previously been a member of the UK Advisory Board of the accountants PwC

* As of September 2023, Ian Pearson had served on the Board for nine years. However, the Board has determined that he remains independent in character and judgement, as evidenced by the way in which he discharges his duties as a Director. The Board does not believe that the length of his tenure has compromised his independence or the effectiveness of his contributions. and note that he has no material commercial or business relationships with the Group. The Board further considers that continuity on the Board is of vital importance in the current climate and as such has asked Ian to continue serving as an independent non-executive director for the time being.



Hannah Nixon Independent Non-Executive Director Appointed to the Board: January 2021



Relevant skills and experience

- Thought leadership, delivery and influencing skills
- Progressive leader, with public/private sector experience across a range of industries
- Extensive regulatory expertise

Hannah has widespread experience in economics and regulation across a range of industries. She brings significant experience of developing and delivering key regulatory work, advising regulators and companies on regulation, market structuring and competition issues. She was the first CEO of the Payment Systems Regulator, the economic regulator of the UK's £80 trillion payments industry, responsible for driving competition and innovation in the interests of consumers. Hannah was also a Senior Partner and Head of Profession for Economics at Ofgem, where she had responsibility for the networks division. Hannah is currently Chair of the Single Source Regulations Office and a Non-Executive Director of National Grid Electricity System Operator, the Financial Reporting Council and WorldPay UK (a global payment processing company). She was formerly a NED of the Jersey and Guernsey Competition and Regulatory Authorities.



Jill Shedden MBE Independent Non-Executive Director Appointed to the Board: October 2018



Relevant skills and experience

- Over 30 years directing people strategies within a regulated utility
- Expertise in leading successful transformation programmes and driving the diversity and inclusion agenda

Jill is currently Group Chief People Officer of Centrica plc after holding senior HR positions across the Centrica group. She has championed diversity and inclusion throughout her career and has focused on building a high performing environment and a great place to work. In her role at Centrica, she has led major culture change, cost reduction and reorganisation programmes, as well as achieving "Best Companies" and "Great Places to Work" awards. Jill was awarded an MBE for her work with the Women's Business Council. a group set up to advise ministers how to maximise women's contribution to the future economic growth of the country

Non-Executive (Investor) Director



John Holland-Kaye Non-Executive (Investor) Director

Appointed to the Board: April 2023, representing the interests of USS







- Expertise in leading major capital and infrastructure projects in the UK and internationally
- Proven success embedding customer needs at the heart of business decision making in a large organisation serving millions of customers
- Expertise in strategic business management and environment and sustainability within a regulated, highly dynamic environment

John was CEO of Heathrow Airport from 2014 to 2023, leading its transformation in service to be rated as one of the best airports in the world. Before that, John was Development Director, responsible for its £1 billion annual capital programme and delivering Terminal 2 on time and on budget. John was previously Divisional CEO with Taylor Wimpey plc and Managing Director, National Sales for Bass Brewers. He also worked as a strategy consultant with LEK Consulting. John was formerly a Non-Executive Director of Thames Tideway Tunnel and Chair of Business in the Community's Employment and Skills Taskforce, Chair of the Aviation Task force of HM King Charles' Sustainable Markets Initiative and a Commissioner on the Energy Transitions Commission.

Strategic report Financial statements

Board Directors continued

Governance at a glance as at 31 March 2024

Board tenure











Board Skills

This Board skills matrix highlights the breadth of skills represented on our Board.*

| | Our Chairman | Our CEO | Our CFO | | No | | | | | -Executive or) Directors |
|---|--|--|--|--|--|--|--|--|--|--|
| tors have regulated ure and strategic erience | AM | CW | AC | HN | NL | CL | IP | JS | JHK | ММ |
| Utility industry experience or experience of network operations | ② | • | • | • | • | • | • | ② | ② | |
| Economic regulation/public policy | | | | | | | | | | |
| Finance | ② | ② | ② | ② | ② | | ② | | ② | ② |
| Customer Service | ② | • | | | • | ② | | ② | ② | ② |
| Technology/digital systems | | • | | | • | ② | | | | |
| Capital Projects | ② | • | • | | | ② | | | ② | ② |
| Engineering | ② | • | | | | | | | | ② |
| Environmental/sustainability | ② | | • | • | | | ② | | • | • |
| Climate Change | | | • | • | | | ② | | • | |
| Culture change and transformation | ② | • | • | ② | • | ② | | ② | • | ② |
| Remuneration | ② | | | • | • | • | ② | • | • | • |
| Health and safety | ② | • | | | ② | ② | | | • | ② |
| | ure and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Finance Customer Service Technology/digital systems Capital Projects Engineering Environmental/sustainability Climate Change Culture change and transformation Remuneration | Chairman AM Interest have regulated and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Finance Customer Service Technology/digital systems Capital Projects Engineering Environmental/sustainability Climate Change Culture change and transformation Remuneration | tors have regulated ure and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Finance Customer Service Technology/digital systems Capital Projects Engineering Environmental/sustainability Climate Change Culture change and transformation Remuneration | tors have regulated ure and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Finance Customer Service Technology/digital systems Capital Projects Engineering Environmental/sustainability Climate Change Culture change and transformation Remuneration AM CW AC AC CFO CFO CFO CFO CFO CFO | Chairman CEO CFO AM CW AC HN Iteration and strategic Iteration and s | Chairman CEO CFO Note tors have regulated and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Finance Customer Service Capital Projects Engineering Environmental/sustainability Climate Change Culture change and transformation CEO CFO Note C | Chairman CEO CFO Non-Executive Itors have regulated AM CW AC HN NL CL sure and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Pinance Package Projects Projec | Chairman CEO CFO Non-Executive Directors Interest tors have regulated and strategic erience Utility industry experience or experience of network operations Economic regulation/public policy Finance Customer Service Technology/digital systems Capital Projects Engineering Environmental/sustainability Culture change Culture change and transformation AM CW AC HN NL CL IP Non-Executive Directors Remunerative Directors AM CW AC HN NL CL IP AC IP Non-Executive Directors AM CW AC HN NL CL IP AC IC IP AC IC IP AC IC IC IC AC IC IC IC AC IC IC IC AC IC IC IC AC IC IC AC IC IC AC IC IC AC IC IC AC IC AC IC IC | Chairman CEO CFO Non-Executive Directors Itors have regulated AM CW AC HN NL CL IP JS ure and strategic erience Utility industry experience or experience or experience of network operations Economic regulation/public policy Finance Customer Service Capital Projects Engineering Environmental/sustainability Chairman CEO CFO Non-Executive Directors October Sequence Octo | Chairman CEO CFO Non-Executive Directors (Invest Invest Investors) Littors have regulated ure and strategic erience AM CW AC HN NL CL IP JS JHK Utility industry experience or experience or experience of network operations O O O O O O Economic regulation/public policy O O O O O O Finance O O O O O O Customer Service O O O O O Technology/digital systems O O O O Capital Projects O O O O Engineering O O O O Environmental/sustainability O O O O Culture change and transformation O O O O O Remuneration O O O O O O |

^{*} Michael McNicholas resigned on 16 May 2024.

Strategic report Governance Financial statements Financial statements







Division of responsibilities continued

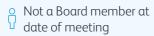
Board meetings

The Board held 37 formal meetings this year. Board members also attended workshops, deep dives and informal sessions for more in-depth discussions on matters including our operational performance, leakage, asset health, customer metering, budget proposals, and finance and treasury.

To give the Board good visibility of the key operating decisions of the business, members of the Executive and leadership teams attend Board meetings regularly to update the Directors on performance in specific areas. The Board also holds separate meetings on a regular basis, without the Executive Directors being present, to discuss any issues or concerns. There are also informal opportunities for the Directors to meet and discuss specific areas of the business with individual members of the Executive team and other employees.

| Board Members | 05-Apr-23 | 18-Apr-23 | 19-Apr-23 | 25-Apr-23 | 26-Apr-23 | 27-Apr-23 | 03-May-23 | 11-May-23 | 18-May-23 | 24-May-23 | 01-Jun-23 | 08-Jun-23 | 15-Jun-23 | 20-Jun-23 | 22-Jun-23 | 27-Jun-23 | 27-Jun-23 | 28-Jun-23 | 07-Jul-23 | 21-Jul-23 | 27-Jul-23 |
|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Director | | | | | | | | | | | | | | | | | | | | | |
| Ian Marchant | ŧ | ŧ | ŧ | X | ŧ | į | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | | |
| Sir Adrian Montague | | | | | | | | | | | | | | | | | | | | i | i |
| Chris Weston | | | | | | | | | | | | | | | | | | | | | |
| Sarah Bentley | ŧ | Ť | į | į | į | į | į | į | i | į | ŧ | į | Ť | i | ŧ | 8 | | | | | |
| Alastair Cochran | i | į | į | į | į | į | į | į | į | į | i | į | į | į | i | į | į | į | į | į | į |
| NEDs | | | | | | | | | | | | | | | | | | | | | |
| Michael McNicholas | ŧ | Ť | į | į | į | ŧ | į | ŧ | i | į | ŧ | į | ţ | ŧ | ŧ | i | į | į | ŧ | į | į |
| Guy Lambert | ŧ | į | į | į | į | Ť | į | į | į | į | i | į | į | į | į | į | į | į | į | į | X |
| John Holland-Kaye | į | į | į | į | į | į | į | į | X | į | į | X | į | × | × | - | į | į | į | X | X |
| INEDs | | | | | | | | | | | | | | | | | | | | | |
| Catherine Lynn | į | į | į | į | į | į | į | į | į | į | i | į | į | į | į | į | į | į | į | į | į |
| Ian Pearson | ŧ | į | i | i | i | į | į | į | į | i | į | į | į | į | į | į | ŧ | ŧ | × | į | i |
| Jill Shedden | ŧ | į | X | X | į | İ | į | į | X | X | X | į | į | į | į | į | į | į | X | į | X |
| David Waboso | × | X | X | X | X | X | X | × | | | | | | | | | | | | | |
| Hannah Nixon | ŧ | į | i | į | į | İ | Ť | į | į | į | X | į | į | į | ŧ | - | į | į | ŧ | ŧ | Ť |
| SINED | | | | | | | | | | | | | | | | | | | | | |
| Nick Land | i | į | X | į | į | į | į | İ | į | į | i | į | į | İ | i | İ | į | į | İ | į | X |







Strategic report Governance Financial statements Financial statements







Division of responsibilities continued

| Board Members | 31-Jul-23 | 24-Aug-23 | 25-Sept-23 | 27-Sept-23 | 01-0ct-23 | 15-Oct-23 | 26-Oct-23 | 29-Nov-23 | 11-Dec-23 | 15-Jan-24 | 19-Jan-24 | 31-Jan-24 | 14-Feb-24 | 01-Mar-24 | 15-Mar-24 | 27-Mar-24 | Total | Appointment | Resignation |
|---------------------|-----------|-----------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|-------------|-------------|
| Director | | | | | | | | | | | | | | | | | | | |
| Ian Marchant | | | | | | | | | | | | | | | | | 18/19 | | 10 Jul 23 |
| Sir Adrian Montague | ŧ | Ť | ŧ | Ť | ŧ | ŧ | ŧ | į | ŧ | ŧ | į | ŧ | į | Ť | ŧ | ŧ | 18/18 | 10 Jul 23 | |
| Chris Weston | | | | | | | | | | i | į | į | į | i | į | į | 7/7 | 08 Jan 24 | |
| Sarah Bentley | | | | | | | | | | | | | | | | | 15/16 | | 27 Jun 23 |
| Alastair Cochran | X | i | i | į | į | į | i | į | į | į | į | ŧ | į | į | i | į | 36/37 | | |
| NEDs | | | | | | | | | | | | | | | | | | | |
| Michael McNicholas | ŧ | į | ŧ | į | ŧ | į | ŧ | į | ŧ | ŧ | ŧ | ŧ | ŧ | į | ŧ | ŧ | 37/37 | | 16 May 24 |
| Guy Lambert | į | į | i | į | į | į | X | į | X | į | į | X | į | į | į | į | 33/37 | | 27 Mar 24 |
| John Holland-Kaye | ŧ | į | ŧ | į | ŧ | X | ŧ | į | ŧ | ŧ | į | ŧ | į | į | ŧ | ŧ | 29/37 | | |
| INEDs | | | | | | | | | | | | | | | | | | | |
| Catherine Lynn | į | i | i | į | į | į | į | į | į | X | X | ŧ | į | i | į | į | 35/37 | | |
| Ian Pearson | i i | į | ŧ | į | į | į | į | į | i i | ŧ | į | ŧ | į | į | ŧ | į | 36/37 | | |
| Jill Shedden | i i | į | ŧ | X | į | į | į | į | ŧ | ŧ | į | ŧ | į | į | ŧ | į | 29/37 | | |
| David Waboso | | | | | | | | | | | | | | | | | 0/8 | | 12 May 23 |
| Hannah Nixon | į | į | i | į | į | į | į | į | į | į | į | ŧ | į | į | i | į | 35/37 | | |
| SINED | | | | | | | | | | | | | | | | | | | |
| Nick Land | į. | į | į | į | į | į | į | į | į | į | į | į | į | į | į | į | 35/37 | | |



Meeting held on short notice.
- Company Secretary unable to notify in sufficient time



Strategic report Thames Water Annual Report 2023/24 Governance Financial statements







Executive team

Our Executive team is responsible for the day-today running of our business.

In February 2024, Chris Weston, our CEO, streamlined the Executive team and created a new Chief Operating Officer role, to align goals and breakdown silos. In addition to the CEO and CFO, there are now five further members of the Executive team.

Chief Operating Officer



Esther Sharples

Esther Sharples was appointed as Operations Director, London, in September 2023. Esther was then appointed Chief Operating Officer in February 2024

Relevant skills and experience

- Wealth of experience in managing vast and complex infrastructure
- Strong passion for making things better for customers

Esther Sharples has 20 years of experience managing infrastructure across a number of sectors including 16 years at Transport for London (TFL) and prior to that at Land Securities Trillium and the BBC.

During her time at TFL, Esther held positions as Director of Asset Operations and most recently Director of Asset Performance Delivery, where she was responsible for the maintenance and renewals of assets across the London Underground.

Retail Director



David Bird

David Bird was appointed as Retail Director in November 2022

Relevant skills and experience

- Demonstrable history of transforming business performance and changing culture in a wide range of markets
- Creating long-term sustainable growth through a focus on customers, building new propositions and re-engineering operations through the use of digital technologies

David's early career was spent in a number of different service organisations including Marks & Spencer, BUPA, Vodafone, Homebase and National Express. He then spent over a decade in the retail energy industry where he was Managing Director of E.ON's UK residential business and then CEO of Co-op Energy. More latterly he was Chief Operating Officer at Biffa, the UK's leading waste management company.

He has also held non-executive director roles in the NHS, Department for Education and at the Independent Police Complaints Commission and is currently a Board Advisor to Aston University's Centre for Circular Economy & Advanced Sustainability.

People Director



Catherine Green

Catherine Green was appointed as People Director in August 2023

Relevant skills and experience

- Respected and influential HR leader who creates people agendas that deliver to business needs and provide an engaging experience for employees
- Proven ability in designing and delivering complex, global, people strategies that positively impact and support the broader corporate agenda
- Wealth of experience in shaping and implementing organisational transformation programmes

Catherine started at Thames in April 2021 and became People Director in August 2023.

Before Thames Water, Catherine worked as a senior executive for BP and Citigroup. She delivered a two-year HR modernisation programme for BP's biofuels business in Brazil. She also worked with DiDi to scale 200 electric vehicle charging sites across China.

Catherine passionately believes in the positive impact big business can have on local communities and is proud of the work Thames Water does to provide sustainable employment opportunities across London and the Thames Valley. She is also a key member of the Energy Institute's HR subcommittee.

Strategy and External **Affairs Director**



Cathryn Ross

Cathryn Ross was appointed as Strategy and External Affairs Director in June 2021, and acted as interim Co-CEO with Alastair Cochran from June 2023 to January 2024

Relevant skills and experience

- Experienced regulatory and competition economist
- Proven background in advising on economic, regulatory and competition issues across a number of different sectors

Cathryn was most recently Group Regulatory Affairs Director at BT Group, responsible for developing and implementing regulatory strategy. Previously, she was Chief Executive of Ofwat, where she successfully oversaw the delivery of a new strategy, focused on a vision for the sector of trust and confidence in water and wastewater services.

Prior to that, Cathryn was Executive Director of Markets and Economics at the Office of Rail Regulation (now the Office of Rail and Road), and Executive Director of Markets and Economics at Ofwat. She also served with the Competition Commission (now the Competition and Markets Authority) and has worked in economic consultancy.

Cathryn is a sufficiently independent director on the boards of National Grid Electricity Transmission and National Gas Transmission.

General Counsel and Company Secretary



Andy Fraiser

Andy Fraiser was appointed General Counsel and Company Secretary in August 2023

Relevant skills and experience

- Highly experienced lawyer
- Focused on advising public and private entities in the utilities and infrastructure sectors
- Expertise in facilitating transformation of the delivery of economic infrastructure through the use of private finance

Andy Fraiser was previously Global Head of Project Finance and US Managing Partner at Ashurst LLP where he developed one of the US's leading infrastructure practices.

Prior to that he was a partner at Allen & Overy LLP in London and New York. He is well known for advising on novel and/or complex situations in the infrastructure market that are typically of national or regional importance.

His work has been twice recognised by the Financial Times' North America Innovative Lawyer Awards.

Andy is admitted as a solicitor in England and Wales.

Division of responsibilities

Roles and responsibilities

The Board

The Board is responsible for the long-term success of Thames Water by providing leadership, and establishing the company's Purpose, strategic direction and values. It provides governance oversight and supports effective management of risk. It balances the interests of our shareholders with those of our wide range of other stakeholders including customers, employees, bondholders and suppliers and the impact on our communities and the environment.

Chairman

Sir Adrian Montague, our Chairman, creates the conditions for the effective working of the Board and individual directors. He is responsible for promoting high standards of corporate governance and seeks to ensure Directors understand the views of the Company's shareholders and other key stakeholders as well as section 172 Companies' Act 2006 duties. He sets the agenda and conduct of Board meetings, taking account of the concerns of all Directors and encouraging active engagement. He seeks to ensure that Thames Water maintains effective communication with our external shareholders and other key stakeholders. He supports and advises Chris Weston, our CEO, and he leads the evaluation of the performance of the Board, its Committees, and individual Directors.

Deputy Chairman and Senior Independent Non-Executive Director

Nick Land, our Deputy Chairman, provides a sounding board for the Chair and serves as an intermediary for the other Directors and shareholders. He is available to chair Board and Committee meetings if the Chair is unable to attend. He supports the Chairman in his role and leads the evaluation of the chair on behalf of the other directors. He is also Chair of our Audit, Risk and Reporting Committee.

Independent Non-Executive Directors

Our INEDs are valued members of the Board who bring independent advice, review and challenge the performance of management and individual Executive Directors. They are independent in character and judgement, with relevant experience, and collectively have strong connections with, and knowledge of, the water industry. They understand the interests of our customers and how these can be respected and protected.

Non-Executive (Investor) Director

Our Investor Directors are Non-Executive Directors who are nominated and appointed by our external shareholders, and are therefore not classified as independent. They provide strong experience and constructively challenge and monitor the performance and delivery of the strategy by the Board.

As at 9 July 2024, John Holland-Kaye is the only Investor Director.

Chief Executive Officer

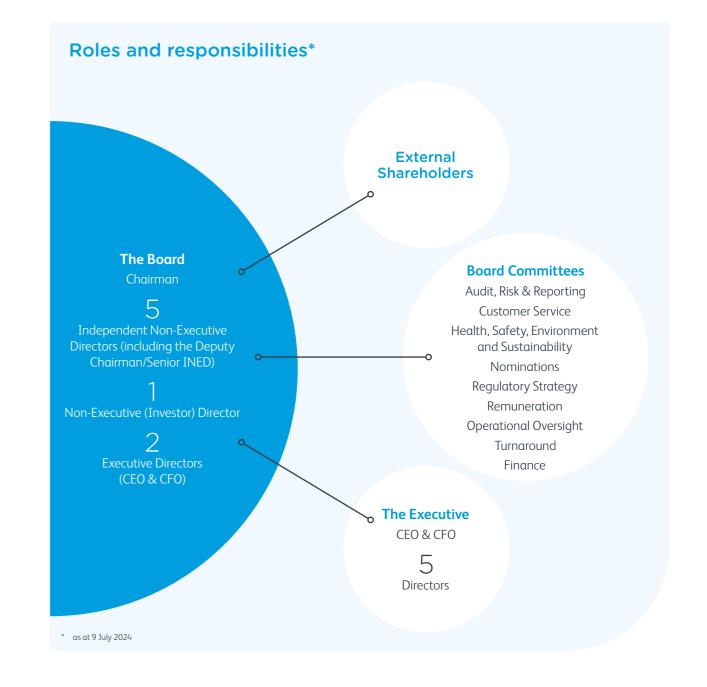
Chris Weston joined as our Chief Executive Officer in January 2024. Chris develops the business strategy, business plan and budget for approval by the Board. Together with the Executive team, he implements the decisions of the Board and its Committees. He is responsible for ensuring the highest standards of health and safety and environmental protection are set, and for embedding a culture of customer service throughout the company. He is responsible for ensuring effective business and financial controls and risk-management processes are in place, and that all relevant laws and regulations are complied with. He also oversees the appointment of senior managers and Executives and succession-planning processes.

Chief Financial Officer

Alastair Cochran is our Chief Financial Officer. Alastair is responsible for management and oversight of Thames Water's financial affairs. With the CEO, he develops and recommends the business plan and budget and seeks to ensure that effective business and financial controls and risk-management processes are in place. Together with the rest of the Executive team, he develops the business strategy and implements the decisions of the Board and its Committees.

Company Secretary

Andy Fraiser is our Company Secretary. The Company Secretary acts as secretary to the Board and all the Committees and is responsible for advising the Board on all governance matters. The role oversees good information flow to the Board and the Committees and seeks to ensure that the Board operates in accordance with relevant laws and governance principles.







Division of responsibilities continued

Board Committees

The Board is supported by nine Committees, which focus on specific issues, with three new Committees set up during FY24 – the Operational Oversight Committee, the Turnaround Committee and the Finance Committee. They report to the Board on matters discussed and make recommendations on matters that require the Board's approval. The terms of reference of the Committees are published on our website. The Board decides the membership and constitution of each Committee. The Committees may engage independent professional advisers and they can also call upon other group resources to assist them in their duties.

Executive Team

The Board delegates the execution of our strategy and day-to-day financial, operational and regulatory decisions to the CEO, supported by the Executive team, through a Schedule of Delegated Authority and in line with established risk management frameworks, compliance policies, internal control systems and reporting requirements. The Board receives a monthly report on safety, financial and operational performance throughout the year, so it can satisfy itself that the Executive team are managing the business in line with the strategic objectives and targets set.

External Shareholders

Although all strategic decisions come through the Board, some areas are subject to ratification by the external shareholders, such as Board membership, remuneration, material regulatory matters and key areas of strategy, management and financial reporting. The full schedule of matters reserved for external shareholder approval is available on our website.

This additional oversight from our ultimate owners provides an effective system of checks and balances, similar to those that apply to listed public companies, while leaving operational authority and overall responsibility for the business in the hands of our Board. Thames Water's holding company and ultimate shareholders are also bound by undertakings, pursuant to which they undertake not to take any action that would prevent Thames Water from complying with its regulatory obligations. These mean that decisions over matters reserved for external shareholders continue to be made in full consideration of the services provided to, and interests of, customers.

During 2023/24, a number of reserved matters required approval, including:

- The appointment of the new Chairman and Chief Executive Officer
- The PR24 Business Plan submission
- Our Remuneration Policy
- Bonus payments for 2022/23
- The annual budget for the financial year 2024/25
- The refocused Turnaround Plan
- A number of Group policies
- The creation of three new Board Committees
- New debt/prospectus renewal in October

The shareholders confirmed the Board's recommendations in each of these matters.







Composition, succession and evaluation

Appointment and induction

Independent Non-Executive Directors are appointed for an initial term of three years with the expectation they will continue for at least a second three-year period. Directors are nominated by the Nomination Committee and their appointments subsequently approved by the Board. All Non-Executive Directors are required to have a pre-appointment meeting with Ofwat. This is an opportunity to share insights on the challenges and opportunities facing the sector and provide understanding of the particular role of the non-executive directors in a water company.

The Chairman and Independent Non-Executive Directors have letters of appointment with the Company which set out their role and duties, the expected time commitment, their fees and the requirement to declare any other interests.

On appointment, all new Directors receive a bespoke induction programme over several months tailored to their specific requirements and designed to facilitate and develop their understanding of the business, as well as an understanding of the Company's operations and culture. The programme provides site visits, an overview of our customer service, financial and operational performance, along with an explanation of the regulatory regime and governance framework. It includes meetings with the Chairman, CEO and CFO, as well as the Executive team, external shareholders, the Company Secretary, other members of the senior management team, and external advisers who provide support to the Board or Committees.

Induction

- Sir Adrian Montague joined the Board as Chairman on 10 July 2023
- Chris Weston joined the Company as CEO Executive Director of the Board on 8 January 2024

They both received a bespoke induction programme upon appointment tailored to specific requirements and designed to facilitate and develop their understanding of the business, as well as an understanding of the Company's operations and culture.

Inductions in action

Each Director is provided with an induction programme covering the following:

The business

- Briefings on Thames Water's history, business background, operational performance and plans, strategy, key performance indicators and targets
- Site visits during the first few months, to allow each Director to experience, first hand, the operations of the business
- Presentations from management on topics such as our strategy and business plan, finance and commercial matters, key operational areas and risk
- One-to-one meetings with members of the Executive team

Culture and values

 Briefings about our culture, including health, safety and wellbeing, talent and succession, trade unions and an overview of our remuneration policy

Governance

- Training relevant to their director duties and regulatory obligations as Directors
- Meetings with the Chairman and Chairs of the Board's Committees
- Briefings on the regulatory and governance framework, Thames Water's policies and Board procedures
- An overview of major risks and the internal risk management strategy

Regulators and Other Stakeholders

- Briefings with the Environment Agency, Ofwat, Drinking Water Inspectorate, Ofwat and Water UK as appropriate
- Briefing about customer engagement to understand our customers' views including engagement with our Customer Challenge Group and other key stakeholders

Training and professional development

Several deep dives and technical sessions were held this year so that Directors remain up to date with key developments across the business and the wider industry.

Further informal sessions, including presentations, regular updates and briefings were held, with specific focus on topics of interest to the Board. The Board activities section on page 63 gives more information on topics covered during the year.

These informal sessions also serve as an opportunity for the Board to discuss strategy and risks with local management teams and gain further insight into our business and management capability.

We aim to continually refresh and expand the Board's knowledge and skills to enable Directors to effectively fulfil their roles and contribute to discussions on technical and regulatory matters.

All Directors have access to professional development provided by external bodies and our advisers.

We also expect Board members to complete online training modules in areas such as Ethical Behaviour and Protecting and Securing our Data. Additional voluntary modules include 'Keeping Thames Secure' and 'Vulnerability Thames Water'.

Directors and their other interests

As a matter of good governance, all Directors are required to disclose their other significant commitments to the Board. This seeks to ensure that third parties do not influence, compromise or override Directors' independent judgement. In accordance with the Companies Act, all Directors are also required to advise our Company Secretary of any actual or potential conflicts of interest (including those resulting from significant shareholdings) as soon as they arise, so they can be considered by the Board at the next available opportunity.

Any Director with a potential conflict of interest relating to a specific matter that is being considered by the Board or one of its committees must recuse themselves from the relevant meeting while this item is discussed and may not vote on the matter. If the Chairman has such a conflict, he will recuse himself from the meeting and the Deputy Chairman will take the Chair for the discussion.

It is the Board's view that this procedure operated effectively during 2023/24. During the year, no Independent Non-Executive Director declared a material interest in any contract of significance with Thames Water or any of its subsidiary undertakings.

Chris Weston is a Non-Executive Director of Barratt Developments plc.

Alastair Cochran does not act for any FTSE company as a Non-Executive Director or Chairman.







How the Board supported the Strategy

The Board holds ultimate responsibility for our long-term success, delivering sustainable shareholder value, serving our customers and contributing to society at large

It sets our Purpose, values, and strategy, ensuring alignment with our company culture. This responsibility includes making sure that workforce policies and practices reflect our values and support our long-term sustainable vision.

| Strategy/headline | | Board decisions and activities |
|-------------------|------------|--|
| Purpose and Visio | ר | The Board ran a strategy day, which covered the political landscape, environmental challenges including the impact of climate change in London, the changing expectations of customers and the challenges and opportunities to reflect this, along with the appetite for regulatory reform Ian Pearson, the Workforce Lead Director continued his workforce engagement programme, to understand the culture and challenges of the business The Board was updated on the results of the employee survey – Hear for you – in June 2023 |
| Turnaround | People | A new Chairman, Sir Adrian Montague, joined in July 2023. The Nominations Committee led the process to appoint the new CEO, Chris Weston, who has significant turnaround experience The Remuneration Committee oversaw the creation of a new Performance Related Pay Plan to replace the annual management bonus and LTIP, in line with the requirements of Ofwat Chairman, Sir Adrian, hosted the business' first Turnaround townhall, attended by senior leaders and those accountable for the delivery of the turnaround initiatives The Board approved the refocused turnaround plan in November 2023, and subsequently a new Turnaround Committee was set up, to provide Board oversight of the delivery and progress against the plan The Health, Safety, Environment and Sustainability Committee approved the Health and Safety strategy |
| | Operations | A new Operational Oversight Committee was set up to focus on operational performance and delivery of key priorities The Health, Safety and Environment Committee was renamed the Health, Safety, Environment and Sustainability Committee (HSES) to enable increased oversight of the business' approach to sustainability at Board level The HSES Committee discussed the incidents at Shelford and Ashford Common, and also discussed in depth the historical pollution at Crawley There was a Board deep dive on leakage, as well as deep dives on winter preparedness The Board was provided with an update on the lessons learned following the major supply interruption in Guildford and were updated on the Incident communications plan The Board visited Mogden sewage treatment works, which is undergoing significant investment Reducing complaints is a standing item on the Customer Service Committee agenda |
| | Finance | The Board approved record capital investment to improve the resilience of Thames Water's network A Finance Committee was established to provide oversight and effective governance of our funding strategy, capital structure, liquidity management, covenant compliance/ratings management and broader strategy into AMP8 and beyond |
| PR24 | | The Board approved Thames Water's proposed PR24 business plan in October, with detailed discussions at the Regulatory Strategy Committee. |





Board engagement with stakeholders

Engaging with stakeholders



Board engagement

- Board engaged both directly with customers, through customer immersion sessions, and via Thames Water's independent Customer Challenge Group (CCG)
- CCG Chair attended Board, Regulatory Strategy Committee and Customer Service Committee meetings, providing an update on the work of the CCG, including their engagement with customers as part of the PR24 process and to give their views of the plan itself
- The Board was represented, by Hannah Nixon and Catherine Lynn, on the two Your Water Your Say sessions as part of the PR24 engagement process. The virtual events were attended by a broad range of stakeholders and customers
- Chairs of the CSC, RSC met with CCG representatives to discuss board oversight of customer engagement and customer challenge
- CCG Chair attended a Thames Water Board meeting to share the CCG's draft report of Thames Water's performance, including a summary of the key challenges
- Sir Adrian attended the CCG's Board meeting to give his views on Thames Water's position

Outcome

- Through insight and engagement with the CCG, the Board has a better understanding of the views and priorities of customers, and their integration into the plan and the strategic decisions
- The Board is independently challenged by the CCG to ensure the views of customers are factored into plans.



Board engagement

- Extensive engagement with shareholders relating to equity
- Shareholder representatives on the Board
- CEO/CFO hosting debt investor presentations and attending Non deal Roadshows

Outcome

- On 28 March 2024 our shareholders announced that based on the regulatory arrangements that would be expected to apply to the Company in AMP8, the Company's PR24 Business Plan was uninvestable and the conditions attached to the £750 million of new shareholder equity had not been satisfied
- Critical PR24 business plan approved with full shareholder support for submission in October 2023
- Regular updates with banks and debt investors helped maintain access to debt capital markets, allowing £1.15bn bonds to be issued during the financial year and the extension of £0.3bn of bilateral facilities



Board engagement

- Our regulators require our Board to oversee, and in some cases confirm, that the data and information which the company has provided to them is accurate and complete e.g. During the year, our Board has signed assurance statements for our PR24 Business Plan submission and our Annual Performance Report
- Consider the future challenges to the business and such matters defining the long-term corporate strategy
- Hannah Nixon and Catherine Lynn spoke on the panel at our Your Water, Your Say sessions in May and November 2023
- The Board has been in regular engagement with our regulators in relation to our PR24 plan

Outcome

 Ofwat will publish its draft determination of the Company's PR24 Business Plan on 11 July and will consult on these proposals ahead of publishing its final determinations in December 2024. As such the outcome of the Board's engagement on PR24 will not be clear until later in the year. As and when Ofwat publishes its final determination the Board will be fully engaged in the assessment of Ofwat's final determination and the decision as to whether to accept it or ask Ofwat to refer the matter to the Competition and Markets Authority for a redetermination.



Board engagement

Over the course of the year, Cathryn Ross, Alastair Cochran, Chris Weston and Sir Adrian Montague engaged in the following activities:

- Met with government ministers, including both Defra Secretary of States, to discuss performance and future plans
- Held various one-to-one meetings with MPs to discuss issues in their constituencies, for example with Jeremy Hunt MP
- Appeared before two different select committee sessions
- Met with the Greater London Authority, meeting the Deputy Mayor for Environment and Energy, Shirley Rodrigues
- Attended the Mayor's London Infrastructure Group, and appeared before sessions of the London Environment Committee as well as hosting site visits

Outcome

 Feedback from policy makers and elected representatives helps us understand whether we are meeting stakeholders' expectations in the communities we serve. It also keeps us close to changes to policy that affect the regulatory environment in which we operate







Board workforce engagement



There is a great culture of honesty and realism in the business"

This year I have been privileged to continue in my role as engagement lead for the Board, continuing to meet teams from across the business. In total, over the course of the year I've met with 24 teams either virtually or face to face. I have also met with the Company's engagement champions twice to understand their thoughts, what their teams are saying and how they're feeling.

Given the backdrop of the former CEO resigning, and the subsequent fevered media stories regarding the Company's financial position, team members have had lots of questions throughout the year.

I've thoroughly enjoyed the engagement sessions this year, and I've had some really good conversations about the business, the need for the turnaround of the Company's operational and financial performance, and our future plans.

People in the business at all levels are under a lot of pressure. There's a general feeling of being stretched, and many would like more resources to get the job done. But the vast majority are also realistic and pragmatic about the need to live within budgets. Morale is as good as might be expected given our circumstances. Our workforce is incredibly resilient, and they are incredibly proud to work for Team Thames.

This has also contributed to a general feeling of frustration about how the Company is portrayed in the media, and the general negative stories about the industry in general. They know Thames Water needs to improve, but they don't feel that they get credit for their daily hard work and commitment and would like us to redouble our efforts to communicate some of our success stories better.

Two of the main highlights for me would be meeting with the laboratories and occupational health teams. Our Spencer House lab teams do a terrific job, 24 hours a day, 365 days a year. They tested and analysed more than 2.9 million results last year using cuttingedge science and scientific techniques. They are generally considered to be one of the best in the industry. As an example, when Wessex Water had a cryptosporidium problem with their laboratories, our team picked up the work for six months to help them out and did so selflessly. They are a great example of our colleagues living our 'take ownership' value.

Secondly, it was great to meet with several members of the Occupational Health team and hear about their work and the insights. They're a hugely important resource supporting colleagues and the business in general, and I know how highly valued they are by their peers.

Overall, during the year I've met with really engaged and thoughtful groups of people who are committed to Team Thames and to playing a part in its future.

There is a great culture of honesty and realism in the business – our Team Thames colleagues don't shirk from telling me what we could be doing better, which I always look to feed back to Executives and the Board.

I look forward to continuing my visits with teams throughout the next financial year, as our teams deliver our Turnaround Plan.

Ian Pearson

Workforce Engagement Lead Director



Ian Pearson (right) with Tony Fiske, Controller of Premises, at Deephams

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Operational Oversight Committee Report



We established this Committee to increase oversight of our operations in light of the challenges facing the Company."

John Holland-Kaye

Chair of the Operational Oversight Committee

At a glance

The Operational Oversight Committee (OOC) is responsible for reviewing and monitoring matters relating to operational performance across the Company.

Membership and attendance

The Committee is made up of two Independent Non-Executive Directors and one Non-Executive Director. The Chairman, Chief Executive Officer and the Chief Operating Officer attend by invitation as required. Other attendees are invited at the request of the Committee. The Company Secretary acts as secretary to the Committee.

Following the resignation of Michael McNicholas, John Holland-Kaye has taken the role of Chair.

The creation of the OOC, including the Committees composition and terms of reference, was approved by the Board in November 2023. The Committee shall meet at least four times a year. The Committee met once in this reporting period.

Role of the Committee

The main objective of the Committee is the provision of oversight and effective governance over:

- Operational resourcing, organisation, and capability
- Operational plans and performance including key areas such as drinking water quality, pollutions, flooding and leakage
- Operational resilience and major incident response capability;
- The overarching asset management strategy, policies and resulting procedures and processes, including adherence to same; and
- Delivery of the capital investment programme

The role and activities of the Committee will continue to evolve working alongside the other Committees

Committee activities during the year 2023/24

The following was discussed as part of the first meeting of the Committee:

- Operational Oversight Committee ways of working and engagement
- Overview of operations structure and resource
- Operational performance including capital delivery, customer and stakeholders
- Water quality
- Biogas digester safety work programme
- Relevant principal risks

Key actions from 2023

- The Committee was set up during the year to increase operational oversight, particular of key areas such as leakage and pollutions
- As part of the first meeting it discussed the structure of operations and resource

Priorities for 2024

• Providing governance over plans for key areas including pollutions and leakage

Attendance

| Committee Members | 25 March 24 | Total | Resignation |
|-----------------------------------|----------------|-------|-------------|
| Michael McNicholas (Former-Chair) | • | 1/1 | 16 May 2024 |
| John Holland-Kaye | ţ | 1/1 | |
| Catherine Lynn | i i | 1/1 | |
| Hannah Nixon | ţ | 1/1 | |









Customer Service Committee Report



The Customer Service Committee embeds the 'voice of the customer' into Thames Water"

Catherine Lynn
Chair of the Customer Service Committee

Key actions from 2023

- Engaging on the development of leadership behaviours to transform customer service culture within the business
- Maintained oversight of the customer engagement and its findings, as part of the PR24 process

Priorities for 2024

- Making recommendations so that customers remain at the heart of the business' decision making as the PR24 process
- Improving our overall performance in relation to customer complaints

At a glance

The Customer Service Committee (CSC) provides additional oversight, on behalf of the Board, of the activities that relate directly or indirectly to Thames Water customers, including households, businesses and developers.

In addition, the CSC embeds the 'voice of the customer' into Thames Water. The CSC is also able to provide subject matter expertise and experience to support the operational delivery to customers across operations and retail.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors and one Non-Executive (Investor) Director. The Chief Executive Officer, the Retail Director and the Chief Operating Officer attend by invitation as required. Other attendees are invited at the request of the Committee. The Company Secretary acts as secretary to the Committee.

The Committee met four times in this reporting period.

An Non-Executive (Investor) Director, John Holland-Kaye, was appointed to the Committee during the course of the year. The Committee composition will be reviewed during 2024/25 to assure it is sufficiently independent and has an appropriate representation of Directors' skills.

Role of the Committee

The main objectives of the Committee are to provide assurance, governance, support and challenge on delivering better outcomes for customers and may be delegated by the Board the role of approving the Customer Service Strategy and Customer Policies. The role of the CSC will encompass the following areas but not be limited to them:

- Customer Strategy and Performance
- Reviewing the development of the customer strategy reflecting the challenges faced by the Company now and in the future.
- Reviewing how we are embedding 'customer obsession' within the company.
- Reviewing and recommending how we can achieve Thames Water's goals for Customers.
- Reviewing the communication strategy, including channels for communication and consultation processes on strategic projects.
- Advising the Board on key issues, proposals for improvements and policy changes.
- Reviewing the current Company position and performance against regulatory commitments, industry comparators and external best practice in other companies.

The Committee is satisfied that there remains an appropriate combination of Independent Non-Executive Directors and Non-Executive (Investor) Directors on the Board such that no one individual or group of individuals dominates the Board's decision making.

Committee activities during the year 2023/24

During the year, the Committee received and discussed updates on customer service performance and the delivery of our services strategy, including specific updates in relation to:

- The C-MeX plan
- Overall customer service including customer service KPIs, complaints trends, including root causes, billing performance and retail and operations performance
- The development of leadership behaviours to transform customer service culture
- Licence modifications on the principles of customer care
- What customers, communities and stakeholders want as part of Price Review 2024 engagement (PR24)
- Customer Challenge Group (CCG) activities as part of PR24
- Smart metering rollout
- Review of Committee Terms of Reference
- Review of Committee performance
- Review of customer related principal risks

The Committee remains focused on looking at ways to improve customer service levels and engagement with customers as the Company moves forward, by recommending appropriate action to the Board.

Attendance

| Committee Members | 27 Jun 23 | 5 Jul 23 | 28 Nov 23 | 26 Mar 24 | Total | Appointment |
|-------------------|--------------|-------------|--------------|--------------|-------|-----------------|
| Catherine Lynn | · | į | ŧ | ŧ | 4/4 | |
| Nick Land | i | ţ | Ť | Ť | 4/4 | |
| Jill Shedden | į | X | Ť | Ť | 3/4 | |
| John Holland-Kaye | Ŷ | ţ | ŧ | ŧ | 3/3 | 1 April 2023 |













Regulatory Strategy Committee Report



A key focus for the year was the approval of Thames Water's October 2023 PR24 business plan submission and subsequent update"

Hannah Nixon Chair of the Regulatory Strategy Committee

Key actions from 2023

 Maintaining oversight of the PR24 business plan submission, and making recommendations to the Executive Team as the PR24 process continues

Priorities for 2024

Ofwat is expected to publish its PR24 Draft
Determinations on 11 June 2024 and its Final
Determinations in December 2024. During the course of
2024/25 the Committee therefore expects to maintain
strong oversight of the PR24 process and the assessment
Ofwat's decisions

At a glance

The Committee has primary responsibility for regulatory matters linked to the corporate strategy and the regulatory business plan.

Membership and attendance

Including the Chair, the Committee consists of the Chairman, two Independent Non-Executive and one Non-Executive (Investor) Director. The meetings are also attended, as required, by the Chief Executive Officer, the Strategy and External Affairs Director and the Chief Financial Officer. Other members of the Executive team, other Thames employees and third-party advisers may be invited to attend meetings by the Committee. The Company Secretary acts as secretary to the Committee.

The Committee met eight times in this reporting period.

Sir Adrian Montague, Chairman of our Thames Water Utilities Limited Board and John Holland-Kaye, our Non-Executive (Investor) Director representing USS, joined the Committee during the course of the year. Non-Executive Director, Michael McNicholas stepped down from the Committee in May 2024, when he stepped down from the Thames Water Utilities Limited Board. The Committee composition will be reviewed during 2024/25 to assure it is sufficiently independent and retains an appropriate representation of Director' skills.

Role of the Committee

The main objective of the Committee is to assist the Board in reviewing any matters of significance affecting current and future strategy and regulatory business planning matters and the application of appropriate policies and practices. It:

- considers the future challenges to the business and such matters defining the long-term corporate strategy (also considered in 2023/24 by the full Board);
- reviews and challenges the business planning process and assumptions; and
- has specific oversight for the regulatory price control submission process.

In addition, during the course of 2023/24 the Committee has spent a considerable proportion of its time on regulatory matters, with key activities described below.

Committee activities during the year 2023/24

During 2023/24, the ongoing 2024 Price Review ('PR24') has been a particular area of focus for the Committee. In addition, the Committee also discussed, amongst other things:

- Management of regulatory compliance and reporting risk (and year-end preparedness)
- Section 19 leakage undertakings and the leakage customer insight report
- The supply interruption at Guildford
- The London Water Improvement and Water Supply System Resilience Programme Conditional Allowances
- The findings of Ofwat's investigation into Welsh Water's reporting of leakage and per capita consumption
- Changes to the Company's instrument of appointment including the new 'customer focussed' licence condition and modifications to Condition B relating to the provision of a Thames Tideway Tunnel separate price control
- SESRO and Teddington Direct River Abstraction Strategic Resource Options
- Ofwat's Monitoring Financial Resilience report and Water Company Performance report and the Company's Service Commitment Plan
- The ongoing Ofwat and Environment Agency investigations relating to TWUL's management of its sewage treatment works and wider networks
- Ofwat customer case work including disputes under S181 of the Water Industry Act and eligibility for payments under the Guaranteed Standard Scheme.
- Review of responses to regulatory consultations including Ofwat's consultation on it is vulnerability guidance, innovation fund, commercial arrangements for SROs and the governments consultation on 'Smarter Regulation
- Review of relevant Principal Risks
- The Committee's Terms of Reference

The Committee looks forward to continuing to contribute to the development of the Company's longer-term strategy as the new Executive leadership seeks to take the business forward.

Attendance

| Committee Members | 5 June 23 | 26 June 23 | 27 July 23 | 21 Aug 23 | 26 Sept 23 | 27 Nov 23 | 15 Jan 24 | 25 Mar 24 | Total | Appointment | Resignation |
|---------------------|--------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|-------|--------------|--------------|
| Hannah Nixon | ŧ | į | ŧ | ŧ | ŧ | ŧ | ŧ | ŧ | 8/8 | | |
| John Holland-Kaye | ŧ | ŧ | ŧ | į | ŧ | ŧ | į | ŧ | 8/8 | 1 April 2023 | |
| Ian Marchant | ŧ | Ť | Ŷ | Ŷ | Ŷ | Ŷ | Ŷ | Ŷ | 2/2 | | 10 July 2023 |
| Michael McNicholas | ŧ | Ť | Ť | ŧ | ŧ | Ť | ŧ | Ť | 8/8 | | 16 May 2024 |
| Ian Pearson | ŧ | Ť | ŧ | ŧ | ŧ | ŧ | ŧ | Ť | 8/8 | | |
| Sir Adrian Montague | Ŷ | Ŷ | i | i | i | i | i | į | 6/6 | 10 July 2023 | |

Meeting attended

Not a Committee member at date of meeting



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Health, Safety, Environment and Sustainability Committee Report



Much of the Committee's actions in FY24 reflect that the health & safety of our employees is of paramount importance to the business"

John Holland-Kaye

Chair of Health, Safety, Environment and Sustainability Committee

At a glance

The Committee is responsible for reviewing and monitoring matters relating to health and safety, wellbeing, environment, sustainability and security.

Membership and attendance

As of 9 July 2024 the Committee is made up of two Independent Non-Executive Directors and one Non-Executive (Investor) Director. The Chief Executive Officer, Chief Operating Officer, and the Interim Director of Health, Safety and Wellbeing attend by invitation. Other members of Thames Water's senior management team are invited to attend meetings when appropriate. The Company Secretary acts as secretary to the Committee.

David Waboso, Independent Non-Executive Director, and Michael McNicholas, Non-Executive (Investor) Director, stepped down from the Board and the Committee in May 2023 and May 2024 respectively.

The Committee met three times in this reporting period.

Role of the Committee

The objective of the Committee is the provision of oversight and effective governance over:

- Health, safety and wellbeing across the Company
- Sustainability Strategy and its implementation in line with the Purpose, Values and strategy of the Company and sustainability performance including broader stakeholder and employee engagement
- Biodiversity impact and progress
- Climate adaptation and net zero carbon ambitions, targets and compliance
- Compliance with relevant Health and Safety statutory and regulatory obligations

Committee activities during the year 2023/24

At its formal meetings this reporting year, the Committee has considered and discussed:

- Health, safety and wellbeing performance reports
- Biogas digester safety
- Environmental and water quality reports
- Health, Safety and Wellbeing policy and CEO's commitment review
- Flow to full treatment reviews
- Operational Net Zero 2030 Programme
- Climate Change
- London Flooding Programme
- Review of pollution incident reduction plan
- Oversight of competency improvement through skills register
- Oversight of process safety performance through review of relevant indicators
- Review of Committee Terms of Reference
- Relevant principal risks

The Committee looks forward to continuing to challenge the business on how it manages health and safety, well being, environmental, sustainability and security issues to further improve standards, practices and outcomes, as part of a broader process of change across the Company.

Key actions from 2023

- Review of key risks, controls and associated mitigation actions, including London flood risk, driver safety and biogas digester safety
- Updates on water quality performance
- Managing colleague fatigue in operations
- Net zero carbon plan and targets

Priorities for 2024

- Increased focus on security of people and property
- Road safety
- Net zero carbon plan and targets
- Management of safety including culture during organisational change

Attendance

| Committee Members | 15 Jun 23 | 28 Nov 23 | 26 Mar 24 | Total | Appointment | Resignation |
|--------------------|--------------|--------------|--------------|-------|--------------|-------------|
| John Holland-Kaye | i | ŧ | ţ | 3/3 | 1 April 2023 | |
| Nick Land | † | ŧ | ŧ | 3/3 | | |
| Catherine Lynn | i | ŧ | ţ | 3/3 | | |
| Michael McNicholas | i | ŧ | ţ | 3/3 | | 16 May 2024 |
| David Waboso | Ŷ | Ŷ | Ŷ | 0/3 | | 12 May 2023 |
| Ian Marchant | i | Ŷ | Ŷ | 1/1 | | |

Meeting attended





Strategic report Thames Water Annual Report 2023/24 Financial statements







Nomination Committee Report



Given the challenges facing Thames, the Nominations Committee will continue to consider the optimal skills mix for the Board"

Sir Adrian Montague Chair of the Nomination Committee

Key actions from 2023

- The Committee appointed Alastair Cochran and Cathryn Ross as interim co-CEOs following the resignation of Sarah Bentley
- After a rigorous and thorough executive search process, Chris Weston was appointed CEO in January 2024

Priorities for 2024

• Undertake a skills review of the Board to assure that the Company continues to benefit from having a Board with broad experience that is relevant to the challenges facing the Company

At a glance

Meeting

attended

The Committee has primary responsibility for the composition of the Board and leadership needs of the Company.

Membership and attendance

Membership of the Committee, excluding the Chair, consists of three Independent Non-Executive Directors, Nick Land, Jill Shedden and Ian Pearson. Non-Executive Director, Michael McNicholas, stepped down from the Board and the Committee during the year. The Committee is chaired by Sir Adrian Montague.

The Company Secretary acts as secretary to the Committee. When appropriate the CEO, CFO, People Director and external advisors may attend meetings by invitation.

The Committee composition will be reviewed during 2024/25 to assure it is sufficiently independent and retains an appropriate representation of Directors' skills.

The Nomination Committee met formally three times during the year.

| Attendance | | | | | |
|---------------------|---------------|--------------|--------------|-------|-------------------------|
| Committee Members | 25 Sept 23 | 27 Nov 23 | 25 Mar 24 | Total | Appointment Resignation |
| Sir Adrian Montague | ŧ | ŧ | ŧ | 3/3 | 10 July 2023 |
| Nick Land | į | į | į | 3/3 | |
| Ian Marchant | ñ | Ŷ | ñ | 0/0 | 10 July 2023 |
| Jill Shedden | į | į | į | 3/3 | |
| Michael McNicholas | ŧ | ŧ | ŧ | 3/3 | 16 May 2024 |
| Ian Pearson | į | į | ŧ | 3/3 | |
| | | | | | |

Ω Not a Committee member at date of meeting

Role of the Committee

The main objectives of the Committee are to:

- Review from time to time the structure, size and composition of the Board and to make recommendations to the Board regarding any changes it considers necessary; and
- Keep under review the leadership needs of the Company and make recommendations regarding the formulation of succession plans for appointments to the Board, to maintain an appropriate balance of skills and experience as well as diversity in order that it remains effective and focused on driving forward the strategy of the Company.

The Committee is satisfied that there remains an appropriate combination of Independent Non-Executive Directors and Non-Executive (Investor) Directors on the Board such that no one individual or group of individuals dominates the Board's decision making.

Activity during the year

The Nomination Committee's core responsibility is to manage the appointment process for new Board directors – the exception being the appointment of a new Chairman which was carried out by the Board, led by the Senior Independent Director. Sir Adrian Montague joined Thames Water as our Chairman in July 2024 and Chris Weston as our Chief Executive Officer in January 2024. Russell Reynolds Associates was engaged as the external search agency to support these appointments. Russell Reynolds has no other relationship to the Company and is a signatory to the latest Voluntary Code of Conduct for executive search firms.

Sir Adrian and Chris spent their first month meeting stakeholders and colleagues, and spending time on operational sites to hear first-hand the challenges the business is facing. You can find out more about his induction on page 62.

Board and Executive Team Diversity Policy

The data below is presented in accordance with the FCA's Listing Rule 9.8.6R(10). The applicable reference date of this data is 9 July 2024. To collect this data, the Company asked members of the Board and Executive Team² to complete a confidential and anonymous online survey.

Gender identity or sex:

| | Board Mem | bers | Number of senior | Executive Team ² | |
|---------------------------------|-----------|------------|--|-----------------------------|------------|
| | Number | Percentage | positions on the board (CEO, CFO, SID and Chair) | Number | Percentage |
| Men | 6 | 67% | 4 | 4 | 57% |
| Women | 3 | 33% | _ | 3 | 43% |
| Not specified/prefer not to say | _ | _ | _ | _ | _ |

Ethnic background:

| | Board Members | | Number of senior | Executive Mana | igement² |
|--|---------------|------------|--|----------------|------------|
| | Number | Percentage | positions on the board (CEO, CFO, SID and Chair) | Number | Percentage |
| White British or other White (including minority white groups) | 9 | 100% | 4 | 7 | 100% |
| Mixed/Multiple Ethnic Groups | _ | _ | _ | _ | _ |
| Asian/Asian British | _ | _ | _ | _ | _ |
| Black/African/Caribbean/ | | | | | |
| Black British | _ | _ | _ | _ | _ |
| Other ethnic group, inc. Arab | _ | _ | _ | _ | _ |
| Not specified/prefer not to say | _ | _ | _ | _ | _ |

- The data refers to the date of signing 9 July 2024, not the year end date of 31 March 2024 2 Executive team, including the CEO and CFO







Nomination Committee Report continued

Also, during the year, the Committee supported our shareholders with the process to appoint two new Independent Non-Executive Directors with turnaround/operational and digital experience. Korn Ferry has been engaged and a final decision and announcement on the appointments will be made in the coming months.

Throughout the recruitment and selection process we take steps so that Directors have the requisite skills and behaviours to support the Company in improving its performance to deliver for its customers, colleagues and other stakeholders.

Gender balance

The board currently consists of the Chair, five Independent Non-Executive Directors, one Non-Executive (Investor) Director and two Executive Directors. 33% of the Board disclose as female and 0% disclose as being from a minority ethnic background. 60% of our Independent Non-Executive Directors disclose as being female.

Appointments process, succession planning and development of a diverse pipeline

Our Chairman runs the process for appointing new Independent Non-Executive Directors, supported by the Nominations Committee. He utilises specialist 3rd party search firms to identify potential candidates and we continue to work with them to pipeline diverse candidates with the requisite skill sets needed for a balanced Board and to support the business. Our Chairman considers the technical skill set required for any new Independent Non-Executive Director. For example, we are currently focusing on appointing a new Independent Non-Executive Director with significant experience of digital transformation. Ofwat has the right to review all Board director appointments.

In assessing succession for the Executive Directors, the Company's People Director provides an update on internal talent mapping and individual readiness. This is provided to the Nominations Committee or the Remuneration Committee at least annually. The last update was provided to the Nominations Committee in November 2023.

Diversity and inclusion

Pursuant to the terms of a relationship agreement between the Company and Kemble Water Holdings Limited, our ultimate shareholders have the right to appoint up to five Non-Executive (Investor) Directors onto the Board.

The Nominations Committee is extremely conscious of the importance of having a diverse and inclusive Board and senior management team. We are acutely aware that currently our Chairman, CEO and CFO are all male. Following the resignation of our female CEO, Sarah Bentley, an external search was undertaken using a 3rd party specialist search firm. The firm had significant experience of senior appointments, including providing a range of diverse candidates on the short-list. Our CEO, Chris Weston, was appointed following a robust selection process which included a technical and leadership assessment, as well as interviews with board members, shareholders and our regulators.

It is pleasing to see that 43% of our Executive Team are women.

Board evaluation

The Board conducted its annual review of effectiveness in December 2023, which was facilitated by an external consultant, Independent Audit. During the year, Independent Audit was retained to evaluate the Board and provide a Board effectiveness review. Independent Audit met with members of the Board and attended meetings of the Board and its committees. More information on the outcome of the effectiveness review is provided in our Chairman's statement at page 51.

Strategic report Thames Water Annual Report 2023/24 Financial statements





Turnaround Committee and Finance Committee Reports



We've established a stronger foundation for our turnaround. building our capability to deliver sustainable improvements in services to customers - but it will take time"

Sir Adrian Montague

Chair of the Finance and Turnaround Committees

Key actions from 2023

- Developed a refocused turnaround plan and investment case
- Early mobilisation of refocused approach to priority performance areas
- Full mobilisation of refocused turnaround plan

Priorities for 2024

- Further turnaround initiative deep dives including Pollutions, Water Quality, Supply Interruptions, Customer Complaints and Digital Resilience
- Third Line assurance on turnaround delivery

At a glance

The Turnaround Committee is responsible for providing oversight and effective governance over Thames Water's prioritised, refocused turnaround activities, as a key focus of the Company for the next three years (FY24 to FY26).

Membership and attendance

The Committee, excluding the Chairman, is made up of three Independent Non-Executive Directors. The CEO, CFO and the Director of Strategic Transformation attend by invitation as required. Other attendees including external advisers are invited at the request of the Committee. The Company Secretary acts as secretary to the Committee.

Michael McNicholas, Non-Executive (Investor) Director, stepped down from the Board and the Committee in May 2024.

The creation of the Turnaround Committee including the Committees composition was approved by the Board in November 2023, to start in January 2024. The Committee meets at least once a month throughout the year.

The Committee met three times in this reporting period

Attendance

| Committee Members | 10 January 23 | 7 February 23 | 6 March 24 | Total | Resignation |
|--------------------------------|------------------|------------------|---------------|-------|-------------|
| Sir Adrian Montague (Chair) | Ť | ŧ | ŧ | 3/3 | |
| Nick Land | į | į | į | 3/3 | |
| Michael McNicholas | į | į | į | 3/3 | 16 May 2024 |
| Jill Shedden | X | į | į | 2/3 | |
| Hannah Nixon | i | į | İ | 3/3 | |





Turnaround Committee

Role of the Committee

The main objectives of the Committee include:

- Reviewing progress of the turnaround implementation, regularly and in detail, on behalf of the Board
- Challenging management and holding the Company accountable for delivering on the commitments it has made in the turnaround plan
- Providing guidance to management on material risks, trade-offs and Interdependencies that arise during implementation
- Supporting management in their Interactions with key stakeholders regarding delivery and reporting progress around the turnaround (e.g. regulators, shareholders, government and press).

Committee activities during the year 2023/24

At its formal meetings this reporting year, the Committee has considered and discussed:

- Turnground Committee Terms of Reference
- Turnaround Performance including leading and lagging KPIs
- Turnaround Management Office model

The Committee has also undertaken several Turnaround Initiatives Deep Dives as part of a rolling programme, including:

- Leadership & Accountability
- Communications
- Leakage
- Organisational Efficiency
- Health, Safety and Wellbeing

The Committee looks forward to continuing to challenge the business on their refocused turnaround plan.

The creation of the **Finance Committee**

At a glance

The creation of the Finance Committee, its composition and Terms of Reference were approved by the Board on 27 March 2024.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors, one Non-Executive (Investor) Director and The Chief Financial Officer. The Chief Executive Officer and other attendees are invited at the request of the Committee. The Company Secretary acts as secretary to the Committee.

The Committee shall meet as required and did not meet within the year ended 31 March 2024

Role of the Committee

The main objectives of the Committee are the provision of oversight and effective governance of:

- Funding Strategy, capital structure and liquidity management
- Funding transactions and loans
- Covenant compliance and management of credit ratings
- Hedging (Interest rate, currency and Inflation)
- Whole business securitisation documentation, Including amendments; and
- Review of distribution proposals prior to submission to the Board









Audit, Regulatory and Reporting Committee Report



The decision by shareholders not to commit new equity in March 2024 and the uncertainty over the outcome of Price Review 24 has resulted in a significant increase in the support provided by the Committee to the Board"

Nick Land
Chair of the ARRC

Attendance

| Committee Members | 15 Jun 23 | 26 Jun 23 | 15 Sept 23 | 27 Nov 23 | 25 Mar 24 | Total | Resignation |
|--------------------|--------------|--------------|---------------|--------------|--------------|-------|------------------|
| Nick Land | i i | Ť | Ť | ŧ | Ť | 5/5 | |
| Michael McNicholas | i | ŧ | × | ŧ | ţ | 4/5 | 16 May 2024 |
| David Waboso | Ŷ | Ŷ | Ŷ | ů | Ŷ | 0/0 | 12 May 2023 |
| Hannah Nixon | i i | ŧ | ŧ | ŧ | Ť | 5/5 | |
| Ian Pearson | i | ŧ | Ť | ŧ | Ť | 5/5 | |
| Guy Lambert | • | ŧ | 8 | i | į | 4/5 | 27 March 2024 |

Meeting attended

Not a Board member at date of meeting



At a glance

The Audit, Risk & Reporting Committee's (ARRC) primary responsibility is to provide support to the Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework.

Composition

The ARRC is made up of three Independent Non-Executive Directors. The Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Director of Risk, Audit & Assurance, Director of Group Finance, and external auditors attend by invitation. Other members of Thames Water's senior management team are invited to attend meetings when appropriate. The Company Secretary acts as secretary to the Committee.

In conjunction with each meeting, the external auditor, the CFO, the Director of Risk, Audit and Assurance and the Head of Internal Audit and Assurance hold private sessions with the Committee without Thames Water management being present. In performing its duties, the Committee has access to the services of the Risk, Audit and Assurance function, the Company Secretary and, if required, external professional advisers.

Separately, the Chair regularly meets with the external auditor, the CFO, the Director of Risk, Audit and Assurance, the Head of Internal Audit and Assurance and the wider Executive & Leadership team.

The committee met formally five times during the year.

The role of the Committee

The objectives of the Committee are the provision of oversight and effective governance over:

- The appropriateness of the financial and regulatory reporting, including the adequacy of related disclosures.
- Monitoring of going concern and the long-term viability.
- The system of risk management and internal controls, including the monitoring of principal risks.
- Compliance, whistleblowing and fraud prevention activities.
- Performance of both the internal audit function and external auditor.

Committee activities during the year 2023/24

At its formal meetings this reporting year, the Committee has:

- Considered and discussed the risks to the business of the ongoing macro-economic environment (including inflation and cost of living) and its impact on going concern and the long-term viability assessment
- Reviewed the going concern assessment and long-term viability including related disclosure and liquidity assessments in advance of the interim and year end financial results publication
- Reviewed the Interim Report, Annual Report and Accounts and Annual Performance Report ensuring information was fair, balanced and understandable
- Considered the requirement and adequacy of the expected credit loss provision recorded in relation to the intercompany receivable balances held by the Group. In particular the Committee have challenged management to understand the rationale for the multi-factor scenarios considered as part of the assessment of the Groups Intercompany loan receivable balance with our immediate parent Thames Water Utilities Holdings Limited

- Reviewed and challenged significant judgements, both from an accounting and risk perspective
- Reviewed and assessed the policy on exceptional items, its application and related disclosure
- Engaged with the Group's external auditor,
 PricewaterhouseCoopers LLP (PwC), on a regular basis in relation to the status of their audit work and matters arising
- Approved non audit services undertaken by the Group's external auditor
- Sought the advice of external legal counsel on key matters including going concern, long term viability, carrying value of intercompany balances, contingent liabilities and the Ring-fencing Certificate
- Reviewed the Internal Audit Assurance team's assurance of the PR24 Business Plan submission
- Reviewed the progress of the Risk Management and Controls Improvement Plans, including the Internal Control Framework
- Approved and tracked the annual Internal Audit plan, key findings and action delivery
- Formally considered sufficiency of resources to deliver the Group's obligations including review and challenge of the Ring-fencing Certificate and the assurance provided by Internal Audit and PwC throughout the year
- Oversaw improvements to our risk management framework by providing oversight over the Risk Management Improvement Plan (RMIP) and assessing how the Company has responded to specific risks, including macroeconomic, financeability and cyber security
- Monitored progress to strengthen the internal control framework
- Received reports on whistleblowing, fraud and anti-bribery, including detail on key cases and any associated lessons learned.



Strategic report Thames Water Annual Report 2023/24 Financial statements







ARRC Report continued

Financial and Regulatory Reporting:

The Committee reviewed the Annual Report, and Annual Performance Report, ahead of publication to assure itself that they were aligned with the Company's position, performance and strategy, and that the narrative sections were consistent with the financial statements and tables and presented clearly and gave a balanced view of the business performance and future outlook and that appropriate weight was given to both positive and negative aspects.

The significant matters identified by the Committee in relation to the 2023/24 financial statements are noted within this report; these include all items raised in the PwC external audit report.

In conclusion, the Committee advised the Board that the 2023/24 Annual Report and the Annual Performance Report provide a fair, balanced, and understandable assessment of the Group's position; and that the necessary information is provided to assess its position, performance, business model and strategy.

Significant judgements and estimates used in the financial statements

This table lists the most significant accounting judgements and areas of estimation uncertainty considered during the financial period. These matters were deemed by the Committee to be significant for the 2023/2024 Annual Report and are consistent with the External Auditor's Report.

These were subject to robust challenge and debate between the executive directors, management, the external auditor and the Committee. The decision by shareholders not to commit new equity in March 2024 and uncertainty concerning the outcome of the PR24 price review have resulted in a significant increase in the work conducted by the Committee and additional meetings to review significant matters.

Significant reporting matter

Long-term viability

In accordance with the UK Corporate Governance Code, the Directors are required to undertake a robust assessment of the long-term viability of the Company.

The main purpose of performing such an assessment is so that any assumptions or dependencies are clearly considered and disclosed.

How the matter was addressed by the Committee

The Committee reviewed papers prepared by management, considered advice from financial advisors and advice from external legal counsel.

The Committee was content with the rationale for a shortened assessment period which equated to six years to 31 March 2030 (previously a 10 year look forward) to align with the end of the AMP8 price control period and PR24 business plan submission.

The Committee challenged management on:

- Sensitivity analysis and stress testing of plausible but severe downside scenarios linked to the company's principal risks and uncertainties.
- Key assumptions underpinning the assessment, including the receipt of funding from new or existing shareholders.
- Preventative and mitigating actions available to the company in the event of risks materialising.
- The impact of downside scenarios on financial covenants under its Whole Business Securitisation (WBS).
- Outlook for credit ratings and assessment of liquidity

Following its challenge the Committee was satisfied with the viability assessment and related disclosure within the strategic report.



Strategic report Thames Water Annual Report 2023/24 Governance Financial statements





ARRC Report continued

Significant reporting matter

Going concern

A going concern assessment is required to understand whether 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 its obligations as they fall due.

In March 2024, Thames Water announced that it will pursue all options to secure further equity from new and existing shareholders. This fund raising process is subject to the PR24 Draft Determination and the PR24 Final Determination, which is expected to be published on 11 July and gearing thresholds. 2024 and in December 2024, respectively. There is no certainty on the level of customer funding and performance targets determined by Ofwat. Given the PR24 timelines, it is expected that any equity raise process, if successful, would only be capable of concluding following the PR24 Final Determination.

How the matter was addressed by the Committee

The Committee reviewed papers prepared by management which covered cashflow, liquidity, credit metric projections including key covenants and discussions with credit rating agencies.

The Committee challenged management on base assumptions, severe but plausible downsides and mitigants considered. Financial modelling outputs were noted under the scenarios which showed trigger events in our base case assumptions and in a severe but plausible downside case due to non-compliance with PMICR

The Committee recognised that action is needed by management to maintain 12 months of liquidity from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. This could be achieved in the short term through any one of a number of actions including implementing cash conservation measures that do not threaten the Group's statutory duties (actions within the Board's control), securing creditor support to raise new debt or extend the liquidity runway, or raise equity (actions outside of the Board's control). Additional funding is dependent primarily on ready access to public debt markets and efficient access would be underpinned by various factors, including Thames Water Utilities Limited's investment grade credit ratings and the WBS structure.

The Committee has also considered the Company's current cash lockup under its licence following the credit rating downgrades in April 2024.

The presence of a Trigger Events in the base case has been recognised. Whilst the consequences of the Trigger Events are more severe than those for a licence cash lockup, it is designed to act as an early warning signal to protect the Group's creditworthiness. The Committee agreed with management that this 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 Committee sought advice from financial advisors and from external legal counsel on considerations factored into the assessment.

The Committee reviewed the work performed by the external auditor and their assessment of going concern and the material uncertainties.

The Committee was satisfied it is appropriate for the Group's Financial Statements to be prepared on a going concern basis and with the disclosures prepared which include material uncertainties.

Significant reporting matter

Revenue recognition and provisions for expected credit losses

The Group has a statutory obligation to supply water and wastewater services to household customers even when their bills are unpaid. The value of revenue recognised and expected credit losses recorded in relation to doubtful debts for household customers is an area of significant judgement and estimation.

The ongoing uncertainty around the future economic outlook has required continued assessment of the bad debt methodology and provision.

Intercompany receivables provisions for expected credit losses in relation to the paper owed by our parent Thames Water Utilities **Holding Limited**

The ongoing uncertainty around the outlook of the Group has increased focus on the assessment of the recoverability of intercompany receivables.

Previously, reliance has been able to be taken on the Group's investment grade credit ratings to perform a '12-month expected credit loss' assessment under IFRS 9.

However, increased scrutiny from ratings agencies on the feasibility and timing of securing future equity have triggered credit rating downgrades and there remains a risk of further downgrades in the future. Consequently, the group was required to conduct a fuller recoverability assessment over the whole period to maturity of the loans through a multi factor analysis of scenarios and associated probability weightings to assess Expected Credit Loss ("ECL") as a basis for impairment of these receivables.

How the matter was addressed by the Committee

The Committee reviewed the methodology for recognition of revenue and provisions, the ageing of debtors used, and the basis driving the cash collection and write-off rates in the year. These assumptions were considered together with the findings from the external auditors.

Based on its review, the Committee was comfortable with the approach taken by management was reasonable. The Committee reviewed the adequacy of the disclosure of the policy and associated significant estimates, it was satisfied these were consistent with the reports presented to the Committee.

The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.

The Committee reviewed the findings of the multifactor scenarios considered as the basis of impairment and its related disclosures.

The Committee challenged management on assumptions applied and requested additional analysis to support them in their review.

The Committee considered the results of the external auditor's work and conclusions.

Based on its review, the Committee was content with the level of provision recognised for intercompany balances and associated disclosures.

Further detail can be found within the Accounting Policies section of the Financial Statements.

Recoverability of the investment in Thames Water Utilities Finance plc

The Company holds an investment in its subsidiary Thames Water Utilities Finance plc (TWUF) of £207.7m million which it has concluded is fully recoverable.

An estimate of the recoverable value of the investment has been calculated per IAS 36. Analysis has been performed that takes into account expected changes in debt and margin earned by the investment over a 20 year period to derive a future net asset value.

The Committee reviewed the findings of the analysis and its related disclosures.

The Committee challenged management on assumptions applied and requested additional analysis to support them in their review.

The Committee considered the results of the external auditor's work and conclusions.

Based on its review, the Committee was content with the conclusion reached by management.









ARRC Report continued

Significant reporting matter How the matter was addressed by the Committee Environmental litigation provisions and contingent liabilities The Committee reviewed Management's provisioning methodology Prosecutions in relation to environmental incidents are brought against related to environmental incidents being prosecuted by the the Group by the Environment Agency. Environmental Agency and guidance given by legal counsel. Provisions recognised are based on legal counsel providing expected The Committee was satisfied with the provisioning outcomes for incidents being prosecuted and on historical data for methodology applied. incidents which are early in the legal process. In regards to EA wastewater investigation, Ofwat wastewater investigation and collective proceedings claims, the Committee The Group is separately subject to (i) investigations being led by Ofwat concerning alleged non-compliance with legal obligations concerning reviewed guidance from internal and external legal counsel and the operation of its sewerage treatment works (ii) investigation by the the work performed by the external auditors. Environment Agency into compliance with storm sewerage discharges The Committee concurred with management that in these cases in line with environmental permits (iii) collective proceedings claim in provision recognition criteria had not been met (either not probable the Competition Appeal Tribunal alleging a breach of competition law that an economic outflow would occur or the outflow could not be in relation to the historic reporting of pollution incidents. reliably estimated) and, therefore disclosure as contingent liabilities was the most appropriate approach. The Committee was satisfied with management's disclosure included within the accounts. See the respective Provisions and Contingent Liabilities notes in the consolidated Financial Statements. The Committee sought to understand the appropriateness of the Provisions and contingent liabilities A number of commercial, regulatory and legal matters which methodologies used, and the relevant assessments of the various require consideration as to whether a provision or contingent matters including guidance from external and internal legal counsel. liability should be recognised. The Committee challenged management on their management judgements and related disclosure. The Committee was satisfied with estimates used by management in calculating provisions. The Committee was satisfied with management's judgement over contingent liabilities and the disclosure included within the accounts. See the respective Provisions and Contingent Liabilities notes in the consolidated Financial Statements. Capitalisation criteria The Committee sought to understand significant investments and The Group delivers a significant capital programme. The classification of expenditure during the year, any notable year-on-year movements costs between capital and operating expenditure requires judgement. and changes in policy. The Committee has held regular discussions with management and external auditors and deems the classification of expenditure

as appropriate.

The accounting treatment is included in the Accounting Policies

section within the consolidated financial statements.

Significant reporting matter How the matter was addressed by the Committee Valuation of defined benefit obligations The Committee considered the valuation exercise undertaken by independent actuaries Hymans Robertson LLP as at 31 March 2024, The valuation of the Group's defined benefit obligations is highly sensitive to assumptions used and requires significant judgement the assumptions used within this report and the additional risk from and estimation. the impact of macroeconomic factors on market volatility. The Committee considered the work performed by the external auditors and the benchmark analysis performed. From these reviews and discussions, the Committee was satisfied with the valuation of the Company's defined benefit accounting treatment. See the Retirement Benefit Obligation note in the financial statements for further disclosure. Valuation of financial derivatives The Committee reviewed and challenged management on the The Group has a significant value of swap instruments. Valuation of methodology adopted in the valuation of various derivative instruments. these is based upon financial models that require a level of judgement. The Committee reviewed the results of work conducted by the external auditors on their valuation assessment. The Committee was content with the methodology applied by the Group to value derivatives in the financial statements and the related disclosures. The Committee also supported the Financial Reporting Councils (FRC) with its limited scope review of previously reported judgements and disclosures relating to IFRS 13 'Fair Value Measurement'. No changes were required to the application of IFRS 13 or amounts included within the annual report and accounts following the conclusion of the review; enhanced disclosure in the relation to the accounting was included in our 2022/23 annual report. Exceptional items classification The Committee was satisfied that the updated disclosure of In FY24 exceptional items are reported (for the first time) on the face reporting exceptional items separately from underlying performance supports users of the financial statements in helping to understand of the income statement in a separate column. the underlying performance of the business and provides a more transparent disclosure. The Committee was satisfied classification of exceptional items was

in line with the Group accounting policy.







ARRC Report continued

Ring-fencing Certificate

The Committee formally considered sufficiency of resources to deliver our regulatory obligations during the year, including review and challenge of the Ring-fencing Certificate. The Committee considered guidance from internal and external legal counsel and reviewed the results of assurance conducted by external and internal audit.

Management were challenged on the basis of their conclusions, the recommended opinion and disclosures included within the certificate. The Committee was content with the approach taken.

Risk management and internal control

The Committee oversaw significant improvements to the Company's risk management framework and system of internal controls. This included oversight over the Risk Management Improvement Plan (RMIP), which seeks to improve the maturity of risk management across the business. The Committee reviewed, amongst other items, regular updates on the Company's principal and emerging risks, our insurance renewal strategy, our conflict of interest disclosures and action taken in response to whistle-blowing cases.

The Committee was provided with updates on progress to establish a common and structured Internal Controls Framework (ICF). The ICF defines the key management structures and processes required to be in place to maintain the effectiveness and integrity of our system of internal control. The ICF was deployed and the Committee was regularly updated on the phased progress to further strengthen and formalise financial, compliance and operational controls, the latter being the least mature.

These updates allowed the Committee to make informed reviews of our company risk profile and recommend additional controls and mitigations where appropriate.

Internal audit

In 2023/24 the Committee reviewed and approved the internal audit charter. In accordance with this, the Committee considered and approved the remit and activities of the internal audit function ensuring it had adequate resources and appropriate access to information to enable it to perform its function effectively and was free from management or other restrictions in accordance with the relevant professional standards.

The Committee reviewed and assessed the annual internal audit plan which contains a mix of risk-based audits and legal and regulatory focused assurance activities. The plan was delivered through appropriately skilled and qualified internal resources supported with external resources where more specialised skill sets were required, namely within Information Systems and Technology.

The Committee monitored the effectiveness of action closure, including reviewing the status of any overdue actions.

The Committee continues to monitor reforms and developments to audit and corporate governance from the Government and Financial Reporting Council.

External audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor, PwC LLP. This includes reviewing the terms of engagement and the scope and execution of their audit work. It assessed the independence and objectivity considering relevant UK professional and regulatory requirements including the provision of any non-audit services in accordance with the Group's Non-Audit Services Standard.

The 2023/24 financial year was the sixth year PwC has been Thames Water's external auditor, after a competitive tender in 2018/19. The Group adopts the same approach to audit tendering as a FTSE 100 company, securing the Group's compliance with the current regulation on the statutory audit of public interest entities. Therefore, the Group will put the statutory audit out to tender by 2028/29 or earlier depending on the Committee's recommendation.

Effectiveness of the external auditor

The Committee assessed the effectiveness of the external audit during the financial year by considering the resources, continuity, qualifications, and experience of the external audit team.

It also assessed the planning and organisation of the external audit including the appropriateness of the auditor's assessment of the key audit risks and its relevant response to these. These risks are detailed in the Independent Auditor's Report included within the consolidated financial statements.

Following the annual review, and discussions held between the Committee and PwC throughout the audit process, the Committee is satisfied with the professional scepticism of the auditor and that sufficient challenge was demonstrated towards key areas of management judgements and accounting policies. PwC was deemed effective in their role as external auditor.

Auditor's independence and objectivity

An external auditor's independence is essential to the provision of an objective opinion on the true and fair view presented by the financial statements. There are safeguards in place to maintain this independence by frequently reviewing non-audit services performed by the external auditor, ensuring employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Group, and rotating the lead engagement partner at least every five years and other key audit partners every seven years.

Katharine Finn having been the lead engagement partner for five years rotated off the engagement at the end of the 31 March 2023 audit. The Committee oversaw the selection of Sotiris Kroustis as engagement partner for the 31 March 2024 year end audit. The fees for this financial year, as detailed within the consolidated financial statements, are reasonable and allow an effective audit to be conducted.

The increase in fees this year is attributable to additional audit work due to an allowance for inflation, scope of audit regulations, business activity and complexity of judgements given the current risk environment that is being faced by the Group.

Non-audit services

The Committee prohibits non-audit services other than in respect of certain services required for regulatory assurances which it would be impractical for another provider to provide. To safeguard the objectivity and independence of PwC, approval from the Committee is required for PwC to provide any of these non-audit services where the engagement fee is over £25,000.

This approval means that the external auditor is not performing any work which could create a conflict of interest or breach an external auditor's independence and objectivity. These services are typically limited to where specific knowledge of the Company or Group is necessary for their provision; for instance, assurance work relating to Ofwat submissions, regulatory accounts, interim reviews, and AMP performance commitments.

All services are deemed to be permissible in accordance with the FRC's Revised Ethical Standard 2019. Non-audit services were £750,096 in the current period (2022/2023: £679,388).

The Committee continued to take steps so that safeguards were in place relating to non-audit work, including written representations from PwC which confirmed their independence, and was content that the non-audit fees incurred have not resulted in a loss of independence or objectivity.



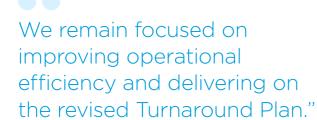






Directors' Remuneration Report





Jill Shedden

Chair of the Remuneration Committee

Contents

- Chair's statement page 78
- Remuneration 'At a Glance' page 80
- Annual Report on Remuneration page 82
- Implementation of Remuneration Policy page 88

Chair's statement

The Remuneration Committee is conscious that, throughout 2023/24, the water industry as a whole, and Thames Water specifically, has been under intense scrutiny from stakeholders, media and the communities we serve. Thames Water is focused on improving its operational performance and delivering on the revised Turnaround Plan which will improve the financial resilience of the Company. Every day, our 8,000 colleagues do their best to deliver life's essential service so our customers, communities and environment can thrive.

For 2023/24, the Company replaced its Annual Management Bonus and Long-Term Incentive Plan with the Performance-Related Pay Plan (PRPP), to better reflect the balance we need to achieve in paying for delivery of short-term priorities and establishing the right outcomes for all our colleagues, customers and stakeholders longer-term. It is pleasing to see that Ofwat confirmed that we had met or exceeded 80% of its expectations when reviewing our FY23 remuneration report. The PRPP is designed to enable the Company to recognise and reward performance which colleagues can directly contribute to and influence; the Remuneration Committee retains final discretion so that any out-turn reflects the Company's performance in the round. The PRPP comprises two elements: an in-year award opportunity (the 'base award'), designed to reflect colleagues' contribution to delivering in-year performance improvements, and a deferred award opportunity, which is linked to the extent that contribution results in improved performance outcomes longer-term.

In deciding whether any PRPP payment should be made, the Committee takes into consideration a range of important perspectives:

- performance against the PRPP measure scorecard
- performance against specific outcomes, including in-year outcomes and year-on-year improvement
- the level of Outcome Delivery Incentives (ODI) penalties, and
- the need to reward delivery of, and attract and retain highly talented colleagues to execute, a complex and challenging Turnaround Plan that is critical to our ability to deliver for customers, communities and the environment.

The Committee's final decision-making is also underpinned by the need to meet Ofwat's requirement that variable pay reflects performance in the round.

Colleagues delivered a level of performance for 2023/24 that, in aggregate, warranted an above-target outcome under the PRPP, albeit the performance outturn relative to the targets set varied by focus area. Against Customer measures, it was very disappointing to see customer complaints and our Customer Satisfaction (C-SAT) score being below target, particularly given the reversal in the trend in customer complaints compared to 2022/23. Customer complaints is a specific area of focus within our Turnaround Plan and significant work has been, and continues to be, undertaken to understand and address the root causes of complaints performance. Good progress was made in District Meter Availability (DMA) and Mains Replacement. Both of these measures are key inputs to supporting the Company's ongoing efforts to reduce leakage and, although we have achieved a year-on-year improvement and leakage is at its lowest ever level (assessed on an annual average basis), the Committee remains mindful that we have not met our overall Asset Management Plan (AMP) leakage reduction target of 17.4% by the end of year four.

Our teams have placed significant emphasis during the year on delivering against objectives set in relation to our environmental performance. Against all the measures incorporated in this element, performance in 2023/24 was at or above target. We continued to make good progress against our Public Health Transformation Plan; this addresses water quality and it was extremely pleasing to see our Compliance Risk Index (CRI) score at 1.43 resulting in no ODI penalty, as the outturn was within Ofwat's "deadband". Strong progress was also made against our Wastewater Asset Assurance Plan (WAAP). This aims to improve river health through a programme of remediation for sites identified as being noncompliant against four criteria (Flow to Full Treatment (FFT), effluent

quality, screening, and storm tank sizing), and aligns with our commitment to Ofwat (75 sites by the end of AMP7). However, progress against the WAAP has not yet translated to improved spills and pollutions performance. Our pollutions performance has deteriorated and total pollutions remain significantly worse than our performance commitment. Whilst the number of category 1 and 2 pollutions reduced from 2022/23, overall performance remains largely static over time. This is a major area of focus for our new CEO, Chris Weston. The Company strongly believes that any pollution event is unacceptable and is working to secure the investment needed to continue upgrading our treatment works and networks to improve our performance in this regard.

In terms of financial resilience, the Company remains under intense pressure and scrutiny since the additional equity investment of £500 million was not secured in March. As covered elsewhere in the annual report, this investment was predicated on three conditions being met, a) the Company delivering within budget, b) the Company delivering a refocused and credible Turnaround Plan, and c) the Company securing a satisfactory regulatory settlement. The Company delivered the first two of those requirements, and it was extremely pleasing to see the hard work and contribution of colleagues resulting in the majority of financial resilience measures being met for 2023/24. The measure of Senior Gearing was not fully met due to the lack of equity being provided.

The Remuneration Committee takes its responsibility to determine variable pay outcomes extremely seriously. In doing so, the Committee actively balances the needs of our customers and stakeholders, and fairness to our colleagues. Given the overall performance of the Company in 2023/24, the Committee made the decision to exercise downward discretion against the outcome of the PRPP. This reduced the outturn of the PRPP from 78.9% to 68.9%. In making this decision, the Committee gave particular consideration to the fact that, whilst the Environmental measures in the PRPP scorecard were all at or above target, this did not translate through to outcomes. Specifically the number of pollution events increased from 331 in 2022 to 350 in 2023. In addition, 14 serious pollution events were recorded. The Committee considered whether to reduce the outturn further but believed that doing so would be disproportionate to the significant contribution made by colleagues. The Committee is also satisfied that, through the requirement for our senior population to defer 40% of earned PRPP outcomes for two years, there continues to be strong linkage to the delivery of performance outcomes over the longer-term for the benefit of all stakeholders. The basis of the 2023/24 deferred award multiplier can be found on page 85.

Strategic report Financial statements Thames Water Annual Report 2023/24 Governance







Directors' Remuneration Report continued

Board changes

We welcomed Christopher Weston to the Board in January 2024 as Chief Executive Officer (CEO), following Sarah Bentley's decision to leave the business. The remuneration arrangements for Christopher are fully consistent with our remuneration policy and are described in detail on page 83. Sarah forfeited outstanding Long Term Incentive Plan (LTIP) and PRPP award opportunities when she served notice. Sarah received only contractual payments during her notice period – see Payment for Loss of Office section page 85.

Over the period from July 2023 to January 2024, Alastair Cochran and Cathryn Ross were appointed as Co-CEOs on an interim basis to lead the business until Sarah's successor was appointed. Cathryn was not appointed as a Board Member. Alastair and Cathryn were paid stepping-up allowances to reflect the additional responsibilities of their expanded roles, in addition to the remuneration they receive for their permanent role.

The Remuneration Committee also approved an additional payment to recognise the strong performance and significant contributions made by Alastair and Cathryn in discharging this role during a challenging period for Thames Water.

We welcomed Sir Adrian Montague to the Board as Chairman in July 2023. Sir Adrian's fee was set at £350,000 per annum. In addition, the Company contributes £30,000 per annum to the cost of administrative support to Sir Adrian.

2024/25 remuneration

2023/24 was the first year in which we implemented our PRPP. The Committee considers that it remains fit-for-purpose for 2024/25; it meets the expectations of our customers and stakeholders, and is supporting the Company to attract, motivate and retain high calibre individuals to deliver our stretching performance improvements. The structure of the PRPP links directly to the delivery of the Turnaround Plan which is critical to the future success of Thames Water. As a result, there is no change to the remuneration framework for 2024/25.

Non Executive Directors (NED) fees and the CEO's base salary will remain unchanged for 2024/25. The Committee agreed to award Alastair Cochran an increase of 4%, increasing his base pay to £468,000, in line with the 4.2% awarded to grade A and B colleagues and is the first increase awarded to Alastair since he joined Thames Water in 2021. The increase is effective from 1 July 2024. The PRPP scorecard will continue to comprise measures for: Customer, Environment and Financial Resilience. Targets will be set, and performance measured, over the financial year. A significant element of any award earned by our Executive Directors and the senior leadership population will again be deferred for two years, to ensure alignment to longer-term performance improvement through a multiplier of between 0.75-1.25 linked to our progress against our Turnaround Plan.

Further details can be found on page 88.

Thames Water Annual Report 2023/24 Strategic report Financial statements Governance









Remuneration policy and structure

Our remuneration policy is designed to attract, retain and motivate our leaders to ensure focus on delivering business priorities within a framework designed to promote the long-term success of the Company.

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Remuneration principles

- Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees
- The policy should link remuneration to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture
- The policy should promote demonstrable links between reward for Executive Directors and performance for customers and shareholders, as well as performance against the Company's environmental targets
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related pay

| Remuneration pol | ICY | | | | |
|---------------------------------|--|--|--|--|--|
| Base Salary | Reflects the scope and responsibilities of the role, the skills and experience of the individual and market | | | | |
| | No cap although increases will not normally exceed average increases for the wider workforce | | | | |
| Pension | Payment to the defined contribution pension scheme or cash in lieu of pension | | | | |
| | Pension contribution for Executive Directors is aligned to workforce norms at up to 12% of salary | | | | |
| Other Benefits | Competitive range of benefits | | | | |
| | No maximum limit although set to be in line with market and the rest of workforce | | | | |
| Performance Related Pay Plan | Based on key priorities of customer, environment and financial resilience over one year | | | | |
| | Executive Directors: A maximum opportunity 240% of base salary | | | | |
| | Earned award payable 60% at end of year, 40% deferred by two years and subject to 0.75 – 1.25 performance multiplier | | | | |
| | Malus and claw-back provisions apply | | | | |

Performance Related Pay Plan Measures

| Customer | Customer Complaints (% reduction) | | | | | | |
|----------------------|---|--|--|--|--|--|--|
| | C-SAT (score) | | | | | | |
| | DMA Operability (% of all DMAs) | | | | | | |
| | Mains replacement (km) | | | | | | |
| | Sewer Depth Monitors (Installation and Operability) | | | | | | |
| | Process Safety Plan Index | | | | | | |
| Environment | Public Health Transformation Plan | | | | | | |
| | Certified FFT Meter Installations | | | | | | |
| | Installation of Storm Overflow Monitors | | | | | | |
| | Wastewater Asset Assurance Plan | | | | | | |
| | Total Net Energy (GWh) | | | | | | |
| Financial Resilience | Senior Gearing | | | | | | |
| | Cash Collection (current & prior year) | | | | | | |
| | TotEx (₤m) | | | | | | |
| | Operating Cash Flow (£m) | | | | | | |

Exceeds stretch target
 Between target and stretch performance Below target performance



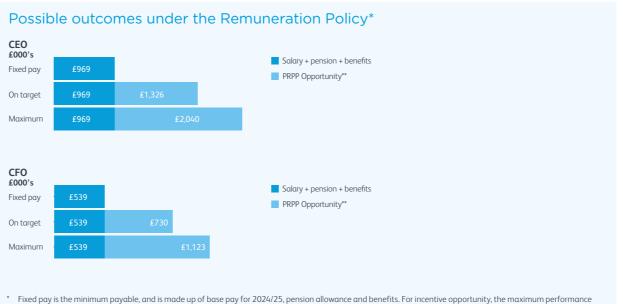


Remuneration 2023/24 - at a glance continued

Remuneration policy and structure continued

Approach to remuneration for 2024/25

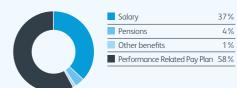






** All Executive incentives at Thames Water are cash awards. As such, the above chart does not include any impact of share price on the potential value of the package over the deferral period.

Elements of CEO and CFO remuneration 2024/25 'on target' scenario*



Elements of CEO and CFO remuneration 2024/25 'maximum' scenario*



*Based on CEO base salary of £850,000 and CFO base salary of £468,000.

Summary of Remuneration Policy across wider group

The Remuneration Committee considers the salary increases and remuneration arrangements for the wider employee population when approving the salary increases and remuneration arrangements for the Executive Directors. For other Executive team members, the Committee reviews and approves all performance related incentive elements.

During the year, the Committee received periodic updates on wider workforce remuneration matters in line with the UK Corporate Governance Code 2018.

In partnership with our Trade Unions, we conducted a detailed pay review for our front-line colleagues. This resulted in the following:

- A 7% consolidated and pensionable increase to base salaries, agreed in December 2023 and back dated to 1 July 2023, for all eligible Grade A and B frontline colleagues.
- This also included colleagues who were "red circled" i.e. above the top of their pay bands.
- Increases in overtime rates in line with base salary increases. Any overtime worked after 1 July 2023 was recalculated at the new rate.
- A 7% increase to standby and call-out allowances, also backdated to 1 July 2023.

 A guaranteed non-consolidated lump sum payment of £500 in lieu of the Grade A and B performance related incentive scheme for 2023/24 paid in December 2023.

A review was also conducted of our management population's pay, which resulted in:

 Most Grade C colleagues receiving a base salary increase of between 3.1% and 4.7%, depending on where the individual was positioned within their pay band, effective 1 December 2023.







Annual Report on Remuneration

This section has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The information has been audited as indicated. For the year 2023/24 Cathryn Ross is included in the single figure table for the period she acted as interim co-CEO. At no time was Cathryn appointed to the board or an executive director. We are disclosing Cathryn's remuneration to fully meet governance and reporting requirements.

Single total figure of remuneration for Executive and Non-Executive Directors (audited) for 2023/24 and 2022/23

| | Salary/Fe £'000 | | Taxable Ber £'000 | | PRPP/Annual £'000 | | LTIP £'000* | | Pension related £'000 | | Other £'000 | | Total po £'000 | ay) | Total fixed £'000 | | Total variabl £'000 | |
|---|--------------------|------|----------------------|------|----------------------|------|----------------|------|--------------------------|------|----------------|------|-------------------|---------|----------------------|------|------------------------|------|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Executive Directors | | | | | | | | | | | | | | | | | | |
| 1 Christopher Weston ⁽¹⁾ | 197 | - | 4 | - | 195 | - | _ | - | 24 | - | 17 | - | 437 | - | 225 | - | 212 | _ |
| 2 Alastair Cochran ⁽²⁾ | 450 | 450 | 15 | 15 | 446 | _ | 129 | _ | 54 | 54 | 237 | 150 | 1331 | 669 | 656 | 519 | 675 | 150 |
| Co-CEO Non-Executive Director | | | | | | | | | | | | | | | | | | |
| 3 Cathryn Ross ⁽³⁾ | 185 | - | 6 | | 113 | | _ | | 22 | | 92 | | 418 | | 305 | | 113 | _ |
| Independent Non-Executive Directors | | | | | | | | | | | | | | | | | | |
| 4 Sir Adrian Montague – Chariman ⁽⁴⁾ | 254 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 254 | _ | 254 | _ | _ | _ |
| 5 Nick Land | 75 | 75 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 75 | 75 | 75 | 75 | _ | _ |
| 6 Catherine Lynn | 70 | 70 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 70 | 70 | 70 | 70 | _ | _ |
| 7 Hannah Nixon | 70 | 70 | _ | - | _ | _ | _ | _ | _ | _ | _ | _ | 70 | 70 | 70 | 70 | _ | _ |
| 8 Ian Pearson | 70 | 70 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 70 | 70 | 70 | 70 | _ | _ |
| 9 Jill Shedden | 70 | 70 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 70 | 70 | 70 | 70 | _ | _ |
| Non-Executive Directors | | | | | | | | | | | | | | | | | | |
| 10 Michael McNicholas | 59 | 60 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 59 | 60 | 59 | 60 | _ | _ |
| 15 John Holland-Kaye ⁽⁵⁾ | 70 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 70 | _ | 70 | _ | _ | _ |
| Former Directors who resigned during 2023/24 | | | | | | | | | | | | | | | | | | |
| 11 Sarah Bentley ⁽⁶⁾ | 181 | 750 | 8 | 32 | _ | _ | _ | _ | 22 | 90 | _ | 549 | 211 | 1421 | 211 | 872 | _ | 549 |
| 12 Ian Marchant – Chairman ⁽⁷⁾ | 90 | 325 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 90 | 325 | 90 | 325 | _ | _ |
| 13 Guy Lambert ⁽⁸⁾ | 59 | 30 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 59 | 30 | 59 | 30 | _ | _ |
| 14 David Waboso ⁽⁹⁾ | 8 | 70 | _ | _ | _ | _ | _ | _ | _ | _ | _ | _ | 8 | 70 | 8 | 70 | _ | _ |
| Total | 1908 | 2040 | 33 | 47 | 754 | _ | 129 | _ | 122 | 144 | 346 | 699 | 3292 | 2930 | 2292 | 2231 | 1000 | 699 |

1 Christopher Weston was appointed as CEO and Executive Director on 8 January 2024. The remuneration disclosed in the table above for Christopher reflects the period 8 January to 31 March 2024. He received a one-off payment of £17k to compensate him for one-off costs incurred by him on joining the Company.

3 Cathryn Ross received additional payments to reflect her temporary appointment to the Co-CEO role and to recognise her performance and significant contribution during that period. These were paid as both an additional monthly payment and also a lump-sum payment at the end of her temporary appointment (she was neither a Board Member nor Executive Director at this time).

² Alastair Cochran's remuneration for 2023/24 includes under "Other": £100k for the loss of in-flight long term incentives from previous employment of £90k at the end of his secondment to the role of Co-CEO (to recognise his performance and significant contribution during that period). In addition, he will also receive an LTIP transition payment of £129k. The LTIP transition payment is as described in last year's Report and reflects one-third of the on-target 2021-24 LTIP opportunity (50% of maximum). This payment will be made in July 2024. Alastair waived payment of his Bonus and LTIP in 2022/23. His 2023/24 PRPP award represents the 60% base award.

⁴ Sir Adrian Montague's remuneration for 2023/24 was pro-rated based on his appointment on 10 July 2023.

⁵ John Holland-Kaye was appointed on 1 April 2023.

⁶ Sarah Bentley resigned from the role of CEO and Executive Director on 27 June 2023. Sarah's remuneration disclosed in the table above for 2023/24, reflects the period 1 April to 27 June 2023. Sarah waived payment of her Bonus and LTIP for 2022/23.

⁷ Ian Marchant's remuneration for 2023/24 was pro-rated based on him stepping down as Chairman on 10 July 2023.

⁸ Guy Lambert's fee was pro-rated based on his appointment on 29 September 2022. He stepped down on 27 March 2024.

⁹ David Waboso's fee is pro-rated reflecting that he stepped down on 12 May 2023.

^{*} LTIP - LTIP payments were waived in 2022/23. In 2023/24 the LTIP was replaced by PRPP, the long-term element of which will pay out in 2026. In the meantime, the LTIP element is replaced by transitional payments, the first of which will be paid in July 2024 in respect of 2023/24.





Annual Report on Remuneration continued

Arrangements for Christopher Weston

Christopher joined Thames Water on 8 January 2024 as Chief Executive Officer. All pay and benefits have been set in line with the current Remuneration Policy. Christopher's base salary of £850,000 per annum, was set at a level that the Committee regards as appropriate for the size and scope of the role. Christopher's pension contribution of 12% of salary is aligned to the wider employee population. Christopher also receives other benefits including a car allowance and medical cover.

Christopher received a payment of £17,000 to compensate him for one-off costs incurred by him on joining the Company. There were no other payments made to Christopher on joining.

Christopher was eligible to participate in the 2023/24 Performance Related Pay Plan, pro-rated from his start date of 8 January to 31 March 2024.

Arrangements for Sarah Bentley

Sarah stepped down from both the Board and as CEO on 27 June 2023 and left Thames Water on 28 December 2023. She continued to receive her contractual benefits up to the 28 December 2023. All inflight performance related awards lapsed on cessation of employment. No compensatory awards were made to Sarah for loss of office. Contractual payments for loss of office were made to Sarah – further details of which are set out on page 85.

Arrangements for Alastair Cochran

Alastair joined Thames Water on 6 September 2021 as Chief Financial Officer. All pay and benefits were set in line with the current Remuneration Policy. Alastair's CFO base salary was set at a level that the Committee regards as appropriate for the size and scope of the role. Alastair's pension contribution of 12% of salary is aligned to the wider employee population. Alastair also receives other benefits including a car allowance and medical cover.

As disclosed in our previous Annual Report, as part of Alastair's offer of employment, Thames Water committed to make payments to compensate for in-flight long-term incentive awards which were forfeited when he left his previous employer. Alastair received payments of £150,000 in July 2022 and £100,000 in July 2023. He will receive a further payment of £100,000 in July 2024 which will be included accordingly in next year's report. There will be no further payments made to Alastair as compensation for the loss of inflight awards.

In recognition of Alastair's appointment as Co-Chief Executive Officer during 2023/24 he received a monthly stepping-up allowance in addition to his base salary for that period. The total value of this stepping-up allowance was £47,444. Alastair also received a one-off payment of £90,000 in January 2024 upon completion of the secondment, to reflect his performance and significant contribution to leading Thames Water through that period.

Arrangements for Cathryn Ross

Cathryn (Strategy and External Affairs Director) is not a Board director and never has been, but was seconded to the role of Co-Chief Executive Officer with Alastair Cochran, when Sarah Bentley stepped down as CEO. Cathryn assumed this interim role for the period 28 June 2023 to 7 January 2024. In line with the reporting regulations with which Thames Water complies, we have set out in the table above, Cathryn's remuneration for that period. In addition to her base salary and benefits, she is paid as Strategy and External Affairs Director, she received a stepping-up allowance, totalling £31,629, as well as a one-off payment of £60,000 at the end of her secondment to reflect her performance and significant contribution to leading Thames Water through that period.

Additional requirements in respect of the single total remuneration figure table

Base salary

Base salaries are a fixed sum payable monthly in arrears. For the Executive Directors, these are reviewed every year, taking into account their individual performance, the external market and internal and external economic factors, with any changes taking effect from 1 July each year.

Chief Executive Officer (CEO): Christopher's base salary is £850,000 per annum. No salary increase has been awarded since Christopher joined in January 2024.

Chief Financial Officer (CFO): Alastair's base salary remains at the level set on his appointment in September 2021, of £450,000 per annum. In keeping with its annual cycle, the Remuneration Committee reviewed whether to award Alastair a salary increase during 2024/25. The Committee's independent advisor provided market data which the Committee used to determine that Alastair should receive an increase. The Committee agreed to award Alastair an increase of 4% in base pay to £468,000, in line with the 4.2% awarded to grade A and B colleagues. Alastair has not had his salary increased since joining in 2021. The increase is effective from 1 July 2024

Benefits (audited)

For Sarah Bentley, benefits of £8,000 pro-rated received whilst she was CEO included private medical insurance and car allowance.

For Christopher Weston, benefits of £4,000 pro-rated include private medical insurance and car allowance.

For Alastair Cochran, benefits of £15,000 per annum include private medical insurance and car allowance.

For Cathryn Ross, benefits whilst she was Co-CEO of £6,000, included private medical insurance and car allowance. These were her normal contractual benefits associated with being Strategy and External Affairs Director. No change was made to reflect her interim role.







Annual Report on Remuneration continued

Performance Related Pay Plan (audited)*

The Remuneration Committee assessed the outcome of the 2023/24 Performance Related Pay Plan (PRPP) to be as follows:

| Category | Measure | Weighting | Start-point (0% of PRPP payout)) | Target (65% of PRPP S payout) | tretch (100% of PRPP payout) | 31 March Final Outcome | Payout (% of PRPP) |
|---------------------|---|-----------|-------------------------------------|----------------------------------|------------------------------|---------------------------|-----------------------|
| Customer | Customer Complaints (% reduction) ⁽¹⁾ | 6.0% | 19.4% | 25.0 % | 28.0% | -9.7 % | 0.0 % |
| | C-SAT (score) ⁽²⁾ | 6.0% | 76.3 | 80 | 82 | 77.5 | 1.3 % |
| | DMA Operability (% of all DMA's) ⁽³⁾ | 6.0% | 65.7 % | 75.0 % | 80.0% | 76.2% | 4.4 % |
| | Mains replacement (km) ⁽⁴⁾ | 6.0% | 52.4 | 58 | 61 | 64 | 6.0 % |
| | | | 3,500 installs | 3,500 installs | 3,500 installs | 3,884 installs | |
| | | | with 69.4 % | with 75.0 % | with 78.0% | 76.5 % | |
| | Sewer Depth Monitors (Installation and Operability)*(5) | 6.0 % | operability | operability | operability | operability | 5.0 % |
| | Process Safety Plan Index ⁽⁶⁾ | 5.0% | 86.6% | 94.0% | 98.0% | 94.0% | 3.2 % |
| Customer | | 35.0% | | | | | |
| Environment | Public Health Transformation Plan ⁽⁷⁾ | 7.0% | 66.0 % | 85.0 % | 95.0% | 99.0% | 7.0 % |
| | Certified FFT Meter Installations ⁽⁸⁾ | 7.0% | 11.0 | 37 | 51 | 55 | 7.0 % |
| | Installation of Storm Overflow Monitors ⁽⁹⁾ | 7.0% | 7.3 | 11 | 13 | 13 | 7.0 % |
| | Wastewater Asset Assurance Plan ⁽¹⁰⁾ | 7.0% | 2.0 | 15 | 22 | 18 | 5.6 % |
| | Total Net Energy (GWh) ⁽¹¹⁾ | 7.0% | 1,051 | 1,014 | 994 | 999 | 6.4 % |
| Environment | | 35.0% | | | | | |
| Financial | Senior Gearing ⁽¹²⁾ | 7.5% | 94.0 % | 85.0 % | 80.0% | 80.6% | 7.2% |
| Resilience | Cash Collection (current & prior year) ⁽¹³⁾ | 7.5% | 75.3 % | 77.2 % | 78.2% | 77.3 % | 5.1 % |
| | Totex (£m) ⁽¹⁴⁾ | 7.5% | £3,641 | £3,331 | €3,164 | £2,997 | 7.5 % |
| | Operating Cash Flow (£m) ⁽¹⁵⁾ | 7.5% | £1,267 | £1,386 | £ 1,450 | £1,420 | 6.2 % |
| Financial | | | | | | | |
| Resilience | | 30.0% | | | | | |
| Note* Agreed reduct | ion in target use revised at Nevember Dem Comparing to repriorities qualishility of monitors over installations | | | | | | |

Note* – Agreed reduction in target was revised at November RemCo meeting to reprioritise availability of monitors over installations.

Corporate PRPP Percentage 78.9 %

- 1 The reduction of customer complaints remains a key activity and reducing customer complaints can have an impact on our Customer Measure of Experience (C-MEX) outcome. The year finished with more complaints, which increased in the latter part of the year in relation to high bills for metered customers and customer side leakage.
- 2 Customer Satisfaction (C-SAT) is tracked through the customer satisfaction survey which we track daily. Customers are surveyed through five different channels; social media, webchat, telephone, the website and email. C-SAT is a key enabler of improved Customer satisfaction survey which we track daily. Customers are surveyed through five different channels; social media, webchat, telephone, the website and email. C-SAT is a key enabler of improved Customer issues and our communication with customers.

 3 District Metered Area (DMA) Operability is how we group properties and is reported from the leakage management software. It is a quality measure to ensure that accurate leakage figures are calculated. The target reflects the percentage of all DMAs that are deemed operable by the end of the year, we were just above target at 76.2% operability, with progress being made across all areas, especially the fix rate if meters
- 4 Mains Replacement is the total length of water distribution mains replaced in kilometres. Replacing water mains improves the health of our asset base and aids improved leakage performance. We finished the year beyond our stretch target with 64km of mains being replaced.
- 5 This measure reflects the number of sewer depth monitors installed, as well as the percentage Operability of sewer depth monitors that are working and transmitting data by the end of the performance year. We installed 3,884 monitors versus a target of 3,500. We were also above our 75% Operability target, finishing at 76.5% Operability.
- 6 The Process Safety Plan Index directly contributes to the safety of our customers, communities and colleagues. Progress is monitored and assessed by the Health and Safety Committee. The end of year assessment is used as the final outcome. At year end we achieved our target, improvements were also made with increased number of employees on the Training Skills Register and British Engineering Services inspections.
- 7 Our Public Health Transformation Plan is our Compliance Risk Index (CRI) turnaround plan. The number of measures completed against the Public Health Transformation Plan by the end of the performance year will continue to drive sustainable improvements to water quality. CRI is the Drinking Water Inspectorate's main water Quality Index. We outperformed both the Ofwat and our Internal Business Planning (IBP) targets 1.48 versus Ofwat and IBP2 targets of 2.0 and 2.5, respectively.
- 8 The number of certified FFT meters installed which measure the actual flow being passed forward for treatment by the end of the performance year. We over-achieved at 55 installations versus a stretch target of 51.
- 9 The number of storm overflow monitors installed to record storm overflow events and duration by the end of the performance year. We achieved our stretch target of 13.
- 10 The Wastewater Asset Assurance Plan was established to resolve non-compliance with Flow To Full Treatment (FFT) permits, along with three other compliance or availability.
- $11\ Total\ Net\ Energy\ is\ defined\ as\ the\ volume\ of\ electrical\ energy\ imported\ for\ Thames\ Water\ use.\ We\ were\ just\ below\ our\ stretch\ target\ at\ year\ end\ -999GWh\ versus\ a\ stretch\ target\ of\ 994\ GWh.$
- 12 Senior gearing is estimated to be 80.6% FYE24, partly due to a lack of £500 million shareholder funding that had been previously assumed to arrive in March 2024.
- 13 Cash collections is calculated using a combined percentage across 2022/23 and 2023/24. This allows for the timing of billing and collection ensuring that it reflects the impact of prior year collections. There was a one-off impact due to changes in the timing of meter readings and therefore billings during Q4 FY24, with some customers being billed for less than 6 months and some for over 6 months. This has a transitory impact and will unwind by Q1 FY25. However, underlying performance was ahead of target.
- 14 Total expenditure (Totex) is net Operational expenditure (Opex) excluding exceptional items, plus Capital expenditure (Capex) as reported in the Company's management accounts. At year end we exceeded target due to a mix of outperformance of Opex (fewer extreme weather events than expected) and an underspend on the Capital Programme
- 15 Operating Cash Flow is as reported in the Company's statutory accounts excluding any exceptional items. Year-end performance exceeded target, due to a combination of out-performance of Opex (fewer extreme weather events than expected) and land sales from our Guildford site, which was offset by lower revenue as a result of lower consumption of water by customers.
- * The Performance Related Pay plan applies to all senior managers and directors and any payment will be in-line with the plan rules. Performance at target can result in a payment of 65% of maximum; stretch results in a payment of 100%; whereas performance below target can result in no payment being made.

Strategic report Thames Water Annual Report 2023/24 Financial statements







Annual Report on Remuneration continued

2023/24 PRPP Outcomes (audited)

In deciding whether any PRPP payment should be made, the Committee takes into consideration a range of important perspectives:

- performance against the PRPP measure scorecard
- performance against specific outcomes, including in-year outcomes and year-on-year improvements
- the level of ODI penalties, and
- the need to reward delivery of, and attract and retain highly talented colleagues to execute, a complex and challenging Turnaround Plan that is critical to our ability to deliver for customers, communities and the environment.

The Committee's final decision-making is also underpinned by the need to meet Ofwat's requirement that variable pay reflects performance in the round.

The Remuneration Committee takes its responsibility to determine variable pay outcomes extremely seriously. In doing so, the Committee actively balances the needs of our customers and stakeholders and fairness to our colleagues. Given the overall performance of the Company in 2023/24, the Committee made the decision to exercise downward discretion against the outcome of the PRPP. This reduced the outturn of the PRPP from 78.9% to 68.9%. In making this decision, the Committee gave particular consideration to the fact that, whilst the Environmental measures in the PRPP scorecard were all at or above target, this did not translate through to outcomes, specifically the increased number of pollutions events and the static performance against category 1 and 2 pollutions.

The maximum opportunity for the executive directors is 240% of their base salary.

Managers below the Executive Directors are eligible to participate in the PRPP and will receive a payment in-line with the plan rules.

2023/24 Deferred Element (audited)

The PRPP was designed with two award elements: an in-year award opportunity (the 'base award' – 60% of total award) designed to reflect colleagues' contribution to in-year performance and reflected in the Single Total Figure table (above); and a "deferred award" opportunity (40% of the total award), the value of which is linked to the extent that contribution results in improved performance outcomes longer-term. The deferred award is subject to a multiplier of between 0.75 and 1.25 based on an assessment of performance over the two years to 31 March 2026. In determining the multiplier, the Remuneration Committee will review progress against five important metrics which are core to delivering the Company's Turnaround Plan:

- Customer Complaints
- Leakage
- Pollutions
- Water Quality Bad Debt.

The Committee will take the following into consideration in assessment of the multiplier:

- Whether there is year-on-year improvement
- Whether there is improvement over the two-year deferred period
- The position against ODI targets
- The position against performance commitments (as set out in the final determination)
- The impact of any exceptional external factors during the period
- Performance in the round

In addition, for the duration of the two year witholding period, the deferred award has interest applied at Bank of England base rate, minus 1%.

Further details, including on the Committee's assessment of performance against these metrics, will be disclosed in the 2025/26 Remuneration Report.

Long Term Incentive Plan (LTIP) (audited)

As reported last year, the Committee resolved to facilitate the transition to the new PRPP by providing payments aligned to the previous LTIP structure. Payments equivalent to 50% of maximum will be made, with payment for the 2021-24 period being pro-rated to 1/3rd and the 2022-25 period to 2/3rd. Payments will be made in July 2024 and July 2025. For Alastair Cochran this results in a payment of 33% of base salary (pro-rated based on his service from September 2021 to March 2024) in July 2024 and 66% of base pay in July 2025. Sarah Bentley's opportunity lapsed on cessation of employment. Receipt of these transition payments is dependent on continued employment at the date of payment (July 2024 and July 2025) except in defined 'good leaver' circumstances.

Total pension entitlements (audited)

The Executive Directors are currently eligible to participate in our defined contribution pension scheme, with Thames Water making contributions up to a maximum of 12% of base salary, in line with the wider workforce. No element of the Performance Related Pay Plan is pensionable. Executive Directors may choose to receive a cash allowance instead of these pension contributions. There are no additional benefits upon early retirement. Neither of the Executive Directors have an entitlement to a Defined Benefit pension by reason of qualifying service.

For 2023/24, all disclosed Executive Directors elected to receive a cash allowance of 12% of base salary.

Executive Directors' service contracts

The Executive Directors have service contracts, the dates of which (and the contractual notice periods defined therein) are set out below. There is no maximum or minimum service period for any of the Executive Directors.

- Christopher Weston, CEO since 8 January 2024, 6 months from the individual/12 months from Thames Water
- Alastair Cochran, CFO since 6 September 2021, 6 months from the individual/6 months from Thames Water

Payment for loss of office (audited)

Sarah Bentley stepped down as CEO and from the Board with effect from 27 June 2023. She received contractual payments of base salary and benefits during her notice period (which ended on 28 December 2023) of £436,429. On resignation, all in-flight variable award opportunities under the LTIP and PRPP lapsed. Sarah did not receive any additional compensatory payments for loss of office.

Payments to past Directors (audited)

There were no payments to past directors in 2023/24.

Thames Water Annual Report 2023/24 Strategic report Financial statements







Annual Report on Remuneration continued

Percentage change in remuneration of Directors and employees

The table below shows the annual percentage change in remuneration, annualised where appropriate, over the last four financial years, for everyone who was a director during 2023/24 and for the average of all other employees. Former directors who were not a director at any point during 2023/24 have not been included. The percentage changes in their remuneration for prior years (and in which they were a director) are disclosed in relevant previous Annual Reports.

| | 2019 | 2019/20 to 2020/21 | | | /21 to 2021/2 | /22 2021/22 to 2022 | | | 22/23 2022/23 to 2023/24 | | | |
|----------------------------|--------------------|-------------------------------------|-----------------|----------------------|------------------------------------|---------------------|--------------------|-------------------------------------|--|--------------------|-------------------------------|-----------------|
| | Base salary/Fee | Taxable benefits and pensions | Annual Bonus | Base b salary/Fee | Taxable enefits and pensions | Annual Bonus | Base salary/Fee | Taxable benefits and pensions | Annual Bonus | Base salary/Fee | Taxable benefits and pensions | Annual Bonus |
| Executive Directors | | | | | | | | | | | | |
| Sarah Bentley, CEO | | | | | | | | | | | | |
| (Apr-Jun 2023) | n/a | n/a | n/a | 71% | 71% | 82% | 0% | (0.3%) | (100%) | (76%) | (76%) | n/a |
| Christopher Weston, CEO | | | | | | | | | | | | |
| (Jan-Mar 2024) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Alastair Cochran, CFO | n/a | n/a | n/a | n/a | n/a | n/a | 0% | (0.4%) | (100)% | 0% | 0% | 100% |
| Chairman | | | | | | | | | | | | |
| Ian Marchant (Mar-July) | (50%) | n/a | n/a | (29%) | n/a | n/a | 0% | 0% | 0% | (72%) | n/a | n/a |
| Sir Adrian Montague | | | | | | | | | | | | |
| (July-Mar) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Non-Executive Directors | | | | | | | | | | | | |
| Nick Land | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a |
| Catherine Lynn | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a |
| Hannah Nixon | n/a | n/a | n/a | 365% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a |
| Ian Pearson | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a |
| Jill Shedden | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a |
| David Waboso | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a | (89%) | n/a | n/a |
| Michael McNicholas | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a | 0% | n/a | n/a |
| John Holland-Kaye | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Guy Lambert | n/a | n/a | n/a | n/a | n/a | n/a | 100% | n/a | n/a | 97% | n/a | n/a |
| Employees | | | | | | | | | | | | |
| All | 2.6% | 10.0% | 0.3 % | 2.8% | 0.7 % | 22.5% | 9.5 % | (18.1%) | (40.4%) | 8.0% | 3.0% | 133.3% |

Alastair's figures reflects a nil bonus payment payment in 2022/23, as he made the personal decision to waive any bonus and/or LTIP payments he would have been entitled to under the 2022/23 Annual Management Bonus. This makes it difficult to discern a meaningful trend in the percentage change disclosure.

Non-Executive Directors are not eligible for benefits or annual bonus.

For annual bonus, this applies to the Performance Related Pay Plan (PRPP) where all managers are eligible to participate in this plan. The increase is due to the corporate payout figure being 68.9% in 2023/24 versus 26.7% in 2022/23. In addition, all grade A&B employees received a one-time payment of £500 in lieu of the introduction of a bonus scheme.

Ratio of CEO remuneration to workforce

This table shows the pay ratio between the CEO and Thames Water employees. For our employees, remuneration includes all elements such as overtime and benefits. The table below provides the ratio between the CEO single figure total remuneration and the median, 25th and 75th percentile total remuneration of all Thames Water's full-time equivalent employees on 31 March 2024.

For 2023/24 the pay ratio calculation shows that in total remuneration terms, the CEO role earns 36 times that of the median employee. However, consideration should also be given to the CEO earnings this year reflecting a period of leadership transition, including the sharing of responsibilities between two Interim Co-CEO's for over 6 months. The Committee will keep the published pay ratio under review.

| Year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|------|----------|---------------------------------|---------------------|---------------------------------|
| 2024 | Option A | 49:1 | 36:1 | 28:1 |
| 2023 | Option A | 43:1 | 32:1 | 24:1 |
| 2022 | Option A | 70:1 | 53:1 | 39:1 |
| 2021 | Option A | 34:1 | 25:1 | 18:1 |
| 2020 | Option A | 25:1 | 19:1 | 14:1 |

Total remuneration reflects all remuneration including salary, benefits, employer pension contributions and variable remuneration. Of the three alternatives available for calculating the ratio, we chose to use Option A as it is considered to be the most accurate way of identifying employees at P25, P50 and P75. Under this approach we calculate total remuneration on a full-time equivalent basis for all of our employees as at 31 March 2024 and rank them accordingly. No adjustments have been made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration

For 2023/24, we have included in the CEO remuneration, the payments made to Sarah Bentley & Christopher Weston whilst they were in the CEO role and the payments for Alastair Cochran and Cathryn Ross relating to that period for which they were Co-CEO's.

The change in pay ratio between 2023 and 2024 is primarily driven by the impact on reported remuneration of the leadership transition during the year.

Given the volatility in the CEO's remuneration, driven by changes in CEO and the waiving of variable pay, it is not possible to discern any meaningful trends from the data. However, the Committee will keep under review the evolution of the pay ratio trend over time.

Here are the total pay and benefits for the employees at the 25th, 50th and 75th percentiles and the salary component of total pay and benefits for these employees.

| Year | | Lower Quartile | Median | Upper Quartile |
|------|----------------------------|----------------|-----------------|----------------|
| 2024 | Salary (₤) | £30,725 | £40,762 | £51,065 |
| | Total pay and benefits (₤) | £37,585 | £ 51,235 | £65,523 |

Workforce Engagement

A full update from Ian Pearson, our Designated Non-Executive Director for Workforce Engagement is available on page 65.

The Remuneration Committee invites the People Director to present proposals for the annual salary review for managers and employees (including the Executive Team) each year. The Committee takes into account remuneration arrangements for the wider employee population when approving the salary increases and incentive payments for the Executive Directors. The Committee also reviews incentives across the Company to ensure alignment with purpose, values and culture.

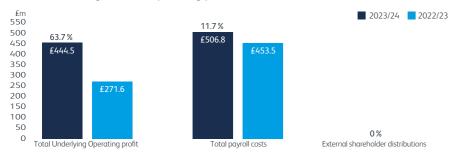




Annual Report on Remuneration continued

Relative importance of spend on pay

Here is the change in total operating profit, external shareholder distributions and overall spend on pay for 2023/24.



Our external shareholders did not receive a dividend in the 2023/24 financial year for the seventh consecutive year, although Ofwat does not distinguish between dividends paid to service debt in other group companies and dividends paid to external shareholders.

The Board approved dividends of £195.8 million (31 March 2023: £45 million) over the course of FY24:

- two interim dividends totalling £37.5 million were declared on 26 October 2023, enabling Kemble Water Finance Limited and its financing subsidiary to service external debt obligations through to 31 January 2024;
- two interim dividends totalling £158.3 million were declared on 27 March 2024, enabling Kemble Water Eurobond plc and Thames Water Limited to settle amounts owing to the Company for group relief surrendered, and to Kemble Water Eurobond plc to make pension contribution payments to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme defined benefit schemes on behalf of the Company.
- We have chosen Total Underlying Operating Profit as the most relevant measure for Thames Water. The details of the 2024 underlying operating profit figure are available in the Financial Statements section of the annual report on page 107.

Ten-year Chief Executive Officer's remuneration

The table below shows the total remuneration earned by the CEO (based on the single total figure of remuneration) in each of the respective last 10 years, along with the percentage of maximum opportunity earned in relation to the Performance Related Pay Plan (PRPP).

| | Total remuneration £000s | AMB outcome % of maximum (from 2023/24, replaced by Performance Related Pay Plan – PRPP) | LTIP outcome % of maximum |
|------------------------|-----------------------------|--|------------------------------|
| 2023/24 ¹ | 1,712 | 68.9 % | N/A |
| 2022/23 | 1,421 | _ | _ |
| 2021/22 ² | 2,048 | 55% | _ |
| 2020/21 ^{3,4} | 1,229 | 52% | _ |
| 2019/204 | 196 | _ | _ |
| 2018/194 | 780 | _ | _ |
| 2017/184 | 745 | _ | _ |
| 2016/174 | 740 | _ | _ |
| 2015/16 | 1,015 | 66% | - |
| 2014/15 | 2,057 | 73% | 55% |

lote:

- 1 The total remuneration figure is the aggregate of Sarah Bentley & Christopher Weston who were both CEOs at different points in time during 2023/24 and the Interim Co-CEOs of Alastair Cochran and Cathryn Ross for the period 28 June to 7 January 2024. Alastair's figure is different to the Single Table Figure of Remuneration, as this figure only includes his time as an Interim Co-CEO. The figure therefore has a higher outturn as there were two Interim Co-CEO's in post for over 6 months. From 2023/24, no Long Term Incentive Plans are active as we have moved to the PRPP.
- $2\,\,$ Sarah Bentley was not eligible for the 2021/22 LTIP.
- 3 There was no LTIP payment due in 2020/21.
- 4 Steve Robertson only received base salary and benefits in 2016 to 2020.







Implementation of our Remuneration Policy in 2024/25

The Committee has reviewed current base salary arrangements and agreed that there will be no change to Christopher Weston's base salary of $\pm 850,000$ from 1 July 2024 as outlined on page 78 above.

The Committee replaced the Annual Management Bonus (AMB) and Long-Term Incentive Plan (LTIP) with a new Performance Related Pay Plan (PRPP) from 2023/24. This was successfully implemented for the first time last year and has enabled the Company to ensure there is an effective incentive for the Executive Directors and other senior colleagues to deliver ongoing performance improvements in those areas that align with the expectations of our customers and stakeholders. As such, the PRPP will continue to operate for the 2024/25 period.

The aim of the PRPP is to:

- align with our key remuneration principles (as set out in the Directors' Remuneration Policy)
- ensure a clear and demonstrable link between pay and performance
- support retention and motivation
- balance customer, environment and financial resilience KPIs (and against which it is possible to set meaningful and robust targets)
- be neutral to AMP boundaries (a particular issue with the previous LTIP)
- align with shareholder value creation over the longer-term.

The measures included in the PRPP are:

- Customer
- Environment
- Financial Resilience

Each year, targets for each measure will be set to ensure that PRPP appropriately rewards:

- delivery against the Company's Integrated Business Plan (IBP)
- delivery against the Company's Turnaround Plan
- year-on-year performance improvement
- progress towards Ofwat's performance expectations.

The PRPP scorecard will continue to comprise targets that are stretching and build towards improved Outcome Delivery Incentives (ODI) performance over time. We will continue to incentivise our senior population to deliver year-on-year improvement in-line with our Turnaround Plan and Integrated Business Plan which is critical to delivering the sustainable performance our customers, the environment and our stakeholders deserve.

A summary of how the PRPP operates is as follows:

| Design Aspect | Approach for 2024/25 | Comments |
|---|---|---|
| Base Award | | |
| Maximum Opportunity for | 240% of base salary | |
| Executive Directors | | No change from 2023/24. |
| Target Opportunity | 65% of maximum | |
| Threshold | 0%-100% depending on performance against the targets set | This enables the Company to continue to motivate colleagues to deliver performance improvement when absolute targets are missed due to circumstances outside their control. |
| Scorecard | Customer (35%) Environment (35%) Financial Resilience (30%) | Captures multiple perspectives of performance aligned with the expectations of customers, stakeholders and shareholders. |
| | | Scorecard composition (and measure weightings) has been reviewed and the Customer and Environment measures together comprise at least 70% of the total incentive. |
| Pay-out Horizon | 60% immediately, 40% deferred | |
| Deferred Award | | |
| Deferral Period | Two years | |
| Treatment Deferral awards to accrue interest based on Ban England base rate, less 1%, and are subject to a potential multiplier of 0.75-1.25. | | Aligns to longer-term performance improvement as desired by the regulator and shareholders. |
| Clawback | Two years from the date the payment is awarded | The date of award is 1 April after the end of the performance period (i.e. for 24/25 it is 1 April 2025). |
| Remuneration Committee Discretion | Overarching discretion to adjust the outcome | No change to current arrangements (and aligned with typical market practice). |







Implementation of our Remuneration Policy in 2024/25 continued

PRPP payment measures and targets are set on an annual basis. In defining the measures, we will ensure they are aligned with the key operational and financial priorities for the Company as contained in the Integrated Business Plan and Turnaround Plan. The measures and targets will recognise the expectations of the regulator for executive reward to reflect performance in line with performance commitments. Assessment of performance will be made at the end of the performance year.

The measures and targets for the financial year 2024/25 are:

| PRPP Element | Measure | | as a % of ortunity | Target (65% PRPP payment) | Stretch target (100% PRPP payment) |
|--------------|---|-----|-----------------------|---------------------------|---------------------------------------|
| Customer | Customer Complaints (total number) ⁽¹⁾ | 35% | 7.0 % | 83,000 | <79,000 |
| | C-SAT (score) ⁽²⁾ | | 7.0 % | 78% | 79.5 % |
| | DMA Operability (% of all DMAs) ⁽³⁾ | | 7.0 % | 80% | 85% |
| | Mains Replacement (km) ⁽⁴⁾ | | 7.0 % | 55 | 61 |
| | Sewer Depth Monitors (availability) ⁽⁵⁾ | | 7.0 % | 80% | 85% |
| Environment | Public Health Transformation Plan ⁽⁶⁾ Certified FFT Meter Installations ⁽⁷⁾ | | 7.0 % | 85% | 95% |
| | | | 7.0 % | 50 | 62 |
| | Storm Overflow availability ⁽⁸⁾ | | 7.0 % | 80% | 85% |
| | Wastewater Asset Assurance Plan ⁽⁹⁾ | | 7.0 % | 21 | 24 |
| | Total Net Energy (GWh) ⁽¹⁰⁾ | | 7.0 % | 1005 | 999 |
| Financial | Pre-exceptional EBITDA ⁽¹¹⁾ | 30% | 7.5 % | _ | _ |
| Resilience | Cash Collection (current year & prior year) ⁽¹²⁾ | | 7.5 % | 78.5 % | 79.0 % |
| | TotEx (£m) ⁽¹³⁾ | | 7.5 % | £3,399m | £3,229m |
| | Operating Cash Flow (£m) ⁽¹⁴⁾ | | 7.5 % | £1,245m | £1,307m |

- 1 The total number of customer complaints is a key activity and can have a positive impact on our C-MEX outcome. The total number will be calculated at the end of the performance year.
- 2 C-SAT is our internal customer satisfaction survey which we are able to track daily. Customers are surveyed through five different channels; social media, webchat, telephone, the website and email. C-SAT is a key enabler of improved C-MEX scores.
- 3 District Metered Área (DMA how we group a number of properties) Operability is reported from the leakage management software Netbase and is a quality measure to ensure that accurate leakage figures are calculated. The target reflects the percentage of all DMAs that are deemed operable by the end of the performance year.
- 4 Mains Replacement is the total length of water distribution mains in kilometres. Replacing water mains improves the health of our asset base and aids improved leakage performance.
- 5 Number of sewer depth monitors (availability). The percentage of sewer depth monitors that are available and transmitting usable data by the end of the performance year.
- The number of measures completed against the Public Health Transformation Plan by the end of the performance year. This will drive ongoing water quality.
- 7 The number of certified monitors installed which measure the actual flow being passed forward for treatment by the end of the performance year.
- 8 The number of monitors being available at the end of the year and transmitting usable data.
- 9 The remediation of sites identified as part of the Wastewater Asset Assurance Plan being non-compliant against 4 criteria (FFT, effluent quality, screening, and storm tank sizing) in-line with our commitment to Ofwat which is 75 by the end of the AMP.
- 10 Total Net Energy is defined as the volume of electrical energy imported for Thames Water
- 11 Pre-exceptional management EBITDA (as reported in the Annual Report). The actual figures are not being disclosed for reasons of commercial confidentiality,
- 12 The methodology for measuring cash collections is a combined percentage across 2023/24 and 2024/25. This allows for the timing of billing and collection and reflects the impact prior year collections have.
- 13 TotEx is management totex (as reported in the management accounts)
- 14 Operating Cash Flow is defined as Underlying operating cash flow (as reported in the Annual Report)

To the extent payment is warranted, 40% of any PRPP amounts earned will be deferred. Deferred awards will accrue added interest based on the Bank of England base rate less 1%, to minimise the impact on the real value of these cash-based awards, as a result of the requirement for these to be deferred for two years. The deferred award (and only the deferred award) will also be subject to a multiplier at the end of the two-year deferral period, based on progress against the Turnaround Plan.

The key measures will be agreed by the Remuneration Committee at the start of the plan period which will be applied to the deferred award. The principles of Target and Stretch will be applied, with below Target performance resulting in a potential downward multiplier of up to 0.75, Target performance resulting in a multiplier of 1.00 and Stretch performance resulting in a potential upward multiplier of up to 1.25.

Assessment of performance against the Turnaround Plan will be independently verified to provide further assurance to the Committee.

The Committee retains absolute discretion to evaluate the outcome of the multiplier in the context of wider business performance, to ensure that PRPP outcomes reflect shareholder and board assessment of performance 'in the round'.

Chairman and Non-Executive Directors annual fees

The fees for each Non-Executive Director role, which remain unchanged as at 1 July 2024, are:

| | Total annual fees, effective 01/07/2024 | Total annual fees, effective 01/07/2023 | Percentage increase |
|--|---|---|------------------------|
| Chairman | £350,000* | £325,000 | 7.7 % |
| Independent NED/NED (non-committee member) | £ 50,000 | £50,000 | _ |
| Independent NED/NED (committee member) | £60,000 | £60,000 | _ |
| Chair of Customer Service Committee/Remuneration Committee/Health, Safety & Environment/ | | | |
| Regulatory Strategy Committee/Workforce Engagement Lead Director | £70,000 | £70,000 | _ |
| Chair of Audit, Risk, and Reporting Committee | £75,000 | £75,000 | _ |

Note* – This annual fee was set on appointment of the current Chairman. It does not reflect an in-year increase.







Remuneration Committee

Consideration of the views of other stakeholders

Thames Water is a private organisation, with external shareholder representation on the Board of Directors and its committees (including the Remuneration Committee). This governance structure ensures that the Committee's decision-making is subject to the direct input of shareholder representatives and can consider the views of other shareholders as part of the normal course of business. The Committee reviews executive remuneration at Thames Water in the context of developments in the wider remuneration governance landscape, including trends in generally accepted best practice, the views of the wider investment community and their representative bodies, as well as those of our regulator, Ofwat.

We also engage throughout the year with other stakeholders such as the CCG, non-governmental organisations (NGOs) and community groups, on what's important to them. This input helps form our views when setting performance targets each year.

Members and attendance

The Remuneration Committee (Committee) is chaired by Jill Shedden and consists of a mix of Independent Non-Executive Directors and Non-Executive Directors. The attendance of the members of the Committee during the year is shown below:

| Membership of the Committee during 2023/24: | Meetings attended/not attended |
|---|--------------------------------|
| | • • • • • |
| Jill Shedden (I) (Chair) | **** |
| Nick Land (I) | **** |
| Ian Marchant* | ii |
| Sir Adrian Montague** | •• |
| Michael McNicholas | **** |
| Ian Pearson (I) | **** |
| Meeting attended (I) Independe | ent |



^{**} Sir Adrian Montague joined the Committee on his appointment as Chairman effective 10 July 2023

The role of the Committee

The role of the Committee is to make recommendations to the Board regarding the remuneration strategy and framework to make sure that the Executive Directors and senior management, including the Executive Team, are appropriately rewarded for their contribution to Thames Water's performance. The Committee applies good corporate governance by considering regulatory requirements, the UK Corporate Governance Code and any corporate governance principles issued by our regulator, Ofwat.

The Committee is responsible for setting remuneration policy and practices that are designed to support the Company's purpose and its strategy, and to promote the long-term success of Thames Water whilst following the below principles:

- Clarity remuneration arrangements are transparent and promote effective engagement with stakeholders and Thames Water colleagues
- Simplicity remuneration structures are uncomplicated with easy-to-understand rationale and operation
- Risk reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans are identified and mitigated
- Predictability the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy
- Proportionality the link between individual awards, the delivery of strategy and the long-term performance of Thames Water is clear and that outcomes do not reward poor performance
- Alignment to culture incentive schemes drive behaviours consistent with Thames Water's purpose, values and strategy.

The Committee's activities cover a range of subjects including design, pay planning and implementations and succession planning.

Support to the Committee

To ensure that Thames Water's Remuneration Policy and its implementation reflects best practice, the Committee is supported by an independent, external remuneration advisor. In FY24, the Committee was supported by Ellason LLP, following Ellason's appointment to that role in March 2023 by the Committee.

Ellason is an independent consulting firm specialising in the provision of advice in the field of executive remuneration. Ellason is a member of the Remuneration Consultants Group, and a signatory to its Code of Conduct for consultants to remuneration committees of UK companies (please see www.remunerationconsultantsgroup.com for details). Ellason reports directly to the Committee Chair and provides objective and independent analysis, information, and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. In FY24, this included pay benchmarking and support on the design and implementation of performance-related programmes.

A representative from Ellason typically attends Committee meetings. Ellason does not provide any other services to the Company or other board sub-committees, nor does it have any relationships with the Company or its directors beyond those formed in its capacity as appointed advisor to the Committee. The Committee shall keep under review Ellason's involvement and will regularly evaluate its independence, taking into account any other relationships that Ellason has with the Company that may limit its independence. To date, the Committee is satisfied that the advice provided by Ellason is objective and independent.

Ellason's fee structure is competitive and is based on both an hourly and project-based rate. The total amount paid to Ellason in FY24 was £37,600 (excluding VAT).

The Chief Executive Officer and People Director also attend meetings at the Committee's invitation to provide input, advice and respond to specific questions. Such attendances specifically exclude any matter concerning an individual's own remuneration. The Company Secretary acts as secretary to the Committee. The Remuneration Committee report was approved by the board on 10 June 2024, and signed on its behalf by Jill Shedden, Chair, Remuneration Committee.

Strategic report Governance Financial statements Financial statements







Appendix Directors' Remuneration Policy

Remuneration Framework

The overarching remuneration framework is designed to offer an appropriate mix of fixed and performance-related pay which, as a total remuneration package, attracts, retains and motivates talented senior leaders to deliver great outcomes for our customers, shareholders and other stakeholders. At the same time, the total remuneration package is designed to offer a balance between incentivising appropriate risk-taking with careful stewardship.

Fixed remuneration

aligned to the workforce.

The table below breaks down the policy that applies to Executive Directors (and, in doing so, also applies to other Executive team members).

| Element of remuneration | Operation | Maximum opportunity | Performance conditions | |
|--|---|---|------------------------|--|
| Base salary Purpose and link to strategy | Base salaries reflect the scope and responsibilities of the role and the skills and experience of the individual as well as the external market. Base salaries are paid in cash. | There is no maximum salary increase. However, annual salary increases will not normally exceed average increases for the wider workforce. | None | |
| Attracting and retaining Executive Directors and senior executives of the calibre required to deliver our strategy and turnaround plan. Base salary reflects the scope and responsibilities of the role and the skills and experience of the individual. | Base salaries are reviewed annually by the Committee, considering individual performance, the external market and internal and external economic factors. Changes are usually effective from 1 July. Individual adjustments may be applied where the Committee considers this to be necessary due to one or more of the following factors: • where role scope has changed or as part of salary progression (for newly appointed Executive Directors) • where market conditions indicate a level of under-competitiveness in the context of an Executive Director's performance and/or contribution, or | Committee Discretion Where the Committee exercises its discretion, it may recommend salary levels below the market reference salary at the time of appointment, with the intention of bringing the salary levels in line with the market as the individual gains the relevant experience. In such cases, subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved. | | |
| | • there is considered to be a risk in respect of attracting and retaining Executive Directors. | | | |
| Benefits Purpose and link to strategy | The Company provides a range of market competitive benefits to Executive Directors that is aligned with that offered to our managers more widely, including (but not limited to) a car | Benefits will be provided at a rate commensurate with the market and the level that is offered to employees. | None | |
| Supporting health and wellbeing to enable the Executive Directors to focus on delivering performance for key stakeholders and to | allowance, private medical insurance, life assurance and where appropriate relocation and housing costs. | The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically in line with | | |
| provide a competitive package of benefits that is aligned with market practice. | The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it can support the objective of attracting and retaining executives to deliver our strategy. | benefits of other employees at least every three years. | | |
| Pension allowance Purpose and link to strategy Attracting and retaining high calibre Executive Directors through the provision of cost-effective saving benefits for retirement, | Participation in our defined contribution pension scheme or cash payments in lieu of pension contributions payable in monthly instalments during the year, directly to the individual or into their pension scheme. | For Executive Directors the company contribution to a pension scheme and/or cash allowance will be up to a maximum of 12% of base salary, in line with the level of contribution offered to the wider workforce. | None | |







Appendix Directors' Remuneration Policy continued

Performance-Related Pay (in addition to "Fixed remuneration" elements above)

The total remuneration package is designed to make sure that a significant portion of the maximum opportunity for any Executive Director is at risk if key performance targets are not met. The design of the remuneration package means that most of the total remuneration opportunity is dependent upon performance and delivered over a short- to medium-term horizon.

The aggregate maximum incentive opportunity that shall be eligible to be awarded in any year to an Executive Director from Performance-Related Pay shall not exceed 240% of salary.

Performance-Related Pay Plan (PRPP)

Purpose and link to strategy

To motivate and incentivise the Executive Directors to achieve the Company's key customer, environmental and financial priorities over time.

The PRPP is aligned to both the annual business plan as well as the creation of stakeholder value over the longer-term. It acts as a tool to retain and incentivise the Executive Directors required to deliver the long-term business strategy and the Company's Turnaround Plan.

Operation

The PRPP comprises two components.

The pay-out of a 'Base Award' is determined by a scorecard of measures selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. The annual weighting between the various metrics may vary depending on the key priorities of the business.

Targets are set to deliver stretching performance for customers and other stakeholders, considering the operating environment and business priorities, as well as customer, shareholder, and regulatory expectations.

Other than in exceptional circumstances, payments above target (65% of maximum) will require outperformance of the business plan.

40% of any earned Base Award shall be deferred for a two-year period ('**Deferred Award**') and remain conditional on continued employment. A notional interest rate linked to Bank of England base rate, less 1%, will be applied during this period.

Deferred Awards shall additionally be subject to a performance multiplier (of between 0.75-1.25) based on progress against the Turnaround Plan over the deferral period.

All payments will be in cash.

Clawback provisions apply for a period of two years after any payment is made, in the event of financial misstatement, error in the calculation or gross misconduct.

Maximum opportunity

The maximum annual potential opportunity is 240% of base pay for Executive Directors.

Furthermore, the pay-out from any single PRPP cycle (i.e. the base award plus the deferred award once any multiplier has been applied, but before any interest accruing) will not exceed this maximum opportunity.

Committee Discretion

Any payment remains subject to the absolute discretion of the Remuneration Committee. This includes reducing (or forfeiting) any earned Base Award if overall performance is not satisfactory.

The Committee will operate the PRPP according to the rules of the plan and its discretions. In exceptional circumstances the Committee retains the discretion to:

- Change the performance measures and targets and the weighting attached to them part
 way through a performance year if there is a significant and material event which causes the
 Committee to believe the original measures, weightings and targets are no longer
 appropriate; and
- Make downward or upward adjustments to the formulaic outcome of the PRPP earned from the Base and/or Deferred Awards, if the Committee believes the outcomes are not a fair and accurate reflection of overall business performance.

Performance conditions

Base Award measures may include, but shall not be limited to, those relating to customer, the environment, and financial resilience. The multiplier applying to deferred Awards will be based on the Company's progress against its long-term Turnaround Plan over the relevant deferral period.

Clawback and Malus Provisions

Clawback and malus provisions apply to the Executive Directors' performance-related pay arrangements. The Committee has discretion to reclaim or claw back some (or all) of the awards paid out to individuals for up to two years following payment. Circumstances in which the Committee may apply clawback include, but are not limited to, a material misstatement, any error in the calculation of an award or an error in the underlying results that leads to an overpayment arising under any performance related element, or material missconduct. The application of malus provisions will normally occur prior to a final decision on performance-related pay being made, with the Committee having discretion to reduce any performance-related payment due by an amount it believes reasonable (including reducing any due payment to zero).







Appendix Directors' Remuneration Policy continued

Approach to recruitment remuneration

The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment. The remuneration package offered will be in line with the market and will be no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements, and be subject to the same limits, as those for existing Executive Directors.

| Element | Policy and Operation |
|---|--|
| Base salary | Salaries are set by the Committee taking into consideration factors including the current pay for other Executive Directors, the experience, skill, and current pay level of the individual and the external market. |
| Benefits | The Committee will offer a benefits package that is competitive in the external market and in-line with the workforce. |
| Pension | Maximum contribution in line with our policy. |
| Performance Related Pay | On-target and maximum opportunities will be set in line with the Company's policy for existing Executive Directors, and in the first year will be prorated to the number of working days worked during the plan year, typically with a minimum threshold of three months service in line with scheme rules. |
| Buy-out awards for forfeited remuneration | At the discretion of the Committee, additional payments may be made to a new Executive Director, to replace forfeited remuneration opportunities and/or awards when leaving a previous employer. In determining the structure and level of any 'buyout' award, the Committee will take account of relevant factors including any performance conditions attached to forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The Committee will typically seek to make buy-out awards on a comparable basis to those that have been forfeited. In exceptional circumstances, the Committee may grant a buy-out award under a structure not included in the policy but that is consistent with the principles set out above. |
| Internal Promotion | In the case of an internal appointment, any pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted. |
| Relocation | Assistance may include (but is not limited to) removal and other relocation costs, housing, or temporary accommodation. |

Policy on payments for loss of office

The following table sets out the key features of the service contracts and treatment of payments in the event of loss of office for Executive Directors. It also applies (on a consistent basis) to other Executive team members. In addition, the Committee retains the discretion to settle any other amount reasonably due to the Executive Director, for example to meet legal fees incurred by the Executive Director in connection with the termination of employment.

| Element | Policy and Operation |
|------------------------------|--|
| Notice periods in | 12 months from the Company, 6 months from the CEO. |
| Executive Director contracts | 6 months from the Company, 6 months from the CFO. |
| | Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice or placed on "garden leave" at the discretion of the Company. |
| Termination payments | Any payment as compensation for loss of office will be made at the complete discretion of the Board on recommendation from the Committee. |
| | If the Company wishes to terminate an Executive Director's contract, other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it is required to give the agreed amount of notice (see above) or make a payment in lieu of base salary only. |
| | If the reason for dismissal is redundancy, the Executive Director would be entitled to a statutory redundancy payment. |
| Performance Related Pay | In accordance with the rules of the Performance Related Pay Plan (PRPP), an Executive Director is eligible to be paid a Base Award and a Deferred Award subject to being employed by the Company on the relevant 'Payment Date'. |
| | An individual will normally not be eligible for any payment for the plan year if they leave the employment of the Company or have been dismissed prior to the Payment Date unless for a Good Leaver reason (below). |

Good Leaver* Reason

- Base Award: performance conditions will be measured at the normal PRPP measurement date. Payment will normally be pro-rated for the period of service during the financial year.
- Leavers who have left through compulsory redundancy having completed the full plan year remain eligible for a payment even if they are not employed on the Payment Date.
- Payments are made on the normal Payment Date and are based on actual performance.
- Deferred Award: the Deferred Award will normally be pro-rated for the period of service during the deferral
 period. Pro-rated Deferred Awards will continue to accrue interest, will normally be released at the normal time,
 and subject to any applicable multiplier based on performance measured over the full deferral period.

Other reason

• If the individual is subject to formal disciplinary or capability procedures then eligibility for a PRPP award (whether a Base Award or a Deferred Award), payment and/or release will be postponed pending the conclusion of any such procedure.

^{*} Good leavers are defined (as per the scheme rules) as an individual whose employment is terminated by the Company because of 'special circumstances' such as ill-health, injury or disability, a change of control of the Company, redundancy or whose employment terminates automatically by reason of their death. The Committee also retains an overall discretion to determine that an individual is a good leaver.







Appendix Directors' Remuneration Policy continued

Change of control

The default treatment of performance-related awards upon change of control is set out below.

| Element | Operation |
|-------------|--|
| Performance | Normal policy is to pro-rate any PRPP award (whether a Base Award or Deferred Award) for time and |
| Related Pay | performance to the date of the change of control. Accrued interest to the date of the change of control will be paid, and the multiplier attaching to Deferred Awards tested. |
| | Any unpaid Deferred Award will be released at the date of change of control. |
| | In circumstances where there is an appropriate business case, the Committee may use discretion to determine that Base and/or Deferred awards shall not be pro-rated for time. Use of any discretion will be explained to stakeholders. |

External Directorship Appointments

Executive Directors may accept external appointments with consent. Consideration is given to the appropriateness of the external appointment and whether it may affect an Executive Director's ability to perform their role. The Chairman must approve any external appointments. Fees may be retained by the Executive Director for services relating to external appointments.

Non-Executive Directors' service agreements

The Chairman and Independent Non-Executive Directors have an agreement for service for an initial three-year period which can be terminated by either party with no notice period. Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract and are appointed and terminated without notice by the shareholders of the Company in line with the Shareholder Agreement. The dates of the service contracts for the Non-Executive Directors are set out below:

| Name | Initial Start Date of Contract | End Date of Contract | Actual End Date |
|-------------------------------------|--------------------------------|----------------------|-----------------|
| Chairman | | | |
| Sir Adrian Montague | 10/07/2023 | 09/07/2026 | |
| Independent Non-Executive Directors | | | |
| Nick Land ⁽¹⁾ | 06/02/2017 | 31/01/2025 | |
| Catherine Lynn | 28/11/2018 | 27/11/2024 | |
| Hannah Nixon ⁽²⁾ | 14/01/2021 | 13/01/2027 | |
| Ian Pearson ⁽³⁾ | 01/09/2014 | 31/08/2024 | |
| Jill Shedden | 01/10/2018 | 30/09/2024 | |
| Non-Executive Directors | | | |
| Michael McNicholas | 01/07/2019 | * | 16/05/2024 |
| John Holland-Kaye | 01/04/2023 | * | |

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Details of resignations are on page 95 (within the Corporate Governance section)

- 1 Nick Land's contract was extended by a year
- 2 Hannah Nixon's contract was extended by three years
- 3 Ian Pearson's contract was extended by a year

^{*} Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract





Directors' Report

Introduction

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 March 2024.

Thames Water Utilities Limited (the "Company") is incorporated and domiciled in the United Kingdom and a wholly owned subsidiary of Thames Water Utilities Holdings Ltd. Its ultimate parent is Kemble Water Holdings Ltd, a company registered in the United Kingdom and owned by institutional investors. The financial statements are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes disclosures required under the Companies Act 2006 and related regulations.

The nature of the Group's operations and its principal activities are set out in our Strategic Report. The Strategic Report also includes additional details on some of the disclosures set our herein. More generally, the Strategic Report includes: our business model; key performance indicators and performance against them; our people strategy and workforce engagement programme; our approach to climate change, the environment, local communities and other sustainability issues; how we engage with stakeholders; an analysis of our principal risks and uncertainties and our approach to managing risk; a financial review and long-term viability statement; and a statement setting out how the Directors have complied with the requirements of Section 172 of the Companies Act 2006. The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of these risks and their management or mitigation can be found on page 21.

The Company is required under its licence to conduct its business as if it were a public limited company, and as a result the Annual Report has been drafted, where possible, to the standards and requirements of a Company with shares listed on the London Stock Exchange. The Directors have provided an extended Strategic Report and a full Corporate Governance Report, which includes comprehensive Remuneration Committee and Audit, Risk and Reporting Committee reports. Some of the information required to be disclosed in the Directors' Report can be found in those other sections, which are incorporated into this report by reference and where highlighted.

Directors

Details about the current Directors of the Company, including their dates of appointment and their biographical details, including other Directorships they hold, can be found on pages 54. Details of any significant other interests and potential conflicts are provided on page 62. Details of the Directors' remuneration, service contracts and any interests in the shares of the Company are included within the Remuneration Committee report on page 78. The following Board changes took place during the year and up to the date of signing the financial statements:

- John Holland-Kaye was appointed as Non-Executive Director on 1 April 2023
- David Waboso stepped down as Independent Non-Executive Director on 12 May 2023
- Sarah Bentley stepped down as Chief Executive Officer on 27 June 2023
- Ian Marchant stepped down as Chairman on 10 July 2023
- Sir Adrian Montague was appointed Chairman on 10 July 2023
- Chris Weston was appointed CEO on 8 January 2024
- Guy Lambert stepped down as Non-Executive Director on 27 March 2024
- Michael McNicholas stepped down as Non-Executive Director on 16 May 2024

The Company may, by ordinary resolution, appoint any person who is willing to act as a Director, and may by ordinary resolution remove any Director from office. All Directors will be subject to annual re-election at the Company's AGM in July. The appointment and removal of Directors, as a matter reserved to our ultimate shareholders, requires the approval of the Kemble Water Holdings Ltd Board.

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies, which remain in force at the date of this report. The Company maintains a comprehensive insurance programme, renewed annually, which includes Directors' and Officers' Liability cover.

Share capital

As at 31 March 2024, the Company's issued share capital was 76,550,000 ordinary shares of £1 each amounting to £76,550,000, all with equal voting rights and all owned by Thames Water Utilities Holdings Ltd. This represents an increase in the issued share capital of the Company during the year of 47,500,000 ordinary shares. More information on movements in the share capital of the Company can be found in note 23 of the financial statements.

Under the Company's Articles of Association, subject to the provisions of the Companies Act, the Directors have the authority to allot any unissued shares. Subject to the provisions of the Act, the Company may enter into any contract for the purchase of all or any of its own shares. Further details of the Company's share capital can be found on page 148, while details of the Company's ultimate shareholders can be found on page 152.

Dividend policy for the appointed business

When reviewing the Company's dividend policy, the Board and the Audit, Risk and Reporting Committee believed that the Company's dividend policy continued to comply with regulatory requirements. Notwithstanding this, the review resulted in a small number of minor amendments to further clarify alignment with Ofwat's licence modifications. The updated dividend policy was approved by the Board on 12 June 2024 and is set out below:

The Company's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected legal, regulatory and financial performance, regulatory restrictions (such as those set out in its instrument of appointment), management of economic risks and debt covenants.

In assessing the dividend to be paid, the Directors are required to seek to ensure that:

- Payment of a proposed dividend rewards efficiency and the effective management of risks;
- Payment of a proposed dividend should not impair the Company's current or short term liquidity or compliance with the Company's covenants;
- Payment of a proposed dividend should not impair the Company's longer-term ability to finance the Company's business including access to both debt and equity capital, and therefore must also take account of future investment needs and financial resilience;
- An assessment is made to determine if the payment of a dividend reflects the Company's performance against the relevant price review final determination and its commitments to customers and other stakeholders therein; and

 An assessment is made of the impact that payment of the dividend may have on the Company's commitments and obligations, and in turn also its overall performance levels including service delivery to customers, environmental commitments, community commitments and its commitments and obligations to employees and pension members.

Dividend policy for the appointed business

Ofwat has outlined an expectation that any dividends are to be adjusted relative to its 4% dividend yield guidance, and reflect performance of a company in meeting its commitments and obligations to customers and other stakeholders.

Ofwat's dividend policy licence modification came into effect on 17 May 2023 and requires a dividend policy approved by the Board of the regulated water company (the "Appointee") that complies with the following principles:

- that dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business, taking account of current and future investment needs and financial resilience over the longer term;
- that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations;
- that dividends declared or paid reward efficiency and the effective management of risks to the Appointed Business.

This is supported by regulatory guidance requiring the provision of sufficient explanation for dividend decisions within the Annual Performance Report.

FY24 dividend payments

Our external shareholders did not receive a dividend in the 2023/24 financial year for the seventh consecutive year, although Ofwat does not distinguish between dividends paid to service debt in other group companies and dividends paid to external shareholders.

The Board approved dividends to Thames Water Utilities Holdings Limited ("TWUHL") totalling £195.8 million (31 March 2023: £45 million) over the course of FY24:

- two interim dividends totalling £37.5 million were declared on 26 October 2023, enabling Kemble Water Finance Limited and its financing subsidiary to service external debt obligations through to 31 January 2024;
- two interim dividends totalling £158.3 million were declared on 27 March 2024, enabling Kemble Water Eurobond plc and Thames









Directors' Report continued

Water Limited to settle amounts owing to the Company for group relief surrendered, and Kemble Water Eurobond plc to make pension contribution payments to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme defined benefit schemes on behalf of the Company.

In total, the yield for dividends declared over the course of FY24 was 5.2%. The yield for dividends with a cash impact on the Company was 1.0%.

In assessing whether to declare each of the dividends, the Board considered its legal and regulatory obligations in the round, including the need to satisfy itself as to its solvency and the availability of distributable profits, and whether any payment would be aligned with the Company's dividend policy (which itself must comply with the terms of Condition P30 of the licence). In making these assessments, the Board also had regard to third-party expert advice.

A detailed explanation of the rationale for these dividends is provided in our Annual Performance Report.

Political donations

The Company has an agreed policy to not make any political donations. No political donations were made during the year (2022/23: £nil).

Charitable donations

Charitable donations of £3.5 million were made by the Company during the year (2022/23: £3.2 million).

Material financial instruments

Financial risk management and information on financial instruments is covered in note 20 of the financial statements.

Significant post-year end events

Post balance sheet events are disclosed in note 28 of the financial statements. The action that our rating agencies took in April 2024 is summarised in the Going Concern analysis below.

Future developments

The development of the business is set out in the Strategic Report.

Research and development

The Group research and development programme is made up of several projects looking to address business risk through interventions across the asset lifecycle for water and wastewater assets in both infrastructure and non-infrastructure contexts. This technical support to the business enables the adoption of new technologies, techniques and systems to the benefit of the company and continues to be an important and influential function within the Group. We continue to be an active member of UK Water Industry Research (UKWIR); drawing on the research programme to inform our investment decisions. The UKWIR research programme spans water and wastewater topics with a specific focus across 11 areas of; abstractions, leakage, supply interruptions, water quality, sustainability, pollutions, customer poverty, asset management, regulatory incentivisation, carbon reduction and circular economy. In addition, internally we continue to actively investigate several complimentary areas (for example, leakage and pollutions), such that we are well placed to implement solutions at scale to help meet our regulatory requirements. Aside these internal research endeavours, we proactively participate (as both a leading and supporting role) in the Ofwat Innovation Fund, which has three distinct aims; accelerate and roll out innovative products, services and concepts, grow the water sector's capacity to innovate, and embed a culture that values, encourages and supports innovation. Expenditure on research and development totalled £13 million for the year 2023/24 (2021/22: £12.9 million), which includes the Thames Water Contribution into the Ofwat Innovation Fund.

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Branches

The Company does not have any branches outside of the UK.

Recruitment, employment and training of disabled people

We currently hold level 1 disability confident commitment status. This is the first step in our journey to securing level 2 which we aim to achieve in 2024. We conduct an annual review of our recruitment, application and selection processes, creating a process where candidates are aware of our status as a Disability Confident employer and how we will support them on their recruitment journey with us.

We are currently reviewing our guaranteed interview scheme processes and will go live with enhancements in 2024. We continue to upskill our resourcing partners who then deliver training to our hiring managers through lunch and learns to raise awareness and highlight that inclusive hiring best practice is always at the forefront of our selection and assessment approaches. We are committed to raising awareness, educating, improving accessibility and nurturing a culture of inclusion.

This has included adaptation to deliver training virtually, using auto captions, voice overs and alternative formats. We have also sought to ensure our access to work standards make the process more seamless for candidates and employees. Finally as part of our wider skills commitments, to create a workforce inclusive of the communities we serve, we have signed the Ambitious About Autism covenant, making a number of commitments such as improving accessibility in the workplace, offer experiences of the workplace to autistic people in our communities, raise awareness of autism within the workplace and encourage meaningful conversations, enhance recruitment practices as an inclusive employer of choice, offer inclusive paid workplace opportunities for autistic people, share our experiences and encourage others to get involved including our supply chain.

Employee engagement

Throughout 2023-2024 we have continuously sought to engage and recognise our employees, and in a year of significant change this has been more important than ever. Our Exec team hosted regular all company "Ask the Exec" sessions, at least once a quarter, to provide our colleagues with the latest updates and information on our company progress. These also act as a key feedback loop with our colleagues, who ask questions to the senior leaders of the business. Following the resignation of Sarah Bentley as CEO in the summer, our Exec team also held frontline sessions where they visited frontline teams to host more tailored Q&A sessions. Ian Pearson continues to act as our designated Non-Executive Director for Workforce Engagement, to take accountability for ensuring that workforce issues are appropriately considered by the Board. This year, Ian continued to visit an operational site every month, plus holding virtual sessions with office-based teams. You can read more information on our workforce engagement programme on page 65. We have also increased our senior leadership's health and safety visibility, with each member of our senior leadership community visiting at least two sites throughout the year to discuss health and safety with their teams. We have also continuously engaged our colleagues on our Thames Water story, including our refocused Turnaround Plan, through our internal communication and engagement

channels. Finally, we held our all-company recognition awards called Living our Values, which saw 881 colleagues nominated, with 29 entries put through as finalists after a series of colleagued-led shortlisting panels, with 9 winners announced. Looking ahead, we will be launching an all-company health and safety survey in the first quarter of 2024-2025 and are planning to hold our Hear for you engagement survey in January 2025.

Relationships with suppliers, customers and other business partners

For further information about our broader stakeholder engagement programme, please see page 19. The Company's Section 172 Statement on page 48 and the Board engagement table on page 64 contain details of how Directors specifically have taken into account and engaged with the needs of customers and other stakeholder groups.

Going concern

The consolidated financial statements for the twelve months ended 31 March 2024, set out on pages 107 to 152, 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.

In assessing whether the Group and Company have adequate resources, for a period of at least 12 months from the date of approval of the financial statements, the Directors have taken a number of factors into account including its committed liquidity; its intention to take actions to extend the Group's and Company's liquidity runway, which could be achieved through a combination of actions including securing equity or debt funding, implementing cash conservation measures that do not threaten the Group's or Company's statutory duties, or securing creditor support; the need to secure a PR24 determination that is affordable, deliverable, financeable and investable; its intention to pursue all options to secure equity investment to fund the Group's PR24 business plan from new or existing investors following receipt of the PR24 draft determination; the risks associated with failing to comply with the Company's Instrument of Appointment; and the consequences of a Trigger Event in relation to its forecast financial covenant ratios in the 2024/25 financial year (see page 111) Accordingly, the Directors have concluded it is reasonable to assume that actions can be taken such that the Group and Company 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.

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Directors' Report continued

However, there exist material uncertainties in relation to the going concern basis adopted in the preparation of the financial statements given:

- The Group and Company do not have sufficient committed liquidity for a period of 12 months from the approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements.

Operational greenhouse gas emissions and energy management

Thames Water calculates their Greenhouse Gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually and is reflective of carbon reporting and emissions guidance from the Department of Environment, Food and Rural Affairs (Defra). Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO₂e").

The CAW calculations follow the Greenhouse Gas (GHG) Protocol's Carbon Reporting Standard. Under the GHG Protocol there are two distinct methods to account for Scope 2 emissions. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

Location-based. This method reflects the average emissions intensity of the grid on which energy consumption occurs (using a grid-average emission factor data).

Market-based. This method reflects emissions from electricity that companies have purposefully chosen, and it derives emission factors from contractual instruments.

As Thames Water sources renewable electricity accredited with renewable 'Guarantees of Origin' through a contract with our supplier, Thames Water uses a market-based accounting approach to report their Scope 2 emissions. The market-based approach has been used to determine Thames Water's operational plans and strategies for carbon management and performance reporting on our journey to meet Net Zero. For transparency, we have also disclosed the location-based data within this report for comparison.

Key trends

Using the location-based approach, our net operational emissions increased by 10.4 ktCO $_2$ e from 568.4 ktCO $_2$ e in 2022-23 to 578.9 ktCO $_2$ e in 2023-24. Our gross operational emissions also increased by 9.1 ktCO $_2$ e from 576.2 ktCO $_2$ e in 2022-23 to 585.4 ktCO $_2$ e in 2023-24.

Scope 2 emissions saw the greatest increase of $14.0 \text{kt CO}_2\text{e}$, primarily due to an increase in grid electricity emissions factor. Electricity purchased from the grid also increased due to a) prioritising biogas in the boilers for renewable heat production and for biomethane production rather than electricity self-generation, and b) the wet weather experienced in 2023/24, which increased electricity consumption.

Using the market-based approach, our net operational emissions decreased from $354.6 \text{ ktCO}_2\text{e}$ in $2022-23 \text{ by } 4.1 \text{ ktCO}_2\text{e}$ to $350.4 \text{ ktCO}_2\text{e}$ in 2023-24. Our gross operational emissions also decreased from $361 \text{ ktCO}_2\text{e}$ in $2022-23 \text{ by } 5 \text{ ktCO}_2\text{e}$ to $355.9 \text{ ktCO}_2\text{e}$ in 2023-24.

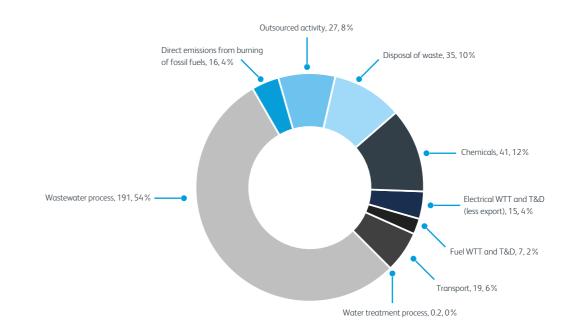
We achieved reductions in Scope 1 emissions through further reductions in fossil fuel use, however insourcing operations increased transport emissions.

Scope 3 emissions associated with purchased goods and services decreased and we saw some suppliers adopt renewable energy and electric vehicles.

In the year:

- Our total energy consumption increased by 6 GWh, from 1,590 GWh to 1,596 GWh. Using biogas instead of natural gas in boilers reduced the impact of increased electricity consumption.
- Our total electricity consumption increased by 11 GWh from 1,249 GWh to 1,260 GWh as we prioritised biomethane export and experienced a number of unplanned outages with our combined heat power generators.
- We generated 284 GWh of renewable electricity at our operational sites (including renewable export).
- We used 268 GWh ourselves, covering 21.1% of our electricity needs from self-generated renewable electricity.
- We used 498 GWh of self-generated renewable energy, covering 27.4% of our energy needs including heat energy.
- Insourcing operations increased our transport emissions by 4.7ktCO₂e, to 18 ktCO₂e.

We have made the operational decision to prioritise biogas use in boilers instead of combined heat power generators, to a) reduce the cost and use of fossil fuels and b) to recover more heat from boilers in the case of thermal hydrolysis processes; and prioritise biogas for biomethane production.



| | Market-b | ased | London-based | | |
|--|----------------|----------------|----------------|----------------|--|
| | 2024 kTCO₂e | 2023 kTCO₂e | 2024 kTCO₂e | 2023 kTCO₂e | |
| Scope 1 | 224.6 | 220.3 | 224.6 | 220.3 | |
| Direct emissions from burning of fossil fuels | 15.6 | 16.6 | 15.6 | 16.6 | |
| Process and fugitive emission | 191.0 | 190.4 | 191.0 | 190.4 | |
| Transport: Company owned or leased vehicles | 18.0 | 13.3 | 18.0 | 13.3 | |
| Scope 2* | 0.006 | 0.005 | 187.6 | 173.6 | |
| Purchased electricity | 0.0 | 0.0 | 187.6 | 173.6 | |
| Electric vehicles | 0.006 | 0.005 | 0.006 | 0.005 | |
| Scope 3 | 131.3 | 140.8 | 173.1 | 182.3 | |
| Category 1: Purchased goods and services | 67.8 | 69.8 | 67.8 | 69.8 | |
| Category 3: Fuel and energy related activities | 27.4 | 31.2 | 69.2 | 72.8 | |
| Category 5: Waste generated in operations | 34.8 | 38.8 | 34.8 | 38.8 | |
| Category 6: Business travel | 1.3 | 1.0 | 1.3 | 1.0 | |
| Gross | 355.9 | 361.0 | 585.4 | 576.2 | |
| Net-offs | (5.5) | (6.4) | (6.5) | (7.8 | |
| Net | 350.4 | 354.6 | 578.9 | 568.4 | |

Strategic report Thames Water Annual Report 2023/24 Governance Financial statements





Directors' Report continued

- As a result, our renewable electricity generation from sludge reduced by 8 GWh to 284 GWh.
- However, our renewable heat generation increased by 8 GWh to 219 GWh.
- We have commissioned our second biomethane plant in 2023/24 and together, they have produced 19 GWh renewable gas.
- Together with our other renewables Wind and Solar Photovoltaics (PV), we have produced 532 GWh renewable energy.
- We reduced our direct emissions from burning fossil fuels a further $1.0 \text{ ktCO}_2\text{e}$ from $16.6 \text{ ktCO}_2\text{e}$ to $15.6 \text{ ktCO}_2\text{e}$. This included a 1.8ktCO₂e reduction from natural gas used on our sites for pumping and treatment,
- Emissions from chemicals reduced by 1.8 ktCO₂e, from 42.3 ktCO₂e to 40.5 ktCO₂e.

Our carbon target

We aim to meet our share of the Government's sixth carbon budget by limiting the volume of operational and capital greenhouse gases by 78% by 2035 compared to 1990 levels and to achieve net zero by 2050. By reducing emissions, we will provide a better environmental outcome for customers and reduce our contribution to the causes of climate change.

For AMP8, concerns regarding companies' deliverability, financeability and customer affordability have been highlighted, resulting in the Environment Agency writing to companies on behalf of the Secretary of State for the Environment, providing a steer that companies are expected to explore opportunities to phase non-statutory commitments, including net zero, to future price review periods where appropriate.

Whilst these challenges do not change our desire to achieve Net Zero, we are still working to fully understand the implications and opportunities they present and how these will impact on our net zero plans. These challenges have been reflected in the development of our PR24 business plan which has been submitted to Ofwat. Some of our aims include maximizing the energy and resource recovery from our sewage sludge, the electrification of our fleet of vehicles and the increased efficiency of our assets. We will publish an updated overview of our net zero plans as soon as we have completed our review.

In 2023/24, the emissions associated with each megalitre (MI) of water and wastewater we supply and treat – our emissions intensity ratio is:

1. Market-based

60.3 kgCO₂e per MI Water: Wastewater: 158.4 kgCO₂e per MI Location-based

Water: 199.3 kgCO₂e per MI 212.4 kgCO₂e per MI Wastewater:

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions);
- Scope 2 (Indirect energy use emissions);
- Scope 3 (Emissions from purchased goods and services, business travel and energy and fuel well-to-tank); and
- Carbon intensity ratios per megalitre of water and sewage treated (per MI).

Capital carbon

In addition to operational carbon emissions, reported through the industries Carbon Accounting Workbook, this is the second year we have reported Capital Carbon emissions. These are Scope 3 indirect emissions associated with the construction, capital maintenance, and end-of-life treatment of assets.

The increase in emissions from last years restated figures is predominantly a result of an increase in capital works delivered. The scope of work was less carbon-intensive than the previous year, associated with an increase in projects delivered in the network rather than at our water and wastewater treatment works.

| Scope 3. Category 2: Capital Goods | 2023-24 ktCO ₂ e | 2022-23 ktCO ₂ e |
|---------------------------------------|-----------------------------|-----------------------------|
| Total | 307.6 | 280.5 |
| Water | 174.6 | 166.4 |
| Wastewater | 132.9 | 114.0 |
| | | |

Energy

Supported by our ISO50001-certified Energy Management System, we have delivered energy efficiency improvements across both Water and Wastewater business units. The wet weather experienced in 2023/24 contributed to a reduction inefficiency in our wastewater systems.

As a result, the net electricity intensity for each megalitre of water and wastewater we supply and treat have increased marginally.

Water: 527 kWh/Ml up 0.8 % Wastewater: 243 kWh/Ml up 4.3 %

Corporate governance

The Company follows the requirements of the UK Corporate Governance Code and the Ofwat Board Leadership, Transparency and Governance Principles, as outlined in the Corporate Governance

Report, from page 52. Details of the Company's internal control and risk management systems can be found in the Strategic Report on page 21 and in the Audit, Risk and Reporting Committee report on page 73.

AGM

The date of the Company's Annual General Meeting will be announced within a short period of the publication of the Company's Annual Report.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report 2023/24 and consolidated financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company so that the financial statements and Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and accounts 2023/24, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in 'Governance' confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to the auditors

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

The Directors' Report was approved by the Board and signed on its behalf by the Chief Financial Officer

Alastair Cochran

Chief Financial Officer Thames Water Utilities Limited – Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB







Independent auditors' report to the members of Thames Water Utilities Limited

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water Utilities Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2024 and of the Group's profit, the Company's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Thames Water Annual Report 2023/24 (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 March 2024; the Consolidated and Company income statements, the Consolidated and Company statements of other comprehensive income, the Consolidated and Company statements of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 3, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Accounting policies to the financial statements concerning the Group's and the Company's ability to continue as a going concern. The directors have identified mitigating actions to allow the Group and Company to operate as a going concern for a 12 month period from the date of approval of the financial statements. We note. however, that the Group and Company do not have sufficient committed liquidity for a period of 12 months from the date of approval of the financial statements and the ability to extend the period of committed liquidity beyond the assessment period is not wholly within the directors' control. In addition, a credit rating downgrade or a failure to meet legal obligations could lead to a potential breach of the Company's Instrument of Appointment resulting in possible enforcement action by Ofwat and an event of default under the terms of the Group's financing arrangements. These conditions, along with the other matters explained in the Accounting policies to the financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

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

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

- Obtaining an understanding and assessing the design and implementation of relevant controls related to the directors' assessment of going concern;
- Understanding and assessing the factors giving rise to the material uncertainties including understanding the consequences of a breach of the Company's licence and/or an event of default under the Whole Business Securitisation. We also assessed the actions available to the directors' on which they have based their assertion that they have a reasonable expectation that the Group has adequate resources to continue for a period of 12 months from the date of approval of the financial statements;
- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets;
- Performing a comparison of budget versus actual results for the year ended 31 March 2024 as well as for the year ended 31 March 2023 and understanding where variances had arisen. Through this testing we informed our assessment regarding management's ability to forecast accurately;
- Understanding the key assumptions management has applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of management's base case and downside scenarios including consideration of other potential downside risks that were not factored into management's downside scenario;
- Obtaining and understanding the terms of the Group's financing and credit facilities, the Whole Business Securitisation, and in particular the financial covenants that the Group is subject to.
 We have verified the existence of the facilities in place on which management has based its liquidity forecast;

- Obtaining the draft covenant compliance certificate to be submitted in July 2024, which indicates forecast Trigger Events in the assessment period;
- Following a downgrade in April 2024 we have verified Moody's and Standard & Poor's credit ratings for the Group of Baa3 (Moody's) and BBB- (Standard & Poor's), both with a negative outlook. In addition, we have validated that the Company is currently operating in a licence cash lock-up which restricts certain payments to associated companies, including dividend payments;
- Performing inquiries with key stakeholders (from both within and outside of the Group) and reviewing correspondence with regulators and advice from the Group's external legal counsel to corroborate management's position and assess whether there is any contradictory or additional evidence requiring disclosure within the basis of preparation;
- We have engaged the use of experts including business restructuring experts to support us in understanding aspects of management's assessment and informing our challenges to management; and
- Assessed the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to the material uncertainty on going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, other than the material uncertainty identified in the Accounting policies to the financial statements, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting, or in respect of the directors' identification in the financial statements of any other material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

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

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Independent auditors' report to the members of Thames Water Utilities Limited continued

Our audit approach

Context

As explained in the Strategic report, this has been a turbulent year for Thames Water. We have undertaken our audit work at a time when the organisation is facing multiple financial and regulatory complexities, with the business navigating significant challenges, uncertainty and unprecedented scrutiny. Those key challenges and uncertainties, including the future determination for AMP8, have informed our audit approach and ongoing risk assessment. Our risk assessment has therefore needed to be dynamic to respond to the changing environment, particularly following the shareholders withdrawal of support for additional equity in March 2024.

Overview

Audit scope

• Our scoping is based on the Group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. The Group consists of two legal entities, Thames Water Utilities Limited and Thames Water Utilities Finance Plc, which are both reporting units. Both of the Group's reporting components were subject to full scope audits for Group consolidation purposes.

Key audit matters

- Material uncertainty related to going concern
- Valuation of provision for expected credit losses for trade receivables (household customers) (Group and Company)
- Classification of costs between capital and operating expenditure (Group and Company)
- Valuation of financial derivatives (Group and Company)
- Valuation of retirement benefit obligation (Group and Company)
- Valuation and completeness of provisions for environmental matters (Group and Company)
- Recoverability of intercompany balances due from Thames Water Utilities Holding Limited (Group and Company)
- Recoverability of the investment in Thames Water Utilities Finance plc (Company)

Materiality

- Overall Group materiality: £35,000,000 (31 March 2023: £30,000,000) based on 0.15% of Total Assets.
- Overall Company materiality: £33,250,000 (31 March 2023: £28,500,000) based on 0.14% of Total Assets.
- Performance materiality: £26,250,000 (31 March 2023: £22,500,000) (Group) and £24,937,000 (31 March 2023: £21,375,000) (Company).

The scope of our audit

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

Key audit matters

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

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Recoverability of intercompany balances due from Thames Water Utilities Holding Limited is a new key audit matter this year. Valuation of the metered sales accrual, which was a key audit matter last year, is no longer included because of the magnitude of the manual overlay (which is the element of the accrual subject to manual intervention) has stabilised and does not represent an individually material significant estimate. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Valuation of provision for expected credit losses for trade receivables (household customers) (Group and Company)

The provision for expected credit losses on trade receivables amounted to £154.7m (2023: £157.2m). The assessment of the recoverability of customer debts involves calculations with significant judgement and estimation.

Management primarily uses historical performance to determine the future collectability of trade receivables and estimate the provision for expected credit loss. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The modelling takes the closing household debtors balance and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains is considered uncollectible, which forms the expected credit loss provision.

In previous years, an additional overlay to the provision was also made to reflect the expected future impact of macroeconomic factors such as the cost of living crisis (not already addressed through current year collection rates), but this was not considered necessary in the current year as the impact was already captured in the underlying model.

Refer to page 75 of the Audit, Risk and Reporting Committee report, the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and note 16 of the financial statements.

How our audit addressed the key audit matter $% \left(1\right) =\left(1\right) \left(
We obtained an understanding of the trade receivables provisioning process and assessed the design and implementation of related financial controls.

We evaluated the model used to calculate the core provision and assessed its consistency with prior years, specifically that the primary inputs relate to the previous year's cash collection by ageing category applied to the ageing category as at 31 March 2024. We consider the construct of the model to be appropriate and in line with the requirements of IFRS 9.

We performed a lookback test on management's prior year provision by reviewing the level of write-offs which occurred during the year, in order to assess management's forecasting accuracy.

We re-performed the calculations used in the model, to ensure the accuracy of these calculations.

We tested the underlying data and inputs upon which the calculations were based, including testing a sample of receivables to validate the ageing classifications used in the model.

We assessed the appropriateness of the assumptions used and judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year.

We challenged the rationale and evidential basis for management's release of the previous overlay provision held to address the expectation of future credit losses not already incorporated in the underlying methodology. We note this is a judgement and inspected the economic data used by management in reaching their conclusion.

We also assessed the adequacy of disclosures in the financial statements.

Overall, we consider that the provision for expected credit losses for trade receivables as at 31 March 2024 to be reasonable.







Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matter

Classification of costs between capital and operating expenditure (Group and Company)

Additions to Assets under construction (AUC) and Assets In Development (AID) during the year amounted to £1,998.9m (2023: £1,729.7m) which includes £302.9m (2023: £241.0m) of own works capitalised and £159.4m (2023: £215.2m) of borrowing costs incurred with the remainder being external costs.

There is a high degree of judgement applied when allocating costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position.

In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the Company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria and in the estimation of the amounts to capitalise.

Refer to page 76 of the Audit, Risk and Reporting Committee report, the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and notes 10 and 11 of the financial statements.

How our audit addressed the key audit matter

We obtained an understanding and assessed the design and implementation of financial controls relating to the classification of costs between capital and operating expenditure.

We tested the controls regarding the assessment by management of whether a project is either operating or capital in nature. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements.

We performed sample testing at the individual expense level for costs classified within both AUC additions and those shown as repairs and maintenance accounts during the period. We agreed the samples to third party evidence to verify the amounts and assess whether the costs were classified appropriately.

We tested the calculation of borrowing costs capitalised, and the appropriateness of this capitalisation.

Our procedures over own works capitalised included:

- Testing the control process over assessing the level of spend that should be capitalised.
- Performing sample testing at a cost centre level and challenging management as to the nature of the costs and whether they meet the capitalisation criteria.

We also assessed the adequacy of disclosures in the financial statements.

Overall, we consider the judgements made by management regarding the classification of costs as operating or capital to be reasonable as at 31 March 2024. We also consider the estimates made in determining the amount of borrowing costs and own works capitalised to be reasonable.

Key audit matter

Valuation of financial derivatives (Group and Company)

The Group derivative position as at 31 March 2024 was an asset of £388.3m (2023: £449.1m) and a liability of £1,735.9m (2023: £1,991.8m). The net derivative fair value as at 31 March 2024 was a liability of £1,347.6m (2023: £1,542.7m).

The derivatives credit risk adjustment valuation, specifically the estimation of the Company's own credit risk, is designated as a key audit matter as it gives rise to a significant source of estimation uncertainty and contains judgements concerning the Group's credit risk and methodology as there are no prescriptive requirements in IFRS 13 as to how to calculate the credit risk adjustments.

Refer to page 76 of the Audit, Risk and Reporting Committee report, the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and note 20 of the financial statements.

How our audit addressed the key audit matter $% \left(1\right) =\left(1\right) \left(
We obtained an understanding of the derivatives valuation process and assessed the design and implementation of related financial controls.

Our procedures included:

- Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Where confirmations were not obtained, alternative audit procedures were performed to confirm existence and terms.
- Engaging with our valuations experts who performed independent testing of the pre and post-credit risk adjusted valuations for the full derivative population.
- Assessing the reasonableness of the credit curves used in the valuations and performing procedures to assess the validity of assumptions and calculations management made in performing the credit risk component of fair value.
- Evaluating the reasonableness of the derivatives fair value hierarchy classification and challenging management to enhance their disclosures around estimation uncertainty relating to the credit risk adjustments.
- We also assessed the adequacy of disclosures in the financial statements.

Overall, we consider the valuation methodology and judgements used by management to be reasonable and the fair values recorded as at 31 March 2024 to be appropriate.







Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matter

Valuation of retirement benefit obligation (Group and Company)

Total scheme liabilities as at 31 March 2024 were £1,736.1m (2023: £1,859.6m).

The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates and mortality expectations) could have a material impact on the calculation of the liability.

The pension liability and related disclosures are also an area of interest to key stakeholders.

Refer to page 76 of the Audit, Risk and Reporting Committee report, the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and note 24 of the financial statements.

How our audit addressed the key audit matter

We obtained an understanding of the pensions process and assessed the design and implementation of related financial controls.

We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used (e.g. discount rates, inflation rates and mortality expectations) against our internally developed benchmarks; assessed the salary increase assumption against the Group's historical trends and expected future outlook; and considered the consistency and appropriateness of the methodology and assumptions applied compared to the prior year end.

The latest approved triennial valuations took place as at 31 March 2019 for the Thames Water Pension Scheme and as at 31 March 2022 for the Thames Water Mirror Image Pension Scheme. These have been used in the calculation of the retirement benefit obligations, with the Company's actuary using information from the Schemes actuary, including underlying cashflows and key scheme statistics. The actuary has allowed for the estimated impact of higher than expected inflation over the period since the valuation dates and specifically for the Thames Water Pension Scheme has allowed for other information contained within the preliminary triennial valuation as at 31 March 2022. We performed an independent roll forward from the valuation results to the accounting results and found them to be materiality accurate.

We also assessed the adequacy of disclosures in the financial statements.

Overall, we consider the methodology and assumptions used by management as at 31 March 2024 to be reasonable.

Key audit matter

Valuation and completeness of provisions for environmental matters (Group and Company)

The Group has provisions of £94.5m (2023: £78.7m) relating to environmental matters. These primarily relate to matters arising from the Company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016.

The determination of the completeness and valuation of environmental provisions is subjective, requiring significant judgement and a high degree of estimation uncertainty.

For each matter, management must assess whether there is a present obligation as a result of a past event, the probability that an outflow of economic resources will be required and whether a reliable estimate can be made. This assessment determines the accounting treatment as either a provision, contingent liability or neither. Where a provision is recognised, management considers all available information in order to estimate the provision, including estimates and advice provided by external legal counsel and historic experience.

Refer to page 76 of the Audit, Risk and Reporting Committee report, the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and notes 22 and 26 of the financial statements.

How our audit addressed the key audit matter

We obtained an understanding of the provisioning process for environmental matters and assessed the design and implementation of related financial controls.

Our work over the completeness and valuation of environmental liabilities included the following:

- We confirmed that the Group's external legal counsel have sufficient expertise, are appropriately qualified and are independent of the Group. In addition, we reviewed legal advice and held discussions directly with external legal counsel, to identify potential inconsistencies or further environmental matters.
- We obtained estimates of potential penalties directly from the Group's external legal counsel and confirmed that these were used as the basis of the provisions recorded by management. Where relevant, we assessed the consistency of the estimates year on year and understood the reasons for any significant changes.
- We assessed management's methodology for estimating a provision for matters not yet prosecuted by the Environmental Agency ('EA').
 We recalculated the historical prosecution rate and compared the estimated average fine level to actual previous fines issued by the EA for similar matters. The methodology used was applied consistently year-on-year and we consider it to remain appropriate.
- In respect of the matters set out in sections 2a and 3 of note 26
 of the financial statements, we reviewed the latest advice from
 the Group's external legal counsel and held discussions with
 them and management to further understand each matter.
 The evidence obtained supported the inclusion of these matters
 as contingent liabilities.
- We also assessed the adequacy and completeness of disclosures in the financial statements.

Overall, we consider the provisions and disclosures of environmental matters as at 31 March 2024 to be reasonable.







Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matter

Recoverability of intercompany balances due from Thames Water Utilities Holding Limited (Group and Company)

The Group and Company has recorded a provision for expected credit losses on the intercompany receivables due from its immediate parent TWUHL totalling £118.9 million.

The assessment of the recoverability and calculation of the expected credit loss involves significant judgement and estimation.

The key inputs into management's impairment model include Regulatory Capital Value ("RCV") multiples and current stated RCV.

Various scenarios were considered by management in a multiple factor analysis by applying a range of RCV multiples to the RCV less the net debt of the TWUL group to drive a proxy enterprise value and providing a weighted probability of those scenarios occurring.

Refer to page 75 of the Audit, Risk and Reporting Committee report, significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and notes 7 and 35 of the financial statements.

How our audit addressed the key audit matter

We have obtained an understanding of management's methodology applied to assess the recoverability of the intercompany receivable balance with its immediate parent TWUHL and we have assessed the design and implementation of related financial controls.

Our procedures included:

- Obtaining management's model and testing the mathematical accuracy of the calculations.
- Understanding the rationale of the model adopted and verifying the key input data, including to the latest Ofwat publication of RCV and net debt figures to the underlying audited information.
- Understanding the basis on which management has selected the various RCV multipliers, including obtaining the third party reports used by management in informing their position and assessing the reasonableness of these multipliers.
- We have read and challenged the Significant accounting judgements and key sources of estimation uncertainty disclosure contained within the Accounting Policies of the financial statements, in particular to ensure that it adequately highlights the significant estimation uncertainty in relation to the calculation of the expected credit loss in relation to this balance and that it discloses that there is a possible scenario (albeit one that management ascribes a low probability to) which results in a full expected credit loss impairment of the gross balance of £1,319.5m.

Overall, we consider the carrying value of the intercompany receivable balances with TWUHL to appropriately reflect an estimate for an expected credit loss as required under IFRS 9 as at 31 March 2024.

Key audit matter

Recoverability of the investment in Thames Water **Utilities Finance plc (Company)**

The Company holds an investment in its subsidiary Thames Water Utilities Finance plc (TWUF) of £207.7m million which it has concluded is fully recoverable.

The assessment of the recoverability of investment balances involves significant estimation.

The key inputs into management's impairment model include the discount rate and the debt arowth rate.

Management makes an estimate of the recoverable value of the investment as per IAS 36. Management has performed an analysis that takes into account expected changes in debt and margin earned by the investment over a 20 year period to derive a future net asset value.

Refer to page 75 of the Audit, Risk and Reporting Committee report and note 37 of the financial statements.

How our audit addressed the key audit matter

We have obtained an understanding of management's methodology applied to assess the recoverability of the investment in TWUF and we have assessed the design and implementation of related financial controls.

Our procedures included:

- Obtaining management's model and testing the mathematical accuracy of the calculations.
- Understanding the rationale of the model adopted and verifying the key input data, including the expectation of income that TWUF will generate on future loan funding to TWUL.
- Reviewing the reasonableness of the debt growth rate used in the model with reference to UK inflation targets.
- Engaging with internal experts to assess the reasonableness of the discount rate used in the model.
- Sensitised the key assumptions in the model using severe but plausible downside scenarios which did not give rise to an impairment.

We also assessed the adequacy of disclosures in the financial statements.

Overall, we consider the carrying value of the investment in TWUF to be recoverable as at 31 March 2024.









Independent auditors' report to the members of Thames Water Utilities Limited continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Both legal entities in the Group were considered financially significant and are subject to full scope audits for the purpose of the consolidated group audit. Thames Water Utilities Limited due to holding the significant proportion of the Group's total assets and all its trade and Thames Water Utilities Finance Plc due to holding a significant amount of the Group's external debt. All audit procedures were led by the Group audit team located in the United Kingdom.

The impact of climate risk on our audit

In planning our audit we have considered the impact that the Group has on the environment through its operations and the impact the environment has on the Group. These considerations include the current and potential future impact climate change, has on the Group's business and its financial statements. Consistent with being one of the United Kingdom's largest suppliers of water and wastewater services, planning for, reacting to and assessing the impact of current and future changes in environmental factors, for example the volume and intensity of rainfall and periods of drought, is an inherent part of the Group's day to day activities.

The Group has set out its Climate Change targets with the goal of achieving net zero by 2030. The majority of the Group's carbon emissions are incurred in the treatment of water and wastewater during the normal course of its operations, and the Group continues to develop its assessment and plan to address the risk of climate change on the business . Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to the potential to exploit the by-products of the sewage treatment process, operational and supply chain decarbonisation and the need to address and comply with a changing regulatory environment.

Further information is provided on pages 34 to 42. While the Group has set out its Climate Positive targets and Science Based targets, the Group continues to assess and develop the consequences of this in terms of capital expenditure, the useful economic lives of current in use assets (and those currently under construction), the cost base and impacts on cash flows. The Group considered the net zero 2030 targets in the preparation of the financial statements, including in the evaluation of critical accounting estimates and judgements. The Group concluded that based on the current plans in place to achieve the 2030 net zero target this commitment did not have a material effect on the consolidated financial statements, as described on page 121 as at 31 March 2024.

As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks on the Group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment. We considered the Group's climate change risk assessment and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We determined that no heightened audit risk arose in the year in respect of climate change.

We have read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 34 to 42 and considered consistency with the financial statements and our audit knowledge.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements – group | Financial statements – company |
|---------------------------------------|---|---|
| Overall materiality | £35,000,000 (31 March 2023: £30,000,000). | £33,250,000 (31 March 2023: £28,500,000). |
| How we determined it | 0.15% of Total Assets | 0.14% of Total Assets |
| Rationale for benchmark applied | Total assets has been determined to be the appropriate benchmark for both significant components of the Group (see Company rationale), accordingly Group materiality is also based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.15% of total Group assets was deemed to be most appropriate. | We consider total assets to be the most appropriate benchmark on which to calculate materiality. The Company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Thames Water Utilities Limited is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we assess that aligned to the key focus of the Group on the maintenance and investment in the infrastructure it owns and operates, that the asset base is the appropriate benchmark. For PIE entities a percentage of up to 1% of total assets is typical. In reaching our conclusion we have considered multiple factors and have given due consideration to alternative benchmarks, however we consider using a lower percentage of 0.14% of total company assets is deemed to be most appropriate. |







Independent auditors' report to the members of Thames Water Utilities Limited continued

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £29,750,000 and £33,250,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (31 March 2023: 75%) of overall materiality, amounting to £26,250,000 (31 March 2023: £22,500,000) for the Group financial statements and £24,937,000 (31 March 2023: £21,375,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit, Risk and Reporting Committee that we would report to them misstatements identified during our audit above £3,500,000 (Group audit) (31 March 2023: £3,000,000) and £3,325,000 (Company audit) (31 March 2023: £2,850,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Strategic report and Governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and, except for the matters reported in the section headed 'Material uncertainty related to going concern', we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit, Risk and Reporting Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.







Independent auditors' report to the members of Thames Water Utilities Limited continued

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations, Listing Rules and Pension legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK corporation tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year or those that would directly impact operating cashflows to create additional headroom for covenant compliance, specifically journals to increase revenue, decrease the bad debt provision and reclassify costs from the income statement to property, plant and equipment. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures.

Audit procedures performed by the engagement team included:

- Discussions and enquiries of management, the internal audit function and external and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments, including challenging management in relation to how they have considered climate risk in such critical estimates. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative or contradictory information where available along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Performing unpredictable procedures including but not limited to; sampling non-standard payments, checking supplier bank details, and inspection of journal entries from unexpected users or unusual words.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/ auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made: or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Reporting Committee, we were appointed by the members on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2019 to 31 March 2024.

Other voluntary reporting

Directors' remuneration

The Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Sotiris Kroustis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Readina 9 July 2024









Consolidated income statement

For the year ended 31 March 2024

| | | | 2024 | | | | 2023 | | |
|---|------|-------------------|----------------------|-----------|-------------|------------------|----------------------------|-----------|-------------|
| | Note | Underlying £m) | Exceptional items £m | BTL £m | Total £m | Underlying £m | Exceptional items £m | BTL £m | Total £m |
| Revenue | 2 | 2,401.4 | - | 116.8 | 2,518.2 | 2,180.7 | _ | 84.5 | 2,265.2 |
| Operating expenses excluding impairment losses on trade receivables | | | | | | | | | |
| and contract assets | 3 | (2,066.3) | (43.9) | _ | (2,110.2) | (1,994.4) | _ | _ | (1,994.4) |
| Impairment losses on trade receivables and | | | | | | | | | |
| contract assets | 3,16 | (39.5) | _ | (0.2) | (39.7) | (22.3) | _ | (0.1) | (22.4) |
| Total operating | | | | | | | | | |
| expenses | | (2,105.8) | (43.9) | (0.2) | (2,149.9) | (2,016.7) | _ | (0.1) | (2,016.8) |
| Other operating income | 2 | 148.9 | _ | _ | 148.9 | 107.6 | _ | _ | 107.6 |
| Operating profit | | 444.5 | (43.9) | 116.6 | 517.2 | 271.6 | _ | 84.4 | 356.0 |
| Finance income | 5 | 276.5 | _ | _ | 276.5 | 223.7 | _ | _ | 223.7 |
| Finance expense | 5 | (669.8) | _ | _ | (669.8) | (700.2) | _ | _ | (700.2) |
| Net gains on financial | | | | | | | | | |
| instruments | 6 | 152.3 | _ | _ | 152.3 | 122.3 | _ | _ | 122.3 |
| Impairment losses on | | | | | | | | | |
| intercompany loan | 7 | _ | (118.9) | _ | (118.9) | _ | _ | _ | _ |
| Profit/(loss) on ordinary activities before | | | | | | | | | |
| taxation | | 203.5 | (162.8) | 116.6 | 157.3 | (82.6) | _ | 84.4 | 1.8 |
| Tax (charge)/credit on profit/(loss) on | | | | | | | | | |
| ordinary activities | 8 | (63.7) | 11.0 | (29.2) | (81.9) | (49.7) | _ | 17.8 | (31.9) |
| Profit/(loss) for the year | | 139.8 | (151.8) | 87.4 | 75.4 | (132.3) | _ | 102.2 | (30.1) |

The Group's activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 110-120.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies on page 119. Exceptional items have been split out from our underlying figures to support users of the financial statements understand underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 March 2024

| | | | 2024 | | | | 2023 | | |
|---|------|------------------|----------------------|-----------|-------------|------------------|----------------------|-----------|-------------|
| | Note | Underlying £m | Exceptional items £m | BTL £m | Total £m | Underlying £m | Exceptional items £m | BTL £m | Total £m |
| Profit/(loss) for the year | | 139.8 | (151.8) | 87.4 | 75.4 | (132.3) | _ | 102.2 | (30.1) |
| Other comprehensive income | | | | | | | | | |
| Will not be reclassified to the income statement: | | | | | | | | | |
| Net actuarial gain on | | | | | | | | | |
| pension schemes | 24 | 18.9 | - | - | 18.9 | 69.4 | _ | _ | 69.4 |
| Deferred tax charge on | | | | | | | | | |
| net actuarial gain | 21 | (5.9) | - | - | (5.9) | (16.8) | _ | _ | (16.8) |
| May be reclassified to the | | | | | | | | | |
| income statement: | | | | | | | | | |
| Cash flow hedge transferred | | | | | | | | | |
| to income statement | 20 | 18.7 | - | - | 18.7 | 21.1 | _ | _ | 21.1 |
| Deferred tax charge on | | | | | | | | | |
| cash flow hedge | 21 | (4.7) | - | - | (4.7) | (4.0) | _ | _ | (4.0) |
| Other comprehensive | | | | | | | | | |
| income for the year | | 27.0 | _ | - | 27.0 | 69.7 | _ | _ | 69.7 |
| Total comprehensive income/ | | | | | | | | | |
| (expense) for the year | | 166.8 | (151.8) | 87.4 | 102.4 | (62.6) | _ | 102.2 | 39.6 |

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. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 110-120.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies on page 119. Exceptional items have been split out from our underlying figures to support users of the financial statements understand underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

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Consolidated statement of financial position

As at 31 March 2024

| | | 3 | 1 March 2024 | | | 31 March 2023 | |
|--|------|------------------|--------------|-------------|------------------|---------------|-------------|
| | Note | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Non-current assets | Note | LIII | LIII | ZIII | LIII | LIII | LIII |
| Intangible assets | 10 | 233.9 | _ | 233.9 | 263.3 | _ | 263.3 |
| Property, plant and equipment | 11 | 19,371.8 | _ | 19,371.8 | 18,017.4 | _ | 18,017.4 |
| Investment property | 12 | 2.0 | _ | 2.0 | 2.0 | _ | 2.0 |
| Right-of-use assets | 13 | 36.5 | _ | 36.5 | 39.8 | _ | 39.8 |
| Derivative financial assets | 20 | 355.3 | _ | 355.3 | 417.2 | _ | 417.2 |
| Intercompany loans receivable | 14 | 1,200.6 | _ | 1,200.6 | 1,249.1 | _ | 1,249.1 |
| Prepayments | 16 | _ | 493.4 | 493.4 | _ | 377.9 | 377.9 |
| Insurance and other receivables | 16 | 40.0 | _ | 40.0 | 64.6 | _ | 64.6 |
| Pension asset | 24 | 33.0 | _ | 33.0 | 6.0 | _ | 6.0 |
| | | 21,273.1 | 493.4 | 21,766.5 | 20,059.4 | 377.9 | 20,437.3 |
| Current assets | | | | | | | |
| Inventories | 15 | 23.3 | _ | 23.3 | 20.9 | _ | 20.9 |
| Intercompany loans receivable | 14 | _ | _ | _ | 0.2 | _ | 0.2 |
| Trade receivables | 16 | 373.8 | 25.7 | 399.5 | 315.9 | 16.8 | 332.7 |
| Contract assets | 16 | 288.6 | 7.5 | 296.1 | 253.6 | 5.2 | 258.8 |
| Prepayments | 16 | 45.2 | _ | 45.2 | 48.8 | _ | 48.8 |
| Insurance, other receivables and amounts | | | | | | | |
| owed by group undertakings | 16 | 62.7 | _ | 62.7 | 134.4 | (16.6) | 117.8 |
| Derivative financial assets | 20 | 33.0 | _ | 33.0 | 31.9 | _ | 31.9 |
| Cash and cash equivalents | 17 | 1,274.9 | 6.3 | 1,281.2 | 1,829.3 | 7.0 | 1,836.3 |
| | | 2,101.5 | 39.5 | 2,141.0 | 2,635.0 | 12.4 | 2,647.4 |
| Current liabilities | | | | | | | |
| Contract liabilities | 18 | (132.9) | (0.5) | (133.4) | (130.1) | _ | (130.1) |
| Trade and other payables | 18 | (914.8) | (54.7) | (969.5) | (821.2) | _ | (821.2) |
| Bank overdraft | 17 | (126.7) | _ | (126.7) | _ | _ | _ |
| Borrowings | 19 | (2,202.7) | _ | (2,202.7) | (2,280.5) | - | (2,280.5) |
| Lease liabilities | 13 | (7.8) | _ | (7.8) | (7.3) | - | (7.3) |
| Derivative financial liabilities | 20 | (245.4) | _ | (245.4) | (67.1) | _ | (67.1) |
| Provisions for liabilities and charges | 22 | (65.1) | _ | (65.1) | (35.0) | _ | (35.0) |
| | | (3,695.4) | (55.2) | (3,750.6) | (3,341.2) | _ | (3,341.2) |
| Net current (liabilities)/assets | | (1,593.9) | (15.7) | (1,609.6) | (706.2) | 12.4 | (693.8) |

| | | 3 | 1 March 2024 | | 31 March 2023 | | | |
|--|------|------------------|--------------|-------------|------------------|-----------|-------------|--|
| | Note | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m | |
| Non-current liabilities | Note | £III | £III | £III | £III | £III | £III | |
| Contract liabilities | 18 | (1,039.1) | _ | (1,039.1) | (921.7) | _ | (921.7) | |
| Borrowings | 19 | (14,145.8) | _ | (14,145.8) | (13,457.4) | _ | (13,457.4) | |
| Lease liabilities | 13 | (45.2) | _ | (45.2) | (49.7) | _ | (49.7) | |
| Derivative financial liabilities | 20 | (1,490.5) | _ | (1,490.5) | (1,924.7) | _ | (1,924.7) | |
| Deferred tax | 21 | (1,295.4) | _ | (1,295.4) | (1,190.2) | _ | (1,190.2) | |
| Provisions for liabilities and charges | 22 | (209.6) | _ | (209.6) | (192.7) | _ | (192.7) | |
| Pension deficit | 24 | (152.1) | _ | (152.1) | (182.0) | _ | (182.0) | |
| | | (18,377.7) | _ | (18,377.7) | (17,918.4) | _ | (17,918.4) | |
| Net assets | | 1,301.5 | 477.7 | 1,779.2 | 1,434.8 | 390.3 | 1,825.1 | |
| Equity | | | | | | | | |
| Called up share capital ¹ | 23 | 76.5 | _ | 76.5 | 29.0 | _ | 29.0 | |
| Share premium | 23 | 100.0 | _ | 100.0 | 100.0 | _ | 100.0 | |
| Cash flow hedge reserve | 23 | (2.1) | _ | (2.1) | (16.1) | _ | (16.1) | |
| Revaluation reserve | 23 | 770.9 | _ | 770.9 | 795.5 | _ | 795.5 | |
| Retained earnings | 23 | 356.2 | 477.7 | 833.9 | 526.4 | 390.3 | 916.7 | |
| Total equity | | 1,301.5 | 477.7 | 1,779.2 | 1,434.8 | 390.3 | 1,825.1 | |

^{1 47,500,000} shares with a nominal value of £1 each were issued during the reporting period to Thames Water Utilities Holding Limited, for a total value of £47,500,000. Refer to Note 23 for further detail.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Consolidated 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. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 110-120.

The consolidated financial statements (which include the accompanying accounting policies and notes) for the Company, registered in England & Wales company number 02366661, were approved by the Board of Directors on 9 July 2024 and signed on its behalf by:

Alastair Cochran

Chief Financial Officer







Consolidated statement of changes in equity

For the year ended 31 March 2024

| | | Called up share capital | Share premium | Cash flow hedge reserve | Revaluation reserve | Retained earnings | Total equity |
|--|------|-------------------------|------------------|-------------------------|---------------------|-------------------|-----------------|
| | Note | £m | £m | £m | £m | £m | £m |
| 1 April 2022 | | 29.0 | 100.0 | (33.2) | 820.1 | 914.8 | 1,830.7 |
| Loss for the year | | _ | _ | _ | _ | (30.1) | (30.1) |
| Cash flow hedge transferred to income statement | 20 | _ | _ | 21.1 | _ | _ | 21.1 |
| Deferred tax charge on cash flow hedge | 21 | _ | _ | (4.0) | _ | _ | (4.0) |
| Net actuarial gain on pension scheme | 24 | _ | _ | _ | _ | 69.4 | 69.4 |
| Deferred tax charge on net actuarial gain | 21 | _ | _ | _ | _ | (16.8) | (16.8) |
| Total comprehensive income | | _ | _ | 17.1 | - | 22.5 | 39.6 |
| Transfer of depreciation ¹ | | _ | _ | _ | (32.8) | 32.8 | _ |
| Deferred tax on depreciation transfer ¹ | | _ | _ | _ | 8.2 | (8.2) | _ |
| Dividends paid | 9 | _ | _ | _ | - | (45.2) | (45.2) |
| 31 March 2023 | | 29.0 | 100.0 | (16.1) | 795.5 | 916.7 | 1,825.1 |
| Profit for the year | | _ | _ | _ | _ | 75.4 | 75.4 |
| Cash flow hedge transferred to income statement | 20 | _ | _ | 18.7 | _ | _ | 18.7 |
| Deferred tax charge on cash flow hedge | 21 | _ | _ | (4.7) | _ | _ | (4.7) |
| Net actuarial gain on pension scheme | 24 | _ | _ | _ | _ | 18.9 | 18.9 |
| Deferred tax charge on net actuarial gain | 21 | _ | _ | _ | _ | (5.9) | (5.9) |
| Total comprehensive income | | _ | _ | 14.0 | _ | 88.4 | 102.4 |
| Transfer of depreciation ¹ | | _ | _ | _ | (32.8) | 32.8 | _ |
| Deferred tax on depreciation transfer ¹ | | _ | _ | _ | 8.2 | (8.2) | _ |
| Dividends paid | 9 | _ | _ | _ | _ | (195.8) | (195.8) |
| Share capital issued ² | 23 | 47.5 | _ | _ | _ | _ | 47.5 |
| 31 March 2024 | | 76.5 | 100.0 | (2.1) | 770.9 | 833.9 | 1,779.2 |

¹ The movement between the revaluation reserve and retained earnings arises from the depreciation and associated deferred tax on the fair value uplift on assets. This relates to assets which were revalued during the IFRS transition and received an uplift in their value, where the uplift was recognised in equity as a separate revaluation reserve balance. This depreciation on the uplift is transferred to retained earnings along with the associated deferred tax as per IAS 16 quidance.

Consolidated statement of cash flows

For the year ended 31 March 2024

| | | | 2024 | | | 2023 | |
|---|------|------------------|-----------|-------------|------------------|-----------|-------------|
| | Note | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Net cash generated by operating activities ¹ | 29 | 1,382.0 | (0.7) | 1,381.3 | 1,114.4 | 1.8 | 1,116.2 |
| Investing activities: | | -, | (312) | ., | ., | | ., |
| Purchase of property, plant and equipment ² | | (1,958.7) | _ | (1,958.7) | (1,554.8) | _ | (1,554.8) |
| Purchase of intangible assets | | (43.2) | _ | (43.2) | (43.6) | _ | (43.6) |
| Proceeds/(costs) from sale of property, plant | | | | | | | |
| and equipment ³ | | 6.4 | _ | 6.4 | (7.0) | _ | (7.0) |
| Interest received | | 190.5 | _ | 190.5 | 229.6 | _ | 229.6 |
| Repayment of loans by parent company | | _ | _ | _ | 444.3 | _ | 444.3 |
| Net cash used in investing activities | | (1,805.0) | _ | (1,805.0) | (931.5) | _ | (931.5) |
| Financing activities: | | | | | | | |
| New loans raised ⁴ | | 3,099.4 | _ | 3,099.4 | 5,070.8 | _ | 5,070.8 |
| Repayment of borrowings ⁵ | | (2,666.8) | _ | (2,666.8) | (3,221.4) | _ | (3,221.4) |
| Repayment of lease principal | | (10.2) | _ | (10.2) | (10.0) | _ | (10.0) |
| Proceeds from derivative settlement ⁶ | | 28.4 | _ | 28.4 | 48.1 | _ | 48.1 |
| Payment for derivative settlement ⁷ | | (171.8) | _ | (171.8) | (412.6) | _ | (412.6) |
| Interest paid | | (333.6) | _ | (333.6) | (186.8) | _ | (186.8) |
| Net financing fees paid | | (7.7) | _ | (7.7) | (16.3) | _ | (16.3) |
| Dividends paid | | (195.8) | _ | (195.8) | (45.2) | _ | (45.2) |
| Net cash (used in)/generated by financing activities | | (258.1) | _ | (258.1) | 1,226.6 | _ | 1,226.6 |
| Net (decrease)/increase in cash and cash equivalents | | (681.1) | (0.7) | (681.8) | 1,409.5 | 1.8 | 1,411.3 |
| Net cash and cash equivalents at beginning of period | | 1,829.3 | 7.0 | 1,836.3 | 419.8 | 5.2 | 425.0 |
| Net cash and cash equivalents at end of period | | 1,148.2 | 6.3 | 1,154.5 | 1,829.3 | 7.0 | 1,836.3 |

¹ Net cash generated by operating activities for the year ended 31 March 2024 includes £37.6 million (2023: £nil) payments made during the year ended 31 March 2024 related to the exceptional costs recognised in the income statement of £43.9m (2023: £nil) for restructuring and transformation expenditure. Refer to note 3. Net cash generated by operating activities (excluding payments relating to exceptional items and BTL) for the year ended 31 March 2024 would be £1,419.6 million. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made, the net cash generated by operating activities for the year ended 31 March 2024 would have included a cash payment of £10.2 million. In the year ended 31 March 2024, two payments for internal inflation mechanism pension contributions were made on TWUL's behalf by Kemble Water Eurobond plc and are not included in cash flows from operating activities above, one for £20.4 million in April 2023 and one for £27.1 million in March 2024, please refer to note 9 and note 23 for further details. If this was not the case, the April 2023 payment which was due in the year ended 31 March 2024 and the March 2024 payment which was not due until the year ended 31 March 2025, would otherwise have been recorded within operating cash flows.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflows are amounts in relation to the arrangement with BTL and these amounts have been disclosed separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 110-120.

^{2 47,500,000} shares with a nominal value of £1 each were issued during the reporting period to the immediate parent, Thames Water Utilities Holding Limited, for a total value of £47,500,000. Refer to Note 23 for further detail.

² Purchase of property, plant and equipment includes an adjustment to reflect the timing of payment of property, plant and equipment additions during the year, therefore this figure does not tie to the additions in Note 11.

³ Proceeds from sale of property, plant and equipment does not include £16.7 million (2023: £nil) of disposal presented in other operating income, which was in exchange for land (non-cash).
4 New loans raised of £3,099.4 million (2023: £5,070.8 million) includes £1,801.3 million (2023: £2,616.3 million) of drawdowns relating to revolving credit facilities including £1,060.0 million Class A (2023: £1,875.0 million) and £741.3 million (2023: £741.3 million). The remaining amount includes £1,134.6 million (net of fees) bonds issuances (2023: £1,436.9 million) and £163.5 million relating to loans raised (2023: £1,017.6 million). Rollovers of drawdowns under revolving credit facilities will not appear as new cash flows in the cash flow statement.

⁵ Repayment of borrowings of £2,666.8 million (2023: £3,221.4 million) includes £741.3 million (2023: £2,616.3 million) of repayments relating to revolving credit facilities including £nil Class A (2023: £1,875.0 million) and £741.3 million Class B (2023: £741.3 million). The remaining amount includes £664.5 million loan repayments (2023: £188.8 million), £1,255.5 million bond repayments (2023: £416.3 million), £5.2 million relating to amounts repaid to TWL (2023: £11).

⁶ Proceeds from derivative settlement of £28.4 million (2023: £48.1 million) includes £nil (2023: £18.9 million) relating to accretion received on index-linked swaps and £28.4 million (2023: £29.2 million) relating to settlement of cross currency swaps.

⁷ Payment for derivative settlement of £171.8 million (2023: £412.6 million) includes £152.0 million (2023: £408.4 million) relating to accretion paydown on index-linked swaps and £19.8 million (2023: £4.2 million) relating to settlement of cross currency swaps.

Strategic report **Financial statements** Thames Water Annual Report 2023/24 Governance







Accounting policies

The accounting policies adopted in the preparation of these consolidated and Company financial statements, which have been applied consistently, unless otherwise stated, are set out below. IAS 1 quidance has been considered in the preparation of the financial statements so that material accounting policies applicable are disclosed in line with this guidance.

General information

Thames Water Utilities Limited ("the Company") is a private 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, 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 Kemble Water Holdings Group").

As at 31 March 2024, Thames Water Utilities Group of companies ("the Group") includes the Company and Thames Water Utilities Finance plc ("TWUF") as its sole subsidiary.

Statement of compliance with International Financial Reporting Standards

These consolidated and Company only financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Basis of consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company and its sole subsidiary. A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns.

Refer to the 'General information' section above for information on the Group.

Basis of preparation

The consolidated financial statements for the twelve months ended 31 March 2024, set out on pages 107 to 152, 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.

Context

Our business plan for the 2025-30 price control period proposes investing significantly more than the current regulatory period to improve asset resilience, to deliver environmental improvements and to improve performance for our customers and the communities we serve. This relies on securing additional debt and equity funding.

The decision by shareholders not to commit new equity in March 2024 reflecting uncertainty concerning the outcome of the PR24 price review has resulted in credit rating downgrades and forecast trigger events (explained below in the financial covenants section), which highlight this near-term funding challenge. However, we will continue to engage with our regulators, and the Government, to agree a determination that will deliver improvements for our customers and the environment and give our investors the opportunity to earn a fair return on their investment.

The success and timing of securing the capital we need to finance our ambitious business plan, turnaround performance and increase financial resilience depends on securing a PR24 price determination that is both financeable and investable.

These factors are explained further below:

A. PR24 business plan

In October 2023, the Company submitted its PR24 business plan for the 2025-30 regulatory period ("AMP8") to Ofwat. Since this submission, the Company has discussed the content of its PR24 business plan extensively with its regulators and key stakeholders. As a result of this engagement, it submitted an update to its PR24 business plan in April 2024 increasing total expenditure in AMP8 to £19.8 billion and proposed that a further £1.9 billion of potential investment is placed into a Deliverability Assessment Mechanism. Ofwat is expected to publish its draft business plan assessment and determination on 11 July 2024 and final determination on 19 December 2024. This process will confirm the Company's allowed revenues and performance targets for AMP8.

The Company's PR24 business plan proposes a significant increase in investment in AMP8 to maintain safe high quality drinking water, ensure security of water supplies, deliver further environmental improvements, and build greater network resilience. This step up in investment will require an increase in customer bills, as well as additional debt and equity funding. There is no assurance of the level of customer funding that will be determined by Ofwat to support this level of proposed investment. However, the Board notes that under Section 2 of Water Industry Act 1991 (as amended), Ofwat is under a duty to "secure that water companies can (in particular through securing reasonable returns on capital) finance the proper carrying out of their statutory functions".

If the Company considers its PR24 final determination is neither financeable nor investable, it has the right to request that Ofwat refers its determination to the Competition and Markets Authority ("CMA") within two months for a full re-determination. There are no set appeal grounds and the CMA will make its own independent judgement as to an appropriate outcome. In reaching its re-determination conclusions, the CMA is required to have regard to Ofwat's duties, strategic priorities and objectives to the same extent as is required of Ofwat, including in relation to Ofwat's duty to exercise its powers in the manner which it considers is best calculated to (among other things) secure that a notional, efficient water company is able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of its functions.

In the event of a referral by the Company, the CMA has six months to issue a decision from the point of referral, which can be extended by another six months. It is therefore possible that an appeal process may take 12 months or longer from the date of referral (as was the case for PR19 referrals to the CMA). Furthermore, there can be no assurance that equity funding could be completed prior to the outcome of any CMA referral, nor that the CMA would make a re-determination that is more investable or financeable than Ofwat's PR24 final determination.

B. Equity funding

In July 2023, the Group announced that its ultimate shareholders (the "Kemble Shareholders") had agreed to provide a further £750 million in new equity funding across the current regulatory period (AMP7), the first £500 million tranche of which was anticipated by 31 March 2024. In addition, the Kemble Shareholders acknowledged the possibility of further equity investment in the medium-term, indicatively to be in the region of £2.5 billion.

This funding was subject to satisfaction of certain conditions, including the preparation of a business plan that underpinned a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over three years and was supported by appropriate regulatory arrangements.

Following submission in October 2023, the Company has been in dialogue with Ofwat to seek feedback on its business plan as part of the PR24 price review process. On 28 March 2024, the Group and Kemble's shareholders announced that, based on the feedback provided by Ofwat to the Company at that time, the regulatory arrangements that would be expected to apply to the Company in AMP8 made the PR24 business plan uninvestable. As a result, the conditions attached to the £750 million of new equity were not satisfied at that time and the Kemble Shareholders did not provide the first £500 million tranche of new equity that was originally anticipated in March 2024.







Accounting policies continued

Discussions with Ofwat and other stakeholders are ongoing. The Company aims to secure a PR24 regulatory determination that is affordable for customers, deliverable and financeable for the Group, as well as investable for equity investors. The Group has therefore announced its intention to pursue all options to secure the required equity investment from new or existing shareholders following receipt of the PR24 draft determination. However, the Group does not expect to be able to conclude the planned equity raise until after publication of the PR24 final determination (or conclusion of an appeal if it is referred to the CMA). Consequently, the Board has concluded that, although it is possible that equity funding will be received by 31 March 2025, it is not assumed to be received during the going concern assessment period and is therefore not reflected in the going concern base case below or associated financial covenant calculations.

In April 2024, events of default occurred under the financing arrangements for Kemble Water Finance Limited, an indirect holding company of the Group, and its financing subsidiary Thames Water (Kemble) Finance plc (together the "Kemble Debtors"). The Kemble Debtors have granted security in favour of their lenders and noteholders, including share security, and consequently the Group could be subject to a change of ultimate beneficial ownership should the lenders and noteholders enforce their security.

The Kemble Debtors have announced that they have approached their lenders and noteholders to request that they take no creditor action so as to provide a stable platform while all options are explored. The Group is not an obligor under such financings and the defaults of the Kemble Debtors does not give their creditors recourse to the Group. However, these events of default would need to be resolved to allow Kemble's existing shareholders or any new investors the option to inject further funds into the Group through the existing corporate structure. Equity funding could be made directly into the Whole Business Securitisation ("WBS") ringfenced group if it was in the best interests of stakeholders.

The Board will continue to carefully monitor progress towards achieving equity funding on a regular basis and has undertaken prudent contingency planning to assess what options may be available to maintain its core water and wastewater services and financial resilience should this be required. The Board further notes that in the event that equity funding would not be forthcoming, the Group and Company would consider all options available at that time and could revise down its business plan expenditure to fit within the then available funding from the PR24 final determination, so as to enable the Group and the Company to maintain its financial resilience and efficiently access debt funding.

Going concern

The Directors consider it appropriate to prepare the financial statements on a going concern basis as they have a reasonable expectation that the Group and Company will continue in existence for the next 12 months from the date of approval of the financial statements (the 'assessment period'). In their assessment, the Directors have identified the following material uncertainties related to events that are outside the control of the Board and which may cast significant doubt on the Group's and the Company's ability to continue as a going concern:

- The Group and Company do not have sufficient committed liquidity for a period of 12 months from the date of approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances
 and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default
 under the terms of the Group's financing arrangements.

In assessing the appropriateness of the going concern basis, the Directors have used a base case scenario which does not assume any new equity or debt is raised within the assessment period, with budgeted cash flows consistent with the Board approved budget for the year ended 31 March 2025 and thereafter our PR24 submission. In forming our conclusions we have considered the matters set out in the Context section above, together with the following factors:

1a. Liquidity runway

The Group's and therefore the Company's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate.

As at 31 March 2024, the Group had financial resources consisting of £1.3 billion of available cash and cash equivalents, access to £2.6 billion of committed credit facilities of which £1.2 billion is undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). The £1.2 billion of undrawn facilities mainly consist of revolving credit facilities from relationship banks.

As at 30 June 2024, the Class A revolving credit facilities and term loans, totalling £2.2 billion, were fully drawn thereby significantly increasing the amount of cash held.

It is projected that under the base case the available liquidity will fund forecast operating cashflows, capital expenditures and service debt until May 2025. This assessment assumes that the Group can continue to draw its existing revolving credit facilities and utilise all cash resources over this period. The Board recognises that it is necessary to extend the Group's and Company's liquidity runway so that the Group and Company has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. This could be achieved in the short term through any one of a number of actions including implementing cash conservation measures that do not threaten the Group's or Company's statutory duties (actions within the Board's control), securing creditor support to raise new debt or extend the liquidity runway, or raise equity (actions outside of the Board's control). Scenarios more severe than the base case would cause the base case liquidity runway to shorten further and require the Board to take mitigating actions to fund forecast operating cash flows, capital expenditures and service debt in the assessment period.

Additional debt funding is dependent primarily on the appetite of investors and lenders in public and private debt markets, which would be underpinned by various factors, including the Group's credit ratings and the WBS structure. The terms and conditions of the WBS provide a stable platform for the Group and therefore Company to finance its activities in the debt capital markets:

- It is based on a common set of terms for Secured Creditors that also facilitates debt raising across a range of facilities and debt instruments;
- It establishes a contractual ringfence that enhances the licence ringfence and requires the Group to be clearly segregated from other parts of the Kemble Water Holdings Limited group and their financing arrangements;
- It establishes controls on the Group's activities to ensure a focus is maintained on delivering its regulated business;
- It establishes 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; and,
- It is designed to enable the Group and Company to continue to operate through situations where there is financial stress and to maintain sufficient committed liquidity to service debt.

1b. Covenant compliance

Under the terms of its Common Terms Agreement, the Group is required to maintain compliance with financial covenants under the WBS and publish a compliance certificate semi-annually. Non-compliance with financial covenants can result in a cash lock-up, Trigger Event or, in extreme situations, an event of default. Any of these could affect the ability of the Group to attract equity funding.

The Group was compliant with financial covenants in the 2023/24 financial year. However, following the decision by shareholders not to commit new equity in March 2024, the Board has concluded that although it is possible that equity will be received this should no longer be assumed for financial covenant forecast calculation purposes. Consequently, the compliance certificate to be submitted to the Security Trustee in July 2024 shows non-compliance of certain forecast gearing and interest cover ratios with Trigger Event thresholds for the 2024/25 financial year, which will crystallise formally upon delivery of the compliance certificate for the financial year ended 31 March 2024.

The Directors have considered the consequences of a Trigger Event under the WBS including, but not limited to, a cash lockup preventing distributions and a prohibition from incurring additional debt unless consent is given by the Secured Creditors, other than utilisations from existing committed facilities. A Trigger Event acts as an early warning sign to provide additional creditor protections. It is designed to maintain the Group's creditworthiness and as such, it does not affect the Group's continued access to its significant existing committed credit facilities, nor would it disrupt the Group's or Company's ability to trade. A Trigger Event is not an event of default and gives no right to the Secured Creditors to take enforcement action or accelerate any of the Group's debt. It does require the Group to prepare a remedial plan and provide further information to its Secured Creditors.







Accounting policies continued

In assessing going concern, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected reflecting 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. 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 address the impact on operational cashflows, mitigations involving active working capital management and the release of contingencies embedded within the Business Plan have also been taken into account.

Under a severe but plausible downside scenario, a Trigger Event would continue but financial covenant ratios do not project an event of default. In the event of an event of default, the Group and therefore the Company would enter into an automatic 18-month standstill period during which Secured Creditors are prohibited from taking enforcement action or accelerating any of the Group's debt. During this period, £550 million of liquidity facilities would be available to finance specific costs incurred by the business, thereby providing additional runway. However, there would be restrictions on the Company's operations including the cessation of capital expenditure other than for essential maintenance.

2. Regulatory licence compliance

As noted in the 'Equity funding' section above, there are scenarios where a revised business plan would need to be prepared to take account of available funding during the review period. The implementation of a revised business plan would deliver less for customers, communities, and the environment and may result in a failure to comply with relevant standards, environmental permits and other legislation that could lead to enforcement action by regulators, including Ofwat. Dependent on the severity of non-compliance, this could give rise to grounds for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order. A petition could also be made if the Group is unable to pay its debts. The purpose of the Special Administration Regime is to protect the interests of the customers in the event a water company (the regulated entity) is or is likely to be unable to pay its debts or is in contravention with its principal statutory duties or an enforcement order.

Furthermore, in April 2024 Moody's and Standard & Poor's downgraded their credit ratings for the Group to Baa3 (Moody's) and BBB-(Standard & Poor's), both with a negative outlook, in response to the Group's update on shareholder funding. These downgrade actions cited greater uncertainty due to the delay in raising further equity funding and the potential impact on the Company's plan to turnaround its operational performance. As a result of these downgrades, the Company is now operating in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

Both ratings agencies have stated that Thames Water's ratings could be downgraded if the Group faced difficulties in maintaining its forward-looking liquidity or if existing or new shareholders do not provide sufficient additional equity, for example because of an adverse regulatory determination, to support the company's ongoing investment needs. Any future downgrade of either monitored rating would represent a breach of the Company's licence. If this breach was enforced by Ofwat, it could result in an event of default under the WBS. A credit rating downgrade could also reduce access to capital and increase the cost of debt.

Conclusions

In assessing whether the Group and Company have adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due, the Directors have taken into consideration all of the factors set out above.

Accordingly, the Directors have concluded it is reasonable to assume that actions can be taken such that the Group and Company 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. However, there exist material uncertainties which may cast significant doubt on the Group's and the Company's ability to continue as a going concern in relation to the preparation of the financial statements given:

• The Group and Company do not have sufficient committed liquidity for a period of 12 months from the date of approval of these financial statements and our ability to extend our liquidity runway beyond the assessment period is not wholly within our control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and

• A future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment and possibly a consequent event of default under the terms of the Group's financing arrangements.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Bazalgette Tunnel Limited ("BTL") arrangement

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 disclosed our underlying performance separately, as required by some of our financial covenants.

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the 'pay when paid' principle.

Accounting standards require the Group to present the amounts billed as revenue in our financial statements and, with an associated cost representing bad debt on amounts billed, this gives rise to reporting profit which is taxable. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, a prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to the Company once construction is complete, against which this prepayment will be utilised.

As part of the construction of the Thames Tideway Tunnel, assets under construction and buildings are acquired by the Group and are recognised within Land and Buildings and Assets Under Construction within Property, Plant and Equipment ("PP&E"). These will be disposed of in future financial periods once construction is completed.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of PP&E are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the income statement.

Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL") and exceptional items. The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement and exceptional items.

As required by some of our financial covenants, we disclose our underlying performance separately.

Revenue recognition

The core principle of IFRS 15 "Revenue from Contracts with Customers" requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. The Company has a variety of customers including, household customers (Directly billed or Indirectly billed by other Water Only Companies ("WOCs")) and non-household customers (retailers and NAVs "New Appointments and Variations").

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable at the time of billing based on historical experience is excluded from revenue, as it does not fall within the IFRS 15 criteria. This is so that revenue is recorded at the amount which the Company expects to receive for providing its services to customers.

The Company considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.







Accounting policies continued

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions. For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the performance obligation is satisfied. When the Company identifies the occupants, the bill is sent out in the customer's name if known or if not in the name of the occupier. If the Company has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Where a bill is cancelled and the property is made empty, for measured customers, the revenue cancellation is recognised immediately. Where the property is not empty, the cancelled bill will be replaced with an unbilled accrual. For unmeasured customers, the amount cancelled is recorded within contract liabilities (deferred income) and follows the apportionment stated. Upon rebilling, for measured customers the billed value is recognised immediately and for unmeasured customers the amount is recorded in contract liabilities (deferred income) and follows the apportionment stated in the paragraph above.

Revenue includes amounts that the Company billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the previous BTL arrangement section.

Refer to page 120 for significant accounting estimates and judgements concerning revenue recognition.

Other operating income

The Company considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. The service connections charge levied includes the cost of excavating, connecting and reinstating (if needed) the new supply, including the installation of a stop valve, boundary box and external water meter as well as any associated pipework between the connection and the boundary box. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Deferred service connections income is recorded within contract liabilities (deferred income). Typically amounts received will be fully recognised within a year following receipt.

Requisitions & Diversions income is recognised over time in other operating income using the input method by estimating complete satisfaction of the performance obligation and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions and diversions income is recorded within contract liabilities (deferred income). These income streams encompass a wide variety of schemes, from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

Contributions received for infrastructure charges (which meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure) are initially held within contract liabilities (deferred income). The Company considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Company to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Company recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

A gain or loss on disposal of PP&E is recognised as the difference between the disposal proceeds and the carrying amount of the asset at the date of disposal. This gain or loss is recognised in the income statement in other operating income.

Power income is generated by the sale of internally generated electricity to the grid. This income is recognised at the point the electricity is generated and is accrued for on a monthly basis. The income is measured by multiplying the electricity generated by the published rates, and the income will be a function of grid prices and contract stipulations. This income is presented within other operating income.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the income statement.

Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the income statement. Additionally, the finance expense recognised in income statement includes the actual inflation-adjusted interest accrued during the year, plus the actual adjustment in the principal, as adjusted for inflation during the year, thus the carrying amount is equal to the inflation-adjusted amount at the end of the period.

Contract assets

Contract assets are presented in the statement of financial position when the Group's right to consideration is met in advance of billing. An example would be contract assets relating to revenue based on an estimate of the amount of mains water and wastewater charges unbilled at the period end. The Group applies the IFRS 9 simplified approach to measuring expected credit losses on contract assets which uses a lifetime expected loss allowance. Refer to the "Trade and other receivables (excluding prepayments)" section for more information.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to assets adopted by the Group during the year at nil cost that have been constructed under self-lay by third parties ("nil cost adopted assets"), where the Group has an obligation to service the customer after adopting these assets, and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency and the functional currency of the Company, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Net gains/(losses) on financial instruments

The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net gains/ (losses) on financial instruments. The following are also recognised in the income statement as net gains/(losses) on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in the case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/(losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 118 for more details.





Accounting policies continued

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the statement of other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Separately acquired intangible assets, and internally generated intangible assets once commissioned, are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement, within operating expenses, on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

| | Years |
|----------|-------|
| Software | 5-10 |

Assets in development are not amortised until they are commissioned. Qualifying borrowing costs that have been capitalised within the purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the income statement.

In accordance with International Financial Reporting Interpretations Committee (IFRIC) legislation, customisation and configuration costs related to Software-as-a-Service (SaaS) are only capitalised if they are assessed as a separable intangible asset under the criteria of IAS 38. Whilst this is not a separate legislative instrument, the Agenda Decision is considered mandatory when complying with IFRS. Customisation costs are analysed through review of purchase order information, documentation held and discussion with digital technical experts so that the correct amount is capitalised.

Property, plant and equipment

Property, Plant and Equipment ("PP&E") comprises network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of those network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Within Land and Buildings are assets acquired in relation to the Thames Tideway Tunnel project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed in line with the agreement with Ofwat.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of PP&E are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the income statement.

Where parts of an item of property, plant and equipment has different useful lives, they have been accounted for as separate items of property, plant and equipment.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value on a straight-line basis over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows:

| | Years |
|---------------------------------|--------|
| Network assets: | |
| Reservoirs | 250 |
| Strategic sewer components | 200 |
| Wastewater network assets | 150 |
| Water network assets | 80-100 |
| Raw water tunnels and aqueducts | 80 |
| Non-network assets: | |
| Land and buildings: | |
| Buildings | 15-60 |
| Operational structures | 30-100 |
| Plant and equipment: | |
| Other operational assets | 4-40 |
| Fixtures & fittings | 5-7 |
| Vehicles | 5 |
| Computers | 3-5 |
| Fixed and mobile plant | 4-40 |





Accounting policies continued

Investment property

Investment property comprises of one building originally purchased in relation to the Thames Tideway Tunnel project to perform necessary works relating to the construction and integration of the tunnel into our network; however, the floor space in this building is being offered to external parties under short term leases and, therefore, the property meets the definition of Investment Property. Investment Property is accounted for under the cost method of IAS 40 and is held at cost less accountable impairment.

In line with IAS 36 Impairment of Assets, an asset must not be carried in the financial statements at more than its net realisable value (the higher of value in use or sale value net of sales cost). As the property was acquired to facilitate the building of interfaces to the Thames Tideway Tunnel, any impairment charge has been recorded as a cost within assets under construction within the property plant and equipment note.

BTL arrangement

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at the sum of BTL prepayment and the present value of the future minimum contract payments, with a corresponding liability, less the prepayment, being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Investment in subsidiary undertaking

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company Income Statement only, under Net impairment losses. An impairment review is performed on an annual basis in line with IAS 36. Where the Company also has an intercompany loan receivable with the investment company, the expected cashflows on the investment company's net assets will first be used to minimise any impairments on the loan receivable. This may result in the need to recognise an impairment against the investment in that subsidiary.

Amounts owed by subsidiaries are also considered under IFRS 9 for recoverability by performing impairment assessments under various scenarios that take a range of net assets values available after the recoverability of the investment has been assessed. Any impairment would be recognised within the Company Income Statement only, under Net impairment losses as an exceptional item.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

Trade receivables are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. Other receivables such as loans or insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. This is recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable where those assets may be subject to significant increase in credit risk for example due to the impact of cost-of-living increases. The Group's assessment for calculating expected credit losses is explained below. The cost-of-living "top-up" provision of £5.0m that was held in the year ended 31 March 2023 has been released in the current year, as management believe the majority of impacts of cost-of-living have now been realised through our standard provisioning methodology, and as such no additional provision is required, which is primarily based on the previous year's actual collection results.

(i) Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on actual performance in the year and age of debt. The amount that remains is expected to not be collected and therefore needs to be covered by a bad debt provision. Debt that is older than 5 years is fully provided for. The model considers the impact on provisions for billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors; for instance, debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses. Refer to page 121 for explanations of judgement applied.

Directly Billed Write Off Policy

The bad debt write off policy has remained unchanged and has been consistently applied in the current year. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- Where the value of the debt makes it uneconomic to pursue all debts of less than £5 are written off;
- Where the age of the debt exceeds the statute of limitations all debts of greater than 6 years old are written off, taking into account usual business rules;
- Where county court proceedings and attempts to recover the debt by debt collection agencies (multiple in some cases) have proved unsuccessful including where the customer does not have any assets or has insufficient assets on which to levy execution; and
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

For debt to be written off there must be a legitimate charge against the debtor and no reasonable expectation of recovery.

Strategic report Thames Water Annual Report 2023/24 Governance Financial statements







Accounting policies continued

(ii) Water Only Companies

A provision is also made against debts held by Water Only Companies ("WOCs") who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we use an average of two data points when calculating the provisions – WOC Statutory Accounts and TW directly billed ("DB") provision rates – taking a single data point is not appropriate as collection rates, write-off and provisioning policies, differ from company to company. Where provision rates have been provided by the WOCs this has been used as it accurately reflects the provision required to cover future write-offs.

The finalised provision is calculated using the output of the model as explained above together with management's judgement as to whether expected performance in the future is expected to differ materially from the recent past. Together this methodology is used to formulate the provision, in accordance with the requirements of IFRS 9.

(iii) BTL

The arrangement with BTL means the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognising revenue within the Group and associated bad debt. The bad debt methodology is consistent with directly billed customers.

(iv) Non-Household

The Company has assessed the risk of credit losses for non-household retail customers to be low and therefore, considering the risk is deemed immaterial, no bad debt provision has been made. The Group has assessed specific debts held in respect of non-household retail customers which are subject to query by those customers, and made a revenue loss provision on those debts within accrued income based on historical collections experience or on latest negotiations related to specific invoice queries.

Intercompany loans receivable

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

For loans repayable on demand, expected credit losses are estimated based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. The Group has considered the recoverability of the intercompany receivables as part of the annual impairment assessment under IFRS 9.

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade payables are deemed paid upon initiating an electronic payment request where such a request can not be amended or cancelled.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and in hand and deposits held at call with financial institutions, short-term investments, all of which are held at amortised cost, and money market funds held at fair value through profit or loss. Cash is deemed derecognised upon initiating an electronic payment request where such a request cannot be amended or cancelled.

Included within cash and cash equivalents – money market funds are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest-bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred recognised as part of the gain or loss on the extinguishment. In the case of exchange or modification of interest-bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the consolidated and company income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV").

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use.

Retirement and other employment benefits

Defined benefit schemes

The Group operates two, independently administered, defined benefit pension schemes, both of which are closed to new employees. One of these schemes. Thames Water Pension Scheme ("TWPS"), was closed to future accrual as of 31 March 2021, Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is met, i.e. that the entity has an unconditional right to reductions in future contributions during the life of the scheme, or to a refund on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.







Accounting policies continued

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit)/surplus.

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of other comprehensive income in the period in which they arise.

The Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Company considers that under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

Defined contribution schemes

The Group operates a Defined Contribution ("DC") pension scheme for employees. From 1 April 2011 the Group has offered DC pension schemes as the only schemes to which new employees of the Group are eligible. The assets of the DC pension schemes are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

Long-term incentive plans ("LTIP") and bonus

LTIP

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company's performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation.

LTIP 2021/24 is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customers, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollution. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

The payments regarding the LTIP 2021/24 and 2022/25 schemes will be made over the next two financial years after which there will be no further accruals held in respect of LTIP awards. The payment is calculated as 50% of the maximum LTIP payment, with one third of the payment relating to the partial loss of the 2021-24 LTIP grant and two-thirds of the 2022-25 LTIP grant. Going forward, these schemes are replaced by the PRPP scheme, refer to page 85 for more detail.

Bonus

Bonus payments are accrued in the period based on draft performance outcomes against bonus targets set and subsequently assessed against final payout values approved by the Remuneration Committee. Under the new bonus scheme established during the financial year, 60% of the total eligible bonus amounts at Director level are paid in the following financial year, with 40% deferred and paid 27 months after the end of the financial year it relates to.

Contingent liabilities and provisions

Provisions are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. Where the timing for the insurance claims is uncertain both the liability and receivable will be recognised as non-current; otherwise, if claims are assessed to be within the next 12 months they will be recognised as current.

Provisions for environmental matters, regulatory matters and legal cases require estimates to be made regarding the amount which the Group is liable. These estimates are made having considered legal counsel, experts independence evaluation, available facts of the matter including the size of the claim/maximum liability, identification of other potentially responsible entities and their obligation to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material. Provisions booked and released in the period are recognised through operating expenses.

Where a matter results in a possible but not probable outflow of resources or it cannot be reliably estimated a contingent liability is disclosed within our accounts. This requires significant judgement and relies upon guidance from legal counsel and other experts familiar with the matter to inform the accounting judgement made.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2020 to 31 March 2025 is known as AMP7, and the prior period 1 April 2015 to 31 March 2020 was known as AMP6.

The price review process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

Outcome delivery incentives ("ODIs") introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

The majority of our AMP7 performance commitments ("PCs") have financial ODIs and are subject to either an in-period or an end-of-AMP revenue adjustment. For PCs with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For PCs with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

Strategic report Thames Water Annual Report 2023/24 Governance Financial statements







Accounting policies continued

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 20.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

The group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. At the inception of each designated hedge relationship the Group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The economic relationship between the hedged item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The Group uses the hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

There are currently no active hedge accounting relationships.

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments. The amounts recognised on the cash flow hedge reserve are recycled to the income statement as phased release over the relevant hedging period and where the related debt has been issued and has not matured. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

As at 31 March 2024, no embedded derivatives were recognised (31 March 2023: none).

Financial assets and financial liabilities

Financial liabilities are derecognised upon initiating an electronic payment request where such a request can not be amended or cancelled.

Financial assets are recognised and derecognised in the Group's statement of financial position on the settlement date when the Group becomes or ceases to be a party to the contractual provisions of the instrument.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently and in all circumstances an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Power prices forward contracts

Contracts are entered into to buy future power for a predetermined price. The power is for the Group's own use and the contract is not settled in cash and as such falls outside the scope of IFRS 9.

Financial guarantees

Financial guarantee contracts

The Group 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 ("WBS"), where Thames Water Utilities Holdings Limited ("TWUHL") quarantees obligations of TWUF and TWUL; and TWUF and TWUL guarantee the obligations of each other.

Following the transition to IFRS 17, the Group 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 Group or the company standalone accounts from the adoption of IFRS 17 on our financial guarantee contracts due to TWUF's liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked. All of TWUF's external debt has been on lent to TWUL. TWUF also has a few external swaps which are not perfectly matched with intercompany arrangements with TWUL, and in these cases the external cash settlements with counterparties have been matched with internal movements between TWUL and TWUF and therefore there is no material credit impact from these unmatched arrangements.

Leases

Recognition of leases

As a lessee

The Group's leasing activities consist of rentals payable for office properties and other land and buildings. Other rentals are short term or of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

Right-of-use asset

Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.







Accounting policies continued

Lease liability

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate "IBR". The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the income statement within 'Finance expense' so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option will be exercised, we have only included lease payments up to the assumed lease exit date as the rent payable is not contingent in nature, however the Group has the ability to agree changes to the arrangement with the lessor if all parties agree.

Where there has been an extension option or early termination, the lease liability has been calculated based on the revised IBR at the time of the modification. Any gains or losses on modifications are recognised in the income statement within 'Operating expenses'.

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2%.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

The Group has one material lease for which it is a lessor, which relates to the acquisition of a long leasehold of an office building, Camelford House. The primary purpose of acquiring the building was to provide access to a construction site as part of the construction of the Thames Tideway Tunnel. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals and provisions in relation to contractual settlements associated with significant disputes and claims.

Exceptional items recognised in the financial statements in the current year relate to restructuring, transformation expenditure and impairment on intercompany receivables. These costs are deemed significant and outside our ordinary course of business, therefore are considered to be exceptional by value and by nature.

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 Group 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 transactions with LIBOR references have not yet transitioned; this is expected to be completed by year ended 31 March 2025.

Refer to the IBOR reform section included in Note 20 Fair value of financial instruments on page 144 for details of all of the financial instruments that the Group holds at 31 March 2024 which contain references to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

New standards and amendments

The Group have assessed the impact of the following new and amended standards in the preparation of these financial statements:

IFRS 17 'Insurance Contracts' impact assessment

IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts', established 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 Group has adopted IFRS 17 as at 1 April 2023 and applied the new rules retrospectively. Management conducted an assessment on the impact of IFRS 17, see below for the impact on the accounting for our financial guarantee contracts.

Financial guarantee contracts

The Group 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 TWUF and TWUL; and TWUF and TWUL guarantee the obligations of each other.

Following the transition to IFRS 17, the Group 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 Group or the company standalone accounts from the adoption of IFRS 17 on our financial guarantee contracts due to TWUF's liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked. All of TWUF's external debt has been on lent to TWUL. TWUF also has a few external swaps which are not perfectly matched with intercompany arrangements with TWUL, and in these cases the external cash settlements with counterparties have been matched with internal movements between TWUL and TWUF and therefore there is no material credit impact from these unmatched arrangements.







Accounting policies continued

Amendments to IAS 1 and IFRS Practice Statement 2

The International Accounting Standards Board (IASB) has issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' with amendments that are intended to provide guidance on which accounting policies to disclose in the financial statements. The amendments clarify that an entity is required to disclose material accounting policies instead of significant accounting policies. The amendments are effective for annual periods beginning on or after 1 January 2023.

We have reviewed the guidance under the amendments and have satisfied ourselves that all material accounting policies are disclosed in the financial statements for the year ended 31 March 2024.

IAS 12 Income Taxes

Amendments have been proposed by the IASB under IAS 12 to clarify the deferred tax accounting for leases and decommissioning obligations, with effect from 1 April 2023. We have considered the implications of this and have concluded that there were no changes required on adoption for the year ended 31 March 2024.

Amendments to IAS 8

The IASB has published amendments to IAS 8 to provide guidance and clarification on distinguishing between accounting policies and accounting estimates, including the definition for accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

We have reviewed the guidance and conclude that there is no impact to the financial statements for the year ended 31 March 2024.

Amendments to IFRS 9 - Electronic bank transfers

Management have considered the new amendments to IFRS 9 which clarify the criteria for which the financial liability is derecognised when electronic payments are used.

Future standards and amendments

We have reviewed the amendments which were in issue but not yet effective as at 31 March 2024, and conclude that there are none that are expected to have a material impact on the Group's financial position.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. The Directors and management use APMs to provide additional useful information on the performance and position of the Company, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 10 and 11 respectively).

Net debt

Net debt is presented in note 20 on both a statutory (in line with IFRS) and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the whole business securitisation covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised IFRS 9 transition costs, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 20.

The TWUL Group is subject to a covenant under which lease liabilities are classified as unsecured debt. Refer to the Lease liability accounting policy, on page 119, for more information.

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Company needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing

Gearing is the percentage of the Group's covenant net debt to RCV and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Credit rating

The Company must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB – or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

EBITDA

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") is a key performance metric used by management. Underlying EBITDA excludes impairments and exceptional items. EBITDA has been reconciled to statutory profit before tax in note 1 Segmental Analysis.

K-factor

K-factor is the adjustment factor, specific to each regulated water company in the UK, that is determined by Ofwat and used when determining the allowed revenue limits that a regulated water company can recover from its customers.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2024 are contained in the sections below:

Revenue recognition

Accounting judgement - revenue recognition

Water and wastewater services

The Company bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in underlying revenue for the current year of £49.1 million (2023: £68.3 million), with a corresponding decrease in receivables as shown in note 16.

Connections, requisitions and diversions

Management considers these types of income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer or other third party.







Accounting policies continued

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and the Group will have a present right to payment for work performed to date.

The charges are an individual performance obligation with their own contracts, and therefore separate for the ongoing performance obligation to supply the occupants of newly connected properties. Therefore no deferral of connections/requisitions charges are made beyond the completion of the service to the developer.

Infrastructure charges

Management considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Accounting judgement and estimation - provision for expected credit losses

The directly billed model uses historical performance to determine the collectability of the debtors in the future. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The model takes the closing household debtors and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains is estimated that it will not be collected and will form the bad debt provision. Using the 2023/24 performance means that the most up to date information is used in determining the level of provision required. An adjustment was made in the model to remove any performance that we assessed will not repeat in the future.

Management has considered the future impact of increases in the cost of living on customers' ability to pay their water and wastewater bills and has determined this is now appropriately captured by what underlying historical performance model would suggest. As such in the current year no (2023: £5 million) additional provisioning overlay has been applied.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2024 was £154.7 million (2023: £157.2 million). The decrease was due to an increase in the WOC and rebilled revenue provisions offset by a reduction in the directly billed provision.

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers, which is based on cash collection performance in the year to determine the level of the provision required. For WOCs, the provision applied the average of the information from their statutory accounts in relation to the level of bad debt provision held for billed and unbilled debtors and the provision rate applied to Directly billed customers. A decrease or increase of 2.0 percentage points to the rates deemed a plausible sensitivity to apply given that the movement in cash collections at this rate would represent largest variance in cash collections observed within a 4 year timescale, therefore including years impacted by COVID and the cost of living crisis. The sensitivity analysis is summarised below

Directly Billed

Scenario

| Directly Billed cash collection rates increase by 2.0 percentage points | (10.0) | Reduction in charge |
|---|--------|---------------------|
| Directly Billed cash collection rates reduce by 2.0 percentage points | 10.0 | Increase in charge |
| WOCs | | |
| Scenario | £m | Outcome |
| Reduction in WOC collection rates by 2.0 percentage points | (3.1) | Reduction in charge |
| Increase in WOC collection rates by 2.0 percentage points | 3.1 | Increase in charge |

Property, plant and equipment and intangible assets

Accounting judgement - capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2024 were £2,038.9 million (2023: £1,724.9 million). Intangibles additions for the year ended 31 March 2024 were £44.8 million (2023: £44.8 million). Both figures include own works capitalised and capitalised borrowing costs.

In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangible assets for the year ended 31 March 2024 were £159.4 million (2023: £215.2 million).

Accounting estimate - depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods.

An assessment of the impact of climate change on accounting estimates was performed. This included assessment of the delivery plan to reach net zero carbon emissions by 2030. Initiatives include use of electric vehicles (and related infrastructure), producing renewable energy (biomethane) from wastewater for injection into the grid and use in powering our assets, generation of solar power and improved energy efficiency in operational processes. Procurement and construction of these investments will happen in future reporting periods and will replace assets which have reached the end of their useful lives. No impairment charges or changes in UELs were identified.

The total depreciation charge for the year ended 31 March 2024 was £655.6 million (2023: £637.3 million) and the total amortisation charge for the year was £71.2 million (2023: £65.9 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

| Scenario | £m | Outcome for the year ended 31 March 2024 | |
|--|--------|--|--|
| 5 year increase in average remaining useful life | (90.0) | Decrease in total depreciation and amortisation charge in the year | |
| 5 year decrease in average remaining useful life | 119.6 | Increase in total depreciation and amortisation charge in the year | |
| | | | |

Strategic report **Financial statements** Thames Water Annual Report 2023/24 Governance







Accounting policies continued

Accounting estimate - own works capitalised

Own works capitalised for the year ended 31 March 2024 of £302.9 million (2023: £241.0 million) includes employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. These amounts will be depreciated in line with the underlying assets they are allocated to as these assets are commissioned.

The estimation applied is disaggregated at a cost centre level with no specific assumption being considered to be individually significant. However, given the long depreciation period of our asset base, as articulated in our accounting policies, meaning that these costs will accumulate on our balance sheet over time, we consider that the combination of individual estimates, in aggregate, is significant.

A decrease or increase of 5.0% of the total value of capitalised overheads (own works capitalised) is deemed a plausible sensitivity to apply when considering the level of variability which could be seen within a given year given the scale of change we see in our capital programme. The sensitivity analysis is summarised below:

| Scenario | | £m | Outcome |
|----------|--|--------|---|
| Incre | ased capitalisation value of overheads by 5.0% | 15.0 | Increased capital expenditure (and reduced operational expenditure) |
| Redu | ced capitalisation value of overheads by 5.0% | (15.0) | Reduced capital expenditure (and increased operational expenditure) |

Provisions for other liabilities and charges

Accounting judgement - recognition of environmental and legal provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are related to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters, how they will materialise in the financial statements (certain penalties are settled through future revenue adjustments, adjustments to Regulatory Capital Value or investment commitments to deliver better outcomes to stakeholders) and makes a judgement about whether or not a provision should be recognised.

Environmental and legal provisions, which are detailed in note 22, total £94.5 million as at the year ended 31 March 2024 (2023: £78.7 million).

Accounting estimate - valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period when the new information becomes available.

Provisions for liabilities and charges as at 31 March 2024 totalled £274.7 million (2023: £227.7 million). Each provision is based on a range of possible outcomes of what the payable will be, and as a result of the uncertainty of the amounts there is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided.

Retirement benefit obligations

Accounting estimate - actuarial assumptions

The Group operates two defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2019, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2019, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. The triennial valuation as at 31 March 2022 for the Thames Water Mirror Image Pension Scheme was signed off by the Scheme Actuary in March 2024, whilst the valuation for the Thames Water Pension Scheme is ongoing. The pension liability and net cost recognised under IAS 19 Employee Benefits are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and together represent a key source of estimation uncertainty. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- inflation.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the two schemes as at 31 March 2024 was £119.1 million (2023: £176.0 million), which includes a pension deficit of £152.1 million (2023: £182.0 million) for the TWPS scheme, offset by a pension surplus of £33.0 million (2023: £6.0 million surplus) for the TWMIPS scheme. Refer to note 24 for more information on the key assumptions and sensitivities of the pension schemes.

Investment held in subsidiary

Accounting judgement and estimation - impairment over investments

Management makes an estimate of the recoverable value of the investment as per IAS 36. When assessing this recoverable value management have performed an analysis that takes into account expected changes in debt and margin earned by the investment over a 20 year period to derive a future net asset value. Management uses estimates to calculate future cashflows and to determine how much future debt will be issued. The investment is then compared to this value and impairment is then recognised in the Income Statement under Net impairment losses.

This assessment has been performed in the period and no impairment (2023: none) on the investment has been recognised.

Intercompany loans receivable

Accounting judgement and estimation - provision for expected credit losses

Management makes an estimate of the recoverable value of the TWUHL loan receivables in line with the provisions of IFRS 9. When assessing these receivables for impairment, management considers factors driving recoverability, including borrower's ability to pay, ageing profile of the receivables, net debt of the borrowing entity, seniority of debt and historical experience, among other factors. Key inputs into management's impairment model include Regulatory Capital Value ("RCV") multiples and current stated RCV.







Accounting policies continued

In accordance with the specific requirements of IFRS 9, the expected credit loss on the TWUHL loan receivables is determined by estimating the expected recoverability of these assets based on different scenarios considered by management, informed by available data and information where possible. Various recovery scenarios were considered in a multiple factor analysis by applying a range of RCV multiples to the RCV less net debt of the TWUL group to drive a proxy enterprise value and providing a weighted probability of those scenarios occurring. These are scenarios whereby the RCV multiplier would suggest an upside scenario where the full amount is recoverable, and no impairment is recognised; a breakeven scenario and a partial or full impairment; which includes an event where there is a future restructuring of the Group such that the existing corporate structure is not used to facilitate new funding into the Company. Refer to Going concern which discusses this last scenario as a possible outcome.

Management have also exercised judgement over the probability weighting of the scenarios based on market-data derived probabilities as well as management's view about the likelihood of each scenario arising.

Provisions for expected credit losses on receivables, which are detailed in notes 7 and 35, total £118.9 million as at the year ended 31 March 2024 (2023: £nil). Refer to further detail of the impact on the intercompany loan receivable in notes 14 and 38.

We have performed a sensitivity analysis and determined there is a plausible scenario where a full impairment of the TWUHL loan receivables could occur and likewise full recovery of the TWUHL loan receivables could occur with no impairment recognised. These have been modelled and considered in the impairment assessment.

Derivative financial assets and liabilities

Accounting estimate - valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable.

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 Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties. In cases where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level 2. IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps. Credit risk sensitivity analysis is included in Note 20. The net total of derivative financial assets and liabilities as at 31 March 2024 was a liability of £1,347.6 million (2023: a liability of £1,542.7 million). Refer to note 20 on page 138 for more information on the key assumptions and sensitivities of the financial instruments.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change in the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During 2019/20, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, which continue to be significantly supported by observable inputs and hence it is appropriate for these index-linked swaps to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the statement of financial position in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2024, £29.3 million (2023: £31.3 million) remained capitalised and £2.0 million had been recognised in the income statement (2023: £2.0 million). See note 20 to the consolidated financial statements "Financial Instruments" for more information.

During 2023/24, the Financial Reporting Council ("FRC") concluded a limited scope review of the annual report and accounts (in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures), primarily in respect of the application of IFRS 13 'Fair Value Measurement' and compliance with its requirements. No changes were required to our application of IFRS 13 or amounts included within the annual report and accounts following the conclusion of the review; we had previously provided enhanced disclosures in relation to the matter in the 2022/23 annual accounts.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement - principal vs. agent

BTL is the independent licensed utility company appointed by Thames Water to construct the Thames Tideway Tunnel. The appointment was subsequently approved by Ofwat in August 2015. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the Company's licence). Judgement has been exercised in assessing whether the Group is acting as principal or agent in its relationship with BTL.

Under IFRS 15 an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself, or to arrange for them to be provided by another party. The Group is deemed to have primary responsibility for providing the 'end to end' services relating to the disposal of waste from its wastewater customers from collection, transportation (through the existing infrastructure and the Thames Tideway Tunnel) to the processing in the Group's sewage treatment plants. The Group continues to charge its wastewater customers for the end-to-end waste management service.

Additionally, the Group, as the sole future user of the Tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the Tunnel). These risks include reputational risks. Management therefore considers the Group is operating as principal in the relationship with BTL.

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements







Notes to the consolidated financial statements

1. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Group.

In line with the Group's structure all operational functions are included in a single business unit, enabling an end-to-end view of customer journeys and integrated resource management. Certain operational costs are split regionally by London and the Thames Valley and Home Counties, however revenue, overheads and capital expenditure are reported to the CODM at the group level.

The Group is subject to economic regulation by Ofwat and operates under a licence to provide water and wastewater services within a defined geographical region, being London, the Thames Valley and the surrounding area, therefore management considers the UK to be the geographical location of business.

From 1 April 2017, our customer profile changed following the sale of our non-household retail business to Castle Water Limited. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer.

Revenue is further disaggregated into the different products and services, as detailed in note 2.

Segmental performance

EBITDA is a key performance metric used by management. A segmental analysis of EBITDA and the management revenue figures has been presented with a reconciliation to statutory revenue and profit before tax below:

| Year ended 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Management revenue | 2,450.2 | 2,248.6 |
| Management net operating expenses before depreciation and amortisation | (1,396.7) | (1,345.1) |
| Management other operating income ¹ | 52.8 | 31.4 |
| Capital income ² | 96.1 | 73.1 |
| Management EBITDA ² | 1,202.4 | 1,008.0 |
| IFRS 16 adjustment ³ | 9.0 | (4.1) |
| Statutory reclassification of pension costs ⁴ | (1.9) | (1.8) |
| Other statutory adjustments ⁵ | (1.5) | (0.3) |
| Underlying EBITDA | 1,208.0 | 1,001.8 |
| Household BTL gross revenue ⁶ | 96.3 | 69.7 |
| Non-household BTL gross revenue ⁶ | 20.8 | 15.2 |
| BTL charge for bad and doubtful debt and expenses | (0.5) | (0.5) |
| Exceptional items – restructuring and transformation ⁷ | (43.9) | _ |
| Total EBITDA | 1,280.7 | 1,086.2 |
| Depreciation of property, plant and equipment | (655.6) | (637.3) |
| Depreciation of right-of-use assets | (6.7) | (8.8) |
| Amortisation of intangible assets | (71.2) | (65.9) |
| Impairment of property, plant and equipment | (27.0) | (18.2) |
| Impairment of intangible assets | (3.0) | _ |
| Total statutory operating profit | 517.2 | 356.0 |
| Finance income | 276.5 | 223.7 |
| Finance expense | (669.8) | (700.2) |
| Net gains on financial instruments | 152.3 | 122.3 |
| Exceptional items – impairment losses on intercompany loan ⁸ | (118.9) | _ |
| Total statutory profit before tax | 157.3 | 1.8 |

- 1 Management other operating income includes £22.3 million gain on sale of property, plant and equipment (31 March 2023: £3 million loss).
- 2 Management EBITDA now includes capital income to align to statutory reporting, an adjustment to other operating income and reclassification of BTL. These have been adjusted in both periods
- 3 The management numbers do not recognise any balances associated with IFRS 16. The expense is recognised proportionally over the lease term rather than interest and depreciation.
- 4 Contributions made into the defined benefit pension schemes are recognised on an accruals basis. So that the accounting is in line with IAS 19, any accruals made for contributions are reversed and are recognised on a cash basis for statutory purposes.
- 5 These amounts relate to provisions and other statutory adjustments not included in management numbers.
- 6 The portion of BTL revenue related to our household and non-household customers.
- 7 Exceptional costs relate to restructuring and transformation expenditure incurred as a result of significant restructuring of the business.
- 8 Exceptional items relate to impairments on the intercompany receivables from Thames Water Utilities Holdings Limited. See note 14 for further detail.







Notes to the consolidated financial statements continued

1. Segmental analysis continued

Revenue - Management to statutory reconciliation

The business segment's revenue is reconciled to the Group's statutory revenue below:

| | 2024 | 2023 |
|--|---------|---------|
| Year ended 31 March | £m | £m |
| Management revenue | 2,450.2 | 2,248.6 |
| Household BTL revenue | 96.3 | 69.7 |
| Non-household BTL revenue | 20.8 | 15.2 |
| Statutory reclassification of bad debt from operational expenditure ¹ | (49.1) | (68.3) |
| Total statutory revenue | 2,518.2 | 2,265.2 |
| | | |

¹ This relates to amounts billed that are not probable of being recovered and therefore excluded from IFRS 15 revenue. In the current year, £48.8 million relates to management revenue (2023: £67.7 million) and £0.3 million relates to BTL revenue (2023: £0.6 million).

2. Revenue

| | | | 2024 | | 2023 | | |
|-----------------------------------|------|------------------|-----------|-------------|------------------|-----------|-------------|
| Year ended 31 March | Note | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Gross revenue | | 2,450.2 | 117.1 | 2,567.3 | 2,248.4 | 85.1 | 2,333.5 |
| Charge for bad and doubtful debts | 16 | (48.8) | (0.3) | (49.1) | (67.7) | (0.6) | (68.3) |
| Total | | 2,401.4 | 116.8 | 2,518.2 | 2,180.7 | 84.5 | 2,265.2 |

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. The Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected it is paid over to BTL under the 'pay when paid' principle. The revenue on this arrangement has been disclosed separately to the Group's underlying performance in the table above, which is consistent with our financial covenants.

We have presented a further disaggregation of our revenue below:

| Gross revenue for the year ended 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Household market | | |
| Water services | 883.1 | 767.7 |
| Wastewater services | 954.1 | 903.3 |
| Retail services | 125.2 | 129.9 |
| Total gross revenue from household market | 1,962.4 | 1,800.9 |
| Non-household market | | |
| Water services | 245.7 | 208.3 |
| Wastewater services | 197.8 | 193.3 |
| Retail services | 1.2 | 1.3 |
| Total gross revenue from non-household market | 444.7 | 402.9 |
| Gross revenue from principal services ¹ | 2,407.1 | 2,203.8 |
| Other appointed revenue ² | 20.8 | 22.3 |
| Total appointed revenue | 2,427.9 | 2,226.1 |
| Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel) ³ | 22.3 | 22.3 |
| Total gross underlying revenue | 2,450.2 | 2,248.4 |
| Amounts billed for the Thames Tideway Tunnel ⁴ | 117.1 | 85.1 |
| Total gross revenue | 2,567.3 | 2,333.5 |

1 Gross revenue from principal services relates to appointed revenue which is revenue generated from the regulated activities of the Company as defined in Condition A of its licence of appointment. These are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

2 Other appointed revenue is revenue generated from appointed activities but is not governed by the price control. These activities mainly include bulk supplies.

3 Non-appointed revenue is revenue generated from non-appointed activities. These activities include third-party discharges to sewage treatment works and other commercial activities including developer services, property searches and cess treatment (treatment of waste from private receptacles not linked to the network).

4 Amounts billed for the Thames Tideway Tunnel includes both household and non-household revenue, being derived from 82% household (FY23: 82%) and 18% non-household (FY23:18%) activities.

All revenue is derived from activities based in the UK.

Other operating income

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

| Year ended 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| Power income ¹ | 13.8 | 17.8 |
| Requisitions and diversions charges ² | 66.0 | 48.4 |
| Service connections charges | 18.9 | 17.4 |
| Amortisation of deferred income recognised on adoption of assets at nil cost | 5.6 | 4.8 |
| Release from deferred income – infrastructure charges | 5.7 | 5.5 |
| Rental income | 7.8 | 7.3 |
| Gain/(loss) on sale of property, plant and equipment ³ | 22.3 | (3.0) |
| Other income ⁴ | 8.8 | 9.4 |
| Total | 148.9 | 107.6 |

Power income comprises income from the sale of internally generated electricity.

Requisitions relate to provisions of new water mains, and diversions relate to the process of altering or removing a water main and ancillaries.

Gain on sale of property, plant and equipment in the current period includes £16.7 million gain on disposal which was in exchange for land (non cash).

4 Other income includes £6.6 million relating to excess payments received from customers in the past and recognised during the current year (31 March 2023: £7.0 million).

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements

Notes to the consolidated financial statements continued

2.1 Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

| As at 31 March | Note | 2024 £m | 2023 £m |
|--|------|------------|------------|
| Contract assets | | | |
| Current | | | |
| Accrued revenue for services provided to metered customers | | 217.2 | 178.2 |
| Accrued income for other activities ¹ | | 78.9 | 80.6 |
| Total current contract assets | 16 | 296.1 | 258.8 |
| Total contract assets | | 296.1 | 258.8 |
| Contract liabilities | | | |
| Non-current | | | |
| Deferred revenue from infrastructure charges | | 561.5 | 546.2 |
| Deferred revenue from other activities ² | | 477.6 | 375.5 |
| Total non-current contract liabilities | 18 | 1,039.1 | 921.7 |
| Current | | | |
| Advance payments received | | 71.9 | 73.0 |
| Deferred revenue from infrastructure charges | | 5.9 | 5.7 |
| Deferred revenue from other activities ² | | 55.6 | 51.4 |
| Total current contract liabilities | 18 | 133.4 | 130.1 |
| Total contract liabilities | | 1,172.5 | 1,051.8 |

- Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 112).
 Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

2.2 Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities. No amounts were recognised in the current financial year that relate to performance obligations satisfied, or partially satisfied, in previous periods.

| Year ended 31 March Note | 2024 £m | 2023 £m |
|--|------------|------------|
| Revenue recognised that was included in the contract liability balance at the beginning of the period: | | |
| Advance payments received | 73.0 | 73.9 |
| Deferred revenue from infrastructure charges | 5.7 | 5.5 |
| Deferred revenue from other activities | 51.4 | 47.7 |
| Total | 130.1 | 127.1 |

2.3 Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

| Year ended 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date: | | |
| Service connections | 9.0 | 9.3 |
| Requisitions and diversions | 113.5 | 153.5 |
| Infrastructure charges | 567.3 | 551.6 |
| Nil cost adopted assets ¹ | 469.0 | 365.1 |
| Other | 5.3 | 4.8 |
| Total | 1,164.1 | 1,084.3 |

¹ This line has been added since the published 2023 report, to present a corrected disclosure.

The Group considers the combination of activities comprising a service connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with requisitions and diversions to be the delivery of the associated asset and accordingly recognises this income over time. Requisitions and diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Group considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total unamortised amount which will be recognised as income as the assets continue to depreciate.

For water and wastewater services, the Group has a right to consideration from customers to an amount that corresponds directly with the value to the customer of the entity's performance completed to date, being the provision of such services. As such revenue is recognised to the amount the Group has a right to invoice. Therefore, as allowed by the practical expedient set out in IFRS 15, these revenues are not included in the table above.





202/



Notes to the consolidated financial statements continued

3. Operating expenses

| Venere meled 31 March Underlying fam fam fam fam fam fam fam fam fam fam | | | 2024 | | | 2023 | |
|--|---|---------|------|---------|---------|------|---------|
| Social security costs | Year ended 31 March | | | | | | |
| Pension costs - defined benefit schemes 2.9 | Wages and salaries | 424.5 | - | 424.5 | 373.8 | _ | 373.8 |
| Pension costs – defined contribution schemes 33.9 | Social security costs | 43.4 | _ | 43.4 | 39.9 | _ | 39.9 |
| Apprenticeship levy 2.1 | Pension costs – defined benefit schemes | 2.9 | _ | 2.9 | 3.1 | _ | 3.1 |
| Total employee costs 506.8 - 506.8 453.5 - 453.5 Power 239.1 - 239.1 228.9 - 228.9 Raw materials and consumables 88.5 - 88.5 80.6 - 80.6 Rates 133.4 - 133.4 118.1 - 118.1 Research and development expenditure 13.0 - 13.0 12.9 - 12.9 Insurance 40.3 - 40.3 62.8 - 62.8 Legal and professional fees 34.8 - 34.8 21.0 - 21.0 Third party costs¹ 549.8 - 549.8 527.4 - 227.4 Own works capitalised² (302.9) - 302.9 (241.0) - 227.4 Net operating expenses before depreciation and amortisation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 <td< td=""><td>Pension costs – defined contribution schemes</td><td>33.9</td><td>_</td><td>33.9</td><td>28.7</td><td>_</td><td>28.7</td></td<> | Pension costs – defined contribution schemes | 33.9 | _ | 33.9 | 28.7 | _ | 28.7 |
| Power Case | Apprenticeship levy | 2.1 | _ | 2.1 | 8.0 | _ | 8.0 |
| Raw materials and consumables 88.5 - 88.5 80.6 - 80.6 Rates 133.4 - 133.4 118.1 - 118.1 Research and development expenditure 13.0 - 13.0 12.9 - 12.9 Insurance 40.3 - 40.3 62.8 - 62.8 Legal and professional fees 34.8 - 34.8 21.0 - 21.0 Third party costs¹ 549.8 - 549.8 527.4 - 527.4 Own works capitalised² (302.9) - (302.9) (241.0) - 527.4 Own works capitalised² (302.9) - (302.9) (241.0) - 527.4 Own works capitalised² (302.9) - (302.9) (241.0) - 527.4 Own works capitalised² (302.9) - 1,302.8 1,264.2 - 1,264.2 Own works capitalised² (302.9) - 1,302.8 1,302.8 < | Total employee costs | 506.8 | _ | 506.8 | 453.5 | _ | 453.5 |
| Rates 133.4 - 133.4 118.1 - 118.1 Research and development expenditure 13.0 - 13.0 12.9 - 12.9 Insurance 40.3 - 40.3 62.8 - 62.8 Legal and professional fees 34.8 - 34.8 21.0 - 21.0 Third party costs¹ 549.8 - 549.8 527.4 - 527.4 Own works capitalised² (302.9) - (302.9) (241.0) - (241.0) Net operating expenses before depreciation and amortisation 1,302.8 - 1,302.8 1,264.2 - 1,264.2 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 | Power | 239.1 | _ | 239.1 | 228.9 | _ | 228.9 |
| Research and development expenditure | Raw materials and consumables | 88.5 | _ | 88.5 | 80.6 | _ | 80.6 |
| Insurance 40.3 - 40.3 62.8 - 62.8 Legal and professional fees 34.8 - 34.8 21.0 - 21.0 Third party costs¹ 549.8 - 549.8 527.4 - 527.4 Own works capitalised² (302.9) - (302.9) (241.0) - (241.0) Net operating expenses before depreciation and amortisation 1,302.8 - 1,302.8 1,264.2 - 1,264.2 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of right-of-use assets 6.7 - 6.7 8.8 - 8.8 Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | Rates | 133.4 | _ | 133.4 | 118.1 | _ | 118.1 |
| Legal and professional fees 34,8 - 34,8 21.0 - 21.0 Third party costs¹ 549,8 - 549,8 527,4 - 527.4 Own works capitalised² (302.9) - (302.9) (241.0) - (241.0) Net operating expenses before depreciation and amortisation 1,302.8 - 1,302.8 1,264.2 - 1,264.2 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of intangible assets 6.7 - 6.7 8.8 - 8.8 Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 - - - - Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 - - - Net operating expenses excluding impairment losses on trade rec | Research and development expenditure | 13.0 | _ | 13.0 | 12.9 | _ | 12.9 |
| Third party costs S49.8 | Insurance | 40.3 | _ | 40.3 | 62.8 | _ | 62.8 |
| Own works capitalised² (302.9) - (302.9) (241.0) - (241.0) Net operating expenses before depreciation and amortisation 1,302.8 - 1,302.8 1,264.2 - 1,264.2 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of right-of-use assets 6.7 - 6.7 8.8 - 8.8 Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 | Legal and professional fees | 34.8 | _ | 34.8 | 21.0 | _ | 21.0 |
| Net operating expenses before depreciation and amortisation 1,302.8 - 1,302.8 1,264.2 - 1,264.2 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of right-of-use assets 6.7 - 6.7 8.8 - 8.8 Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 | Third party costs ¹ | 549.8 | _ | 549.8 | 527.4 | _ | 527.4 |
| and amortisation 1,302.8 - 1,302.8 1,264.2 - 1,264.2 Depreciation of property, plant and equipment 655.6 - 655.6 637.3 - 637.3 Depreciation of right-of-use assets 6.7 - 6.7 8.8 - 8.8 Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 - - - - Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 - 1,994.4 Exceptional costs 8 - 43.9 - 43.9 - - - - Restructuring and transformation ³ 43.9 - 43.9 - - - - - Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 | Own works capitalised ² | (302.9) | _ | (302.9) | (241.0) | _ | (241.0) |
| Depreciation of property, plant and equipment Depreciation of right-of-use assets Amortisation of intangible assets Amortisation of intangible assets T1.2 T1.2 T1.2 T2.0 T1.2 T2.0 T1.2 T2.0 T1.2 T2.0 T2.0 T2.0 T3.0 T3.0 T4.2 T4.2 T5.2 T5.2 T5.2 T5.3 T5.9 T5 | Net operating expenses before depreciation | | | | | | |
| Depreciation of right-of-use assets Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 Net operating expenses excluding impairment losses on trade receivables and contract assets Restructuring and transformation ³ 43.9 - 43.9 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | and amortisation | 1,302.8 | _ | 1,302.8 | 1,264.2 | _ | |
| Amortisation of intangible assets 71.2 - 71.2 65.9 - 65.9 Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 - 1,994.4 Exceptional costs Restructuring and transformation ³ 43.9 - 43.9 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | Depreciation of property, plant and equipment | 655.6 | - | 655.6 | 637.3 | _ | 637.3 |
| Impairment of property, plant and equipment 27.0 - 27.0 18.2 - 18.2 Impairment of intangible assets 3.0 - 3.0 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 - 1,994.4 Exceptional costs Restructuring and transformation ³ 43.9 - 43.9 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | · · | 6.7 | - | 6.7 | | _ | 8.8 |
| Impairment of intangible assets 3.0 - 3.0 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 - 1,994.4 Exceptional costs Restructuring and transformation ³ 43.9 - 43.9 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | | | - | 71.2 | | _ | |
| Net operating expenses excluding impairment losses on trade receivables and contract assets Exceptional costs Restructuring and transformation³ Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 - 1,994.4 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 | Impairment of property, plant and equipment | 27.0 | _ | 27.0 | 18.2 | _ | 18.2 |
| on trade receivables and contract assets Exceptional costs Restructuring and transformation³ Net operating expenses excluding impairment losses on trade receivables and contract assets 2,066.3 - 2,066.3 1,994.4 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | ` | 3.0 | _ | 3.0 | | _ | _ |
| Exceptional costs Restructuring and transformation³ 43.9 - 43.9 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | | | | | | | |
| Restructuring and transformation ³ 43.9 - 43.9 Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | | 2,066.3 | _ | 2,066.3 | 1,994.4 | _ | 1,994.4 |
| Net operating expenses excluding impairment losses on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | , | | | | | | |
| on trade receivables and contract assets 2,110.2 - 2,110.2 1,994.4 - 1,994.4 Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | | 43.9 | _ | 43.9 | _ | _ | |
| Impairment losses on trade receivables and contract assets 39.5 0.2 39.7 22.3 0.1 22.4 | | | | | | | |
| | | | _ | | | _ | |
| Total operating expenses 2,149.7 0.2 2,149.9 2,016.7 0.1 2,016.8 | • | | | | | | |
| | Total operating expenses | 2,149.7 | 0.2 | 2,149.9 | 2,016.7 | 0.1 | 2,016.8 |

¹ Third party costs primarily relate to costs for contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditure under IAS 16: Property, plant and equipment.

Auditors' remuneration

Amounts payable to the Group's auditors are shown below in respect of the following services to the Group:

| | £'000 | £'000 |
|--|----------------------|---------|
| Fees payable to the Group's auditors: | | |
| Fees payable for the audit of the Group and Company financial statements | 1,934.8 ¹ | 1,441.0 |
| Fees payable for the audit of the subsidiary financial statements | 108.9 | 102.7 |
| Fees payable to the Group's auditors for other services: | | |
| Audit related assurance services | 628.2 | 576.4 |
| Other assurance services | 117.1 | 103.0 |
| Total aggregate remuneration | 2,789.0 | 2,223.1 |

¹ This fee includes additional fees in respect of the 2023 audit of £207,000.

Fees payable for the audit of the Group's financial statements in the current financial year include £207,000 in respect of the prior year audit, and exclude £12,000 (2023: £12,000) for out-of-pocket expenses incurred for delivery of the audit.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements for Ofwat.

4. Employees and Directors

Employees

All Company employees are based in the United Kingdom. No employees are employed by the Company's subsidiary Thames Water Utilities Finance plc.

The monthly average number of persons employed on a permanent basis by the Company (including Executive Directors) during the year, analysed by category, was as follows:

| | 2024 | 2023 |
|---------------------------------------|--------|--------|
| | Number | Number |
| Operations | 4,324 | 3,936 |
| Retail | 1,627 | 1,474 |
| Support services | 1,249 | 1,236 |
| Digital, strategy and transformation | 376 | 313 |
| Delivery office | 358 | 283 |
| Total persons employed by the Company | 7,934 | 7,242 |

 $^{{\}tt £48m\,of\,impairment\,of\,investment\,property\,has\,been\,capitalised\,within\,property,\,plant\,and\,equipment\,in\,the\,prior\,year, see note\,11.}$

³ Exceptional costs of £43.9 million relate to restructuring and transformation expenditure. These costs are considered exceptional by nature and by value outside compared to our ordinary course of business. Transformation exceptional expenditure is part of our three year turnaround programme and therefore further exceptional expenditure is expected in future periods. The tax impact of exceptional items is a reduction in the tax charge in the income statement of £11.0 million (2023: £nil) applying the 25% corporation tax rate (2023: 19%).







Notes to the consolidated financial statements continued

4. Employees and Directors continued

Directors emoluments

The Directors' emoluments were as follows:

| | 2024 | 2023 |
|--------------------------------|---------|---------|
| | £'000 | £'000 |
| Salary and fees | 1,941.0 | 2,070.0 |
| Pension and pension allowances | 122.0 | 144.0 |
| Payment on loss of office | 436.0 | - |
| Other benefits and bonus | 1,150.0 | 746.0 |
| Total aggregate emoluments | 3,649.0 | 2,960.0 |

Included in the table above, is £1.7 million (2023: £2.2 million) for salaries to the Executive Directors for their services to the Company. In addition, the Executive Directors received total remuneration of £0.2 million (2023: £0.2 million) for their services to parent companies within the Kemble Water Holdings Group, these costs are recharged to other group companies.

In the current and preceding financial years no amounts were accruing to any Directors under the Company's defined benefit scheme in respect of services to the Company. The Company contributed cash of £122,000 (2023: £144,000) as a pension allowance for four Directors (2023: two Directors). In the current and preceding years the Company made no contributions into the Company's defined contribution pension scheme in relation to the Directors.

Payment on loss of office includes contractual payments of base salary and benefits of £436k during the notice period of Sarah Bentley, who stepped down as CEO and from the Board with effect from 27 June 2023. This notice period ended on 28 December 2023 and no further payments for loss of office were received. See further detail on page 85 in the Remuneration Committee Report.

Other benefits includes medical benefits, car allowances, relocation costs, salary adjustments and other incentive payments.

The bonus for 31 March 2023 was officially waived and has not been deferred nor accrued for.

5. Finance income and expense

During the year ended 31 March 2024, the Group recognised finance income of £276.5 million (2023: £223.7 million) relating mainly to interest income on swaps, intercompany loans receivable, money market funds and short term investments.

| Finance income | | |
|--|-------|-------|
| Year ended 31 March | 2024 | 2023 |
| | £m | £m |
| Interest income on money market funds, short-term investments and cash at bank and in hand | 50.2 | 13.4 |
| Interest income on intercompany loans receivable | 70.2 | 47.5 |
| Interest income on swaps | 155.7 | 161.9 |
| Trading interest income | 0.4 | 0.9 |
| Total finance income | 276.5 | 223.7 |

Finance expense

The Group also recognised finance expenses of £669.8 million (2023: £700.2 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and other finance fees.

| Year ended 31 March Note | 2024 £m | 2023 £m |
|---|------------|------------|
| Interest in relation to bank and other loans: | | |
| Interest expense | (576.1) | (443.8) |
| RPI accretion on loans | (240.1) | (460.9) |
| Interest in relation to intercompany borrowings: | | |
| Interest expense | (0.3) | (0.1) |
| Interest in relation to defined benefit obligation: | | |
| Net interest expense on defined benefit obligation 24 | (7.6) | (6.7) |
| Interest in relation to leases: | | |
| Leases 13 | (3.1) | (1.4) |
| Interest in relation to non-household business: | | |
| Trading interest expense | (0.1) | (0.1) |
| Fees: | | |
| Other finance fees | (1.9) | (2.4) |
| Gross finance expense | (829.2) | (915.4) |
| Capitalised borrowing costs | 159.4 | 215.2 |
| Total finance expense | (669.8) | (700.2) |

2023







Notes to the consolidated financial statements continued

6. Net gains on financial instruments

The reconciliation to net gains on financial instruments has been provided below:

| Year ended 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Net exchange gains/(losses) on foreign currency borrowings | 124.6 | (102.1) |
| Net gains arising on swaps where hedge accounting is not applied ¹ | 34.8 | 245.5 |
| Gain on extinguishment of debt ² | 11.6 | _ |
| Losses on cash flow hedge transferred from equity ³ | (18.7) | (21.1) |
| Total | 152.3 | 122.3 |

- 1 Net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations, higher own credit spread and lower RPI expectations. The amount includes the fair value of £309.4 million (2023: £717.4 million) accreted on index linked swaps during the year. In September 2023, £93.8 million was paid to early settle £100.8 million accretion on index-linked swaps, the difference of £7.0 million reflecting the discount for early repayment.
- 2 Gain on extinguishment of debt includes £4.6 million relating to two loan amendment and extensions in October 2023, including £1.0 million relating to α £100.0 million Class A RPI loan originally due to mature in 2025, and £3.6 million relating to α £125.0 million Class A RPI loan originally due to mature in 2026. The remaining £7.0 million relates to a gain from partial repurchase of a £500.0 million Class A fixed rate bond (originally due to mature in 2025) in January 2024.
- 3 Refer to note 20 Financial Instruments on page 143 for more information on the losses on cash flow hedge transferred from equity.

7. Impairment losses on intercompany loan

| | 2024 | 2023 |
|---|---------|------|
| Year ended 31 March | £m) | £m |
| Impairment loss on loan receivable from Thames Water Utilities Holdings Limited | (118.9) | _ |
| Total | (118.9) | _ |

The Group has intercompany loans receivable due from Thames Water Utilities Holdings Limited, totalling £1,249.1 million (2023: £1,249.1 million) in principal, together with accrued interest of £70.4 million (2023: £0.2 million). As a result of the impairment raised in the period on the intercompany loans, an expected credit loss of £118.9 million (2023: £nil) has been recognised in the Income Statement as an exceptional item, as these impairments are not as a result of the ordinary course of business. The impairment has been recognised following an analysis of the loans receivable recovery in line with IFRS 9. Refer to note 14 for further details of the provision on the intercompany loans and interest receivable.

8. Tax (charge)/credit on profit/(loss) on ordinary activities

| | 2024 | | | 2023 | | | |
|--------|---|---|--|---|---|--|--|
| | Exceptional | | | | Exceptional | | |
| | | | | | | | Total £m |
| | | | | | | | |
| | | | | | | | |
| 23.7 | (11.0) | 29.2 | 41.9 | (96.1) | _ | _ | (96.1) |
| | | | | | | | |
| (54.6) | _ | _ | (54.6) | 22.8 | _ | (17.8) | 5.0 |
| (30.9) | (11.0) | 29.2 | (12.7) | (73.3) | _ | (17.8) | (91.1) |
| | | | | | | | |
| | | | | | | | |
| 24.5 | _ | _ | 24.5 | 93.6 | _ | - | 93.6 |
| _ | _ | _ | _ | 35.2 | _ | _ | 35.2 |
| | | | | | | | |
| 70.1 | _ | - | 70.1 | (5.8) | _ | _ | (5.8) |
| 94.6 | _ | _ | 94.6 | 123.0 | _ | - | 123.0 |
| 63.7 | (11.0) | 29.2 | 81.9 | 49.7 | _ | (17.8) | 31.9 |
| | (54.6) (30.9) 24.5 - 70.1 94.6 | Underlying Exceptional items £m 23.7 (11.0) (54.6) - (30.9) (11.0) 24.5 - 70.1 - 94.6 - | Underlying Exceptional items Em 23.7 (11.0) 29.2 (54.6) (30.9) (11.0) 29.2 24.5 | Underlying Exceptional items Em Em Total Em Em Em Em Total Em Em Em Em Em Em Em Em Em Em Em Em Em | Underlying £m Exceptional items £m BTL £m Total £m Underlying £m 23.7 (11.0) 29.2 41.9 (96.1) (54.6) - - (54.6) 22.8 (30.9) (11.0) 29.2 (12.7) (73.3) 24.5 - - 24.5 93.6 - - - 35.2 70.1 - - 70.1 (5.8) 94.6 - - 94.6 123.0 | Underlying £m Exceptional items £m BTL £m Total £m Underlying £m Exceptional items £m 23.7 (11.0) 29.2 41.9 (96.1) - (54.6) - - (54.6) 22.8 - (30.9) (11.0) 29.2 (12.7) (73.3) - 24.5 - - 24.5 93.6 - - - - 35.2 - 70.1 - - 70.1 (5.8) - 94.6 - - 94.6 123.0 - | Underlying £m Exceptional items £m BTL £m Total £m Underlying £m Exceptional items £m BTL £m 23.7 (11.0) 29.2 41.9 (96.1) - - (54.6) - - (54.6) 22.8 - (17.8) (30.9) (11.0) 29.2 (12.7) (73.3) - (17.8) 24.5 - - - 35.2 - - - - - 35.2 - - 70.1 - - 70.1 (5.8) - - 94.6 - - 94.6 123.0 - - |

The tax charge for the year ended 31 March 2024 is higher (2023: higher charge) than the standard rate of corporation tax in the UK. The differences are explained below:

| | | | 2024 | | | 2023 | | | | |
|--|------------------|-------------|-----------|-------------|---------------|------------------|-------------|-----------|-------------|---------------|
| | | Exceptional | D.T.1 | - | Effective | | Exceptional | DTI | Ŧ | Effective |
| Year ended 31 March | Underlying £m | items £m | BTL £m | Total £m | tax rate % | Underlying £m | items £m | BTL £m | Total £m | tax rate % |
| Profit/(loss) on ordinary | | | | | | | | | | |
| activities before taxation | 203.5 | (162.8) | 116.6 | 157.3 | | (82.6) | _ | 84.4 | 1.8 | |
| Corporation tax at 25% | | | | | | , , | | | | |
| (2023: 19%) on profit/ | | | | | | | | | | |
| (loss) on ordinary | | | | | | | | | | |
| activities before taxation | 50.8 | (40.7) | 29.2 | 39.3 | 25.0% | (15.7) | _ | 16.0 | 0.3 | 19.0% |
| Effects of: | | | | | | | | | | |
| Recurring items: | | | | | | | | | | |
| Depreciation on assets | | | | | | | | | | |
| that do not qualify for | | | | | | | | | | |
| tax relief | 6.3 | _ | _ | 6.3 | | 4.7 | _ | _ | 4.7 | |
| Disallowable expenditure ¹ | 5.2 | _ | _ | 5.2 | | 5.1 | _ | _ | 5.1 | |
| Non-taxable income ² | (14.0) | _ | _ | (14.0) | | (7.6) | _ | _ | (7.6) | |
| Property disposals | (1.5) | _ | _ | (1.5) | | 0.2 | _ | _ | 0.2 | |
| Impact of "super- | | | | | | | | | | |
| deduction" allowance | | | | | | | | | | |
| on capital expenditure ³ | _ | _ | _ | _ | | (5.2) | _ | _ | (5.2) | |
| Impact of tax losses not | | | | | | , , | | | , , | |
| paid for at standard rate ⁴ | _ | _ | _ | _ | | 16.0 | _ | (16.0) | _ | |
| Other | 1.4 | _ | _ | 1.4 | | _ | _ | _ | _ | |
| Tax charge/(credit) | | | | | | | | | | |
| as adjusted for | | | | | | | | | | |
| recurring items | 48.2 | (40.7) | 29.2 | 36.7 | 24.0% | (2.5) | _ | _ | (2.5) | (138.9%) |
| Non-recurring items: | | | | | | | | | | |
| Effect of tax rate change ⁵ | _ | _ | _ | _ | | 35.2 | _ | _ | 35.2 | |
| Impairment losses | _ | 29.7 | _ | 29.7 | | _ | _ | _ | _ | |
| Adjustments in respect of | | | | | | | | | | |
| prior periods – current tax ⁶ | (54.6) | _ | _ | (54.6) | | 22.8 | _ | (17.8) | 5.0 | |
| Adjustments in respect | | | | | | | | | | |
| of prior periods – | | | | | | | | | | |
| deferred tax ⁶ | 70.1 | _ | _ | 70.1 | | (5.8) | | _ | (5.8) | |
| Total tax charge/(credit) | 63.7 | (11.0) | 29.2 | 81.9 | 29.7% | 49.7 | _ | (17.8) | 31.9 1 | 1,772.2% |

- Disallowable expenditure primarily relates to fines included in operating expenses.
- Non-taxable income relates primarily to income received towards fixed assets such as new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new fixed assets is not eligible for capital allowances.
 The UK government introduced an accelerated capital allowance called a "super-deduction" which was available on some of the Group's capital expenditure for two years up to 31 March 2023. The allowance
- included an additional 30% allowance in excess of expenditure on qualifying plant and machinery, which resulted in a tax credit in the income statement in the prior year, which was shown as a recurring item.

 In the current year, all taxable profits of the Group will be covered by group relief bought from a group company at the standard tax rate. Tax losses arising in the underlying business in the prior year were
- used to cover taxable profits of BTL, for which no payment was made as all amounts arose within the Company. Tax charges for BTL are calculated based on the profit before tax and any non-taxable/non-allowable transactions related to BTL.

 The tax rate change enacted in 2021 was primarily reflected in the year ended 31 March 2022, although the prior year reflected some additional tax rate change impact on deferred tax, as some timin.
- 5 The tax rate change enacted in 2021 was primarily reflected in the year ended 31 March 2022, although the prior year reflected some additional tax rate change impact on deferred tax, as some timing differences had unwound earlier or later than expected.
- 6 During the current year, the Group finalised its corporation tax returns for the prior year, which claimed more capital allowances in the prior year than had been anticipated, rather than deferring them. In addition, the Group had expected to carry forward some tax losses as at 31 March 2023 and had provided a deferred tax asset on these at the rate of 25%, but in the event these tax losses, together with the additional capital allowances claimed, were sold to group companies at the standard tax rate for the prior year of 19%. The current tax prior year credit arose from the sale of these extra tax losses at 19%, while the deferred tax prior year charge arose at 25% from the higher capital allowance claim and the sale of losses for the prior year.







Notes to the consolidated financial statements continued

8. Tax (charge)/credit on profit/(loss) on ordinary activities continued

The effective tax rate ("ETR") on the profit before tax in the current year, as adjusted for recurring tax items, is 24.0%, which is just lower than the standard tax rate for the year of 25%. The tax rate for the prior year was skewed due to the low profit before tax amount in that year.

The Group is not currently in a cash tax paying position with HMRC (although it does pay or receive amounts for group relief), primarily due to capital allowances on capital expenditure, tax deductions for borrowing costs and group relief which has arisen on interest expenses in holding companies.

The Group has considered its position under the OECDs Global Anti-Base Erosion Model Rules (Pillar Two) and the UKs implementation of Multinational Top-up Tax and Domestic Top-up Tax legislation. While the Group is of sufficient size that it will be required to make filings in compliance with these rules for FY25, no material liability to top-up tax (either multinational or domestic) is expected to arise.

The differences between profit/(loss) on ordinary activities before taxation at the standard corporation tax rate and the current tax (credit)/ charge for the year are set out below.

| | 2024 | | | 2023 | | | | |
|--|------------------|-------------|-------|-------------|------------------|-------------|--------|---------|
| | Hardank da a | Exceptional | BTL | Takal | Un deskripe | Exceptional | BTI | Total |
| Year ended 31 March | Underlying £m | items £m | £m | Total £m | Underlying £m | items £m | £m | £m |
| Profit/(loss) on ordinary activities before taxation | 203.5 | (162.8) | 116.6 | 157.3 | (82.6) | _ | 84.4 | 1.8 |
| Corporation tax at 25% (2023: 19%) on profit/ | | | | | | | | |
| (loss) on ordinary activities before taxation | 50.8 | (40.7) | 29.2 | 39.3 | (15.7) | _ | 16.0 | 0.3 |
| Effects of: | | | | | | | | |
| Depreciation on assets that do not qualify for relief | 6.3 | _ | _ | 6.3 | 4.7 | _ | _ | 4.7 |
| Disallowable expenditure | 5.2 | _ | _ | 5.2 | 5.1 | _ | _ | 5.1 |
| Non-taxable income | (14.0) | _ | _ | (14.0) | (7.6) | _ | _ | (7.6) |
| Property disposals | (1.5) | _ | _ | (1.5) | 0.2 | _ | _ | 0.2 |
| Impact of tax losses not paid for at standard rate | _ | _ | _ | _ | 16.0 | _ | (16.0) | _ |
| Capital allowances for the year lower than | | | | | | | | |
| depreciation ⁷ | 132.8 | - | - | 132.8 | 82.2 | _ | _ | 82.2 |
| Capitalised borrowing costs allowable for tax ⁸ | (36.8) | _ | _ | (36.8) | (40.8) | _ | _ | (40.8) |
| Gains/losses on financial derivatives9 | (112.4) | _ | _ | (112.4) | (159.3) | _ | _ | (159.3) |
| Pension cost charge lower than pension contributions | (9.5) | _ | _ | (9.5) | _ | _ | _ | _ |
| Other short-term timing differences | 2.8 | _ | _ | 2.8 | (5.0) | - | _ | (5.0) |
| Tax losses carried forward ¹⁰ | _ | _ | _ | _ | 24.1 | _ | _ | 24.1 |
| Impairment losses | _ | 29.7 | _ | 29.7 | _ | - | _ | _ |
| Adjustments in respect of prior periods – | | | | | | | | |
| current tax ⁶ | (54.6) | - | _ | (54.6) | 22.8 | _ | (17.8) | 5.0 |
| Current tax (credit)/charge for the year | (30.9) | (11.0) | 29.2 | (12.7) | (73.3) | _ | (17.8) | (91.1) |

- 7 Capital allowances claimed were lower than depreciation in order to avoid tax losses arising in the current year and to reduce tax losses arising In the prior year.
- 8 Capitalised borrowing costs are eligible for a full tax deduction in the year.
- 9 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.
- 10 As explained in footnote 6 above, the Group had expected to carry forward some tax losses as at 31 March 2023, but in the event these tax losses were sold to group companies at the standard tax rate for the prior year of 19% and the impact of this is included in the current tax prior year credit shown above.

Uncertain tax positions

At 31 March 2024 the total value of uncertain tax positions was £nil (2023: £nil).

Tax (charged)/credited directly to other comprehensive income

The deferred tax charged directly to other comprehensive income during the year is as follows:

| | 2024 | 2023 |
|--|--------|--------|
| Year ended 31 March | £m | £m |
| Deferred tax charge on net actuarial gain in the year | (5.9) | (16.8) |
| Deferred tax charge on cash flow hedges in the year | (4.7) | (4.0) |
| Total tax charged directly to other comprehensive income | (10.6) | (20.8) |

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the statement of financial position date have been measured using this enacted tax rate and reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group.

9. Dividends

During the year ended 31 March 2024, the Company paid total dividends of £195.8 million (2023: £45.2 million) to its immediate parent Thames Water Utilities Holdings Limited ("TWUHL") of which £158.3 million (2023: £nil) were net-settled against other intercompany cash flows. The remaining £37.5 million (2023: £45.2 million) were cash settled as mentioned below:

| Year ended 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Distribution to external shareholders: | | |
| External dividend distributions | _ | _ |
| | _ | _ |
| Other distributions: | | |
| Kemble Water Finance Limited debt service costs | 37.5 | 42.4 |
| Distribution to Thames Water Limited | _ | 2.8 |
| | 37.5 | 45.2 |
| Net-settled against other intercompany cashflows: | | |
| Internal inflation mechanism pension contribution payment | 27.1 | _ |
| Settlement of group relief and intercompany loans | 131.2 | _ |
| | 158.3 | 45.2 |
| Total | 195.8 | 45.2 |

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2023: £nil).

In October 2023, the Company paid dividends of £37.5 million to TWUHL. These proceeds were subsequently distributed by TWUHL to Thames Water Limited ("TWL") and then through to Kemble Water Finance Limited ("KWF"). KWF retained the proceeds to service its, and its subsidiary Thames Water (Kemble) Finance plc's, external debt obligations.







Notes to the consolidated financial statements continued

9. Dividends continued

In March 2024, Kemble Water Eurobond plc ("KWE"), an intermediate parent of the Company, made internal inflation mechanism pension contribution payments totalling £27.1 million to the defined benefit schemes, Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme, on behalf of the Company. In connection with this transaction, the Company issued 27.1 million shares with a nominal value of £1 each to TWUHL, for a total value of £27.1 million. The Company paid a £27.1 million dividend to TWUHL and through further intercompany transactions between intermediate holding companies, the amount was to be received by KWE. These flows were settled cash neutrally as part of a net settlement deed, and as a result of this arrangement, £27.1 million was paid directly into the defined benefit pension schemes.

In March 2024, the Company paid dividends of £131.2 million to TWUHL. Simultaneously the Company received payments for group relief owed by TWL, TWUF and KWE totalling £153.6 million and settled intercompany loans including associated interest owed to TWUHL (£5.6 million), TWL (£0.3 million) and TWUF (£16.3 million). These, along with other intercompany transactions between other group companies were recorded under a net settlement deed, and as a result no cash payments were made by the Company in connection with the £131.2 million dividends.

Refer to Note 26 on the contingent liabilities raised on these dividend payments.

External shareholders above refers to shareholders of Kemble Water Holdings Limited ("Kemble").

Further information on dividend payments can be found in Our Financial Review on page 46.

10. Intangible assets

| | Software | Assets in development | Total |
|--|----------|-----------------------|---------|
| | €m | £m | £m |
| Cost: | | | |
| At 1 April 2022 | 471.5 | 39.5 | 511.0 |
| Additions | _ | 44.8 | 44.8 |
| Transfers between categories | 68.0 | (68.0) | _ |
| Disposals | (1.2) | - | (1.2) |
| | 538.3 | 16.3 | 554.6 |
| At 31 March 2023 | | | |
| Additions | _ | 44.8 | 44.8 |
| Transfers between categories | 42.6 | (42.6) | _ |
| At 31 March 2024 | 580.9 | 18.5 | 599.4 |
| Accumulated amortisation and impairment: | | | |
| At 1 April 2022 | (226.2) | - | (226.2) |
| Amortisation charge | (65.9) | - | (65.9) |
| Disposals | 0.8 | - | 8.0 |
| At 31 March 2023 | (291.3) | - | (291.3) |
| Amortisation charge | (71.2) | - | (71.2) |
| Impairment loss | (3.0) | | (3.0) |
| At 31 March 2024 | (365.5) | - | (365.5) |
| Net book value: | | | |
| At 31 March 2024 | 215.4 | 18.5 | 233.9 |
| At 31 March 2023 | 247.0 | 16.3 | 263.3 |
| | | | |

The amount of borrowing costs capitalised as intangible assets in the period is £0.3 million (31 March 2023: £nil). The effective rate of borrowing costs for the financial year ended 31 March 2024 was 6.6% (for the financial year ended 31 March 2023: 10.5%).

The gross carrying amount of intangible assets that was fully amortised at 31 March 2024 amounted to £160.0 million (31 March 2023: £124.0 million).

During the year the group disposed of no (31 March 2023: £nil) intangible assets which relate to assets with a £nil Net Book Value.







Notes to the consolidated financial statements continued

11. Property, plant and equipment

| | Land & buildings £m | Plant & equipment £m | Network Assets £m | Assets under construction | Total £m |
|--|---------------------------|----------------------------|-------------------------|---------------------------|-------------|
| Cost: | 2 | 2 | 2 | 2 | |
| At 1 April 2022 | 3,969.6 | 8,851.6 | 9,061.7 | 2,438.1 | 24,321.0 |
| Additions | _ | 0.3 | 39.7 | 1,684.9 | 1,724.9 |
| Transfers between categories | 152.2 | 760.6 | 694.5 | (1,607.3) | _ |
| Disposals | _ | (2.3) | (0.5) | _ | (2.8) |
| At 31 March 2023 | 4,121.8 | 9,610.2 | 9,795.4 | 2,515.7 | 26,043.1 |
| Additions | 26.0 | 0.2 | 58.6 | 1,954.1 | 2,038.9 |
| Transfers between categories | 105.6 | 704.8 | 574.0 | (1,384.4) | _ |
| Disposals | (10.5) | (2,302.4) | (0.3) | _ | (2,313.2) |
| At 31 March 2024 | 4,242.9 | 8,012.8 | 10,427.7 | 3,085.4 | 25,768.8 |
| Accumulated depreciation and impairment: | | | | | |
| At 1 April 2022 | (1,168.7) | (5,165.1) | (1,027.4) | (10.0) | (7,371.2) |
| Depreciation charge | (74.5) | (411.0) | (151.8) | _ | (637.3) |
| Impairment loss | _ | (7.2) | _ | (11.0) | (18.2) |
| Disposals | _ | 1.0 | _ | _ | 1.0 |
| At 31 March 2023 | (1,243.2) | (5,582.3) | (1,179.2) | (21.0) | (8,025.7) |
| Depreciation charge | (76.1) | (420.7) | (158.8) | _ | (655.6) |
| Impairment loss | _ | _ | _ | (27.0) | (27.0) |
| Disposals | 9.8 | 2,301.5 | _ | - | 2,311.3 |
| At 31 March 2024 | (1,309.5) | (3,701.5) | (1,338.0) | (48.0) | (6,397.0) |
| Net book value: | | | | | |
| At 31 March 2024 | 2,933.4 | 4,311.3 | 9,089.7 | 3,037.4 | 19,371.8 |
| At 31 March 2023 | 2,878.6 | 4,027.9 | 8,616.2 | 2,494.7 | 18,017.4 |

The amount of borrowing costs capitalised as property, plant and equipment in the period is ± 159.1 million (2023: ± 215.2 million). The effective annual capitalisation interest rate for borrowing costs was 6.6% (for the financial year ended 31 March 2023: 10.5%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2024 amounted to ± 0.9 billion (31 March 2023: ± 2.9 billion).

During the year the group disposed of £2.3 billion (31 March 2023: £nil) property, plant and equipment assets following internal review of asset data with a nil Net Book Value.

12. Investment property

| | Total £m |
|-----------------------------------|-------------|
| Cost: | |
| At 1 April 2022 | 50.0 |
| At 31 March 2023 | 50.0 |
| At 31 March 2024 | 50.0 |
| Accumulated impairment: | |
| At 1 April 2022 | - |
| Impairment of investment property | (48.0) |
| At 31 March 2023 | (48.0) |
| At 31 March 2024 | (48.0) |
| Net book value at 31 March 2023 | 2.0 |
| Net book value at 31 March 2024 | 2.0 |

Investment Property is held at cost less accumulated impairment. In line with IAS 36 Impairment of Assets, an asset must not be carried in the financial statements at more than its net realisable value (the higher of value in use or sale value net of sales cost). As a result of an independent property valuation undertaken in the prior period provided by a qualified independent valuer with knowledge of the location, an impairment of $\pounds 48.0$ million was recognised for 31 March 2023. The property is assessed to have a net realisable value as at 31 March 2024 in line with the current net book value and therefore no further impairments have been raised in the current period.

As the property was acquired to facilitate the building of interfaces to the Thames Tideway Tunnel, any impairment charge has been disclosed as a cost within assets under construction within the property plant and equipment note.

13. Leases

(i) Amounts recognised in the statement of financial position Right-of-use assets

| | 31 March 2024 | 31 March 2023 |
|--------------------|---------------|---------------|
| Asat | £m | £m |
| Land and buildings | 36.5 | 39.8 |
| Total | 36.5 | 39.8 |

Additions to right-of-use assets during the year ended 31 March 2024 were £2.1 million (31 March 2023: £1.0 million) as a result of new leases in the period and an increase of £1.0 million (31 March 2023: increase of £2.4 million) which arose as a result of lease modifications in the period.

Lease liabilities

| | 31 March 2024 | 31 March 2023 |
|-------------|---------------|---------------|
| As at | £m | £m |
| Current | (7.8) | (7.3) |
| Non-current | (45.2) | (49.7) |
| Total | (53.0) | (57.0) |
| | | |







Notes to the consolidated financial statements continued

13. Leases continued

(ii) Amounts recognised in the income statement

| For the year ended | 31 Mαrch 2024 £m | 31 March 2023 £m |
|---|---------------------|---------------------|
| Depreciation charge of right-of-use assets | 6.7 | 8.8 |
| Interest expense included in finance costs | 3.1 | 1.4 |
| Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities | 28.2 | 18.7 |
| Total | 38.0 | 28.9 |

The cash outflow for the repayment of principal for leases during the year ended 31 March 2024 was £10.2 million (31 March 2023: £10.0 million)

The total leases repayments expected over the next year are £7.8 million (31 March 2023: £7.3 million), over the next 1-5 years are £19.4 million (31 March 2023: £30.7 million) and over more than 5 years are £25.8 million (31 March 2023: £30.7 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

14. Intercompany loans receivable

Intercompany loans receivable are amounts owing outside of this consolidation group and relate to intercompany amounts within the wider Kemble Water Holdings Limited Group.

| | 2024 | 2023 |
|--|---------|---------|
| As at 31 March | £m | £m |
| Amounts owed by group undertakings: | | |
| Thames Water Utilities Holdings Limited | 1,249.1 | 1,249.1 |
| Interest receivable on amounts owed by group undertakings: | | |
| Thames Water Utilities Holdings Limited | 70.4 | 0.2 |
| Impairment on amounts owed by group undertakings: | | |
| Provision for expected credit losses | (118.9) | _ |
| Total | 1,200.6 | 1,249.3 |
| Disclosed within non-current assets | 1,200.6 | 1,249.1 |
| Disclosed within current assets | _ | 0.2 |

The above intercompany loans receivable is unsecured. These balances have not been included within the Group's net debt and covenant calculations.

Intercompany loans receivable due to the Group include the following:

- £735.7 million (2023: £735.7 million) owed by Thames Water Utilities Holdings Limited ("TWUHL", the Company's immediate parent), the loan is unsecured and interest is charged at a rate of SONIA + 0.6266% (2023: SONIA + 0.6266%). The loan is repayable on 30 August 2037.
- £513.4 million (2023: £513.4 million) owed by TWUHL, is unsecured and interest is charged at a rate of SONIA + 0.6266% (2023: SONIA + 6.266%) and is repayable on demand. The TWUL directors have provided a letter of comfort to the directors of Thames Water Holdings Limited stating that they do not expect to seek repayment of the loan outstanding or interest owed by Thames Water Utilities Holdings Limited for at least 12 months from the date of signing the financial statements and as such the loan has been classified as non-current.

During the year ended 31 March 2024, the Group accrued £70.2 million of interest income related to the intercompany loans (2023: £47.5 million). As at 31 March 2024, £70.4 million interest receivable is outstanding from TWUHL (2023: £0.2 million) relating to the intercompany loans.

Under IFRS 9, the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. To the extent that loans are repayable on demand, the expected credit losses are based on the assumption that repayment of the loans is demanded in full at the reporting date. Followed by credit rating downgrades by Moody's and S&P in April 2024, the Company is now subject to a 'cash lock-up' under its licence, which limits certain payments including dividends to associated companies without prior approval of Ofwat, which limits the ability of TWUHL to gather sufficient funds to repay these receivables when due. As a result of the significant increase in credit risk during the year, the loan is considered to be in 'stage 2' of the IFRS 9 impairment assessment and a lifetime expected credit loss was recognised.

As required by IFRS 9, the Group determined the expected credit loss of the receivable loan by estimating the expected recoverability based on different scenarios under which the Group expect repayment will or could be made. The Group has made this assessment by estimating the current expected enterprise valuation of the borrower derived through the application of an observable market multiplier uplift to RCV of TWUL. This provides the best estimate of the cashflows that will be available to repay the principal and interest. Changes in these RCV multiples could result in a variation to the recoverable amount including possibilities of full impairment and therefore this is deemed a man-agement estimate. A range of scenarios have been used in the calculation which use different RCV multiples to which management have applied a probability weighting. Historical data and management judgment has been used to determine the probabilities applied to each sce-nario. These scenarios include an upside scenario where the full amount is recoverable; a breakeven point scenario; and a scenario which considers partial and full impairment; which includes an event where there is a future restructuring of the Group such that the existing corpo-rate structure is not used to facilitate new funding into the Company.

As a result of this assessment the Group has recognised a £118.9 million (2023: £nil) expected credit loss on the intercompany loan receiv-able which is recognised in the Statement of Financial Position, with a corresponding impairment loss recognised in the Income Statement as an exceptional item, as these impairments are not as a result of the ordinary course of business. Whilst the multi factor analysis required by IFRS 9 has resulted in an expected credit loss, management believe that the most likely outcome is that the receivable will be fully recovered in due course. It is expected that over the long term TWUL's ability to distribute dividends would be restored whereby future final determinations are assumed to be deliverable, financeable and investable. This would allow TWUHL to continue to service the intercompany loan owed to TWUL. Such final determinations would also facilitate the receipt of equity funding which TWUHL could also use to service the intercompany loans.

15. Inventories

| | 2024 | 2023 |
|-------------------------------|------|------|
| As at 31 March | £m | £m |
| Raw materials and consumables | 23.3 | 20.9 |
| Total | 23.3 | 20.9 |

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements







Notes to the consolidated financial statements continued

16. Trade and other receivables

| To Trade and other receivables | | 2024 | | | 2023 | | |
|---------------------------------------|------------------|-----------|-------------|------------------|-----------|-------------|--|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m | |
| Non-current: | | | | | | | |
| Prepayments | _ | 493.4 | 493.4 | _ | 377.9 | 377.9 | |
| Insurance claims receivable | 38.1 | _ | 38.1 | 33.9 | _ | 33.9 | |
| Other receivables | 1.9 | _ | 1.9 | 30.7 | _ | 30.7 | |
| | 40.0 | 493.4 | 533.4 | 64.6 | 377.9 | 442.5 | |
| Current: | | | | | | | |
| Gross trade receivables | 523.8 | 30.4 | 554.2 | 468.9 | 21.0 | 489.9 | |
| Less expected credit losses provision | (150.0) | (4.7) | (154.7) | (153.0) | (4.2) | (157.2) | |
| Net trade receivables | 373.8 | 25.7 | 399.5 | 315.9 | 16.8 | 332.7 | |
| Other receivables | 44.0 | _ | 44.0 | 49.0 | _ | 49.0 | |
| Contract assets | 288.6 | 7.5 | 296.1 | 253.6 | 5.2 | 258.8 | |
| Prepayments | 45.2 | _ | 45.2 | 48.8 | _ | 48.8 | |
| Insurance claims receivable | 18.5 | _ | 18.5 | _ | _ | _ | |
| Amounts owed to group undertakings | 0.2 | _ | 0.2 | 3.1 | _ | 3.1 | |
| Group relief receivable ¹ | - | _ | _ | 82.3 | (16.6) | 65.7 | |
| | 770.3 | 33.2 | 803.5 | 752.7 | 5.4 | 758.1 | |
| Total | 810.3 | 526.6 | 1,336.9 | 817.3 | 383.3 | 1,200.6 | |

¹ Group relief can fluctuate between a receivable and payable position. For the year ended 31 March 2024 this is a payable and is included in Note 18.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to its fair value.

Non-current prepayments at 31 March 2024 of £493.4 million (2023: £377.9 million) relate to the Bazalgette Tunnel Limited ("BTL") arrangement. The prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to the Company once construction is complete, against which this prepayment will be utilised.

Contract assets at 31 March 2024 includes £217.2 million (2023: £178.2 million) of services provided to metered customers. Included within this amount is a provision of £9.3 million for bad debt (31 March 2023: £8.0 million). The remaining amount relates to accrued capital contributions and accrued income from the BTL arrangement. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

BTL receivables relates to the value of receivables collected from other parties and passed on to BTL.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

| | 2024 <u>£</u> m | 2023 £m |
|--|--------------------|------------|
| At 1 April | (157.2) | (150.5) |
| Charge for bad and doubtful debts – charged against revenue ¹ | (54.8) | (65.5) |
| Charge for bad and doubtful debts – included within operating expenses | (39.7) | (22.4) |
| Amounts written off (utilised) | 97.0 | 81.2 |
| Total at 31 March | (154.7) | (157.2) |

¹ Included within this is a £5.7 million increase (2023: £2.8 million decrease) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The increase (2023: decrease) of the provision in the current financial year is debited (2023: credited) to gross revenue. The remaining amount relates to the £49.1 million (2023: £68.3 million) charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

| As at 31 March | 2024 £m | 2023 £m |
|-------------------|------------|------------|
| Up to 365 days | 385.3 | 329.3 |
| 1 – 2 years | 88.4 | 83.9 |
| 2 – 3 years | 41.6 | 41.5 |
| More than 3 years | 38.9 | 35.2 |
| Total | 554.2 | 489.9 |

The ageing of gross BTL receivables is as follows:

| As at 31 March | 2024 £m | 2023 £m |
|----------------|------------|------------|
| Up to 365 days | 22.8 | 15.1 |
| 1 – 2 years | 5.2 | 4.0 |
| 2 – 3 years | 2.4 | 1.9 |
| Total | 30.4 | 21.0 |

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

| 2024 | 2023 |
|-------|------------------------------|
| £m | £m |
| 83.2 | 83.9 |
| 26.2 | 26.4 |
| 16.5 | 17.1 |
| 28.8 | 29.8 |
| 154.7 | 157.2 |
| | 83.2 26.2 16.5 28.8 |







Notes to the consolidated financial statements continued

16. Trade and other receivables continued

Ageing of impaired BTL receivables is as follows:

| As at 31 March | 2024 £m | |
|----------------|------------|-----|
| Up to 365 days | 3.1 | 2.8 |
| 1 – 2 years | 1.0 | 0.9 |
| 2 – 3 years | 0.6 | 0.5 |
| Total | 4.7 | 4.2 |

17. Cash and cash equivalents

| | 2024 | | | 2023 | | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Cash at bank and in hand | 15.0 | _ | 15.0 | 5.1 | _ | 5.1 |
| Money market funds & short-term investments | 1,259.9 | 6.3 | 1,266.2 | 1,824.2 | 7.0 | 1,831.2 |
| Cash and cash equivalents ¹ | 1,274.9 | 6.3 | 1,281.2 | 1,829.3 | 7.0 | 1,836.3 |
| Bank overdraft ² | (126.7) | _ | (126.7) | _ | _ | _ |
| Net cash and cash equivalents | 1,148.2 | 6.3 | 1,154.5 | 1,829.3 | 7.0 | 1,836.3 |

- 1 Cash and cash equivalents subject to WBS terms and conditions was £71.9 million for the year ended 31 March 2024 (2023: £81.3 million).
- 2 Bank overdraft as at 31 March 2024 reflects the impact of £130.0 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024. This presentation follows our accounting policy, whereby committed payments are accounted for on the date the payment instruction is committed, which may be in advance of the cash settlement. Cash from money market funds and short term investments was sufficient to cover the cash outflows on the settlement date post year-end.

For the purposes of the consolidated statement of cash flows, the total balance above includes cash and cash equivalents net of outstanding bank overdrafts. The net cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as per the above within current assets and current liabilities.

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

18. Trade and other payables

| To Trade and other payables | | 2024 | | | 2023 | | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|--|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m | |
| Non-current: | | | | | | | |
| Contract liabilities | 1,039.1 | _ | 1,039.1 | 921.7 | - | 921.7 | |
| Current: | | | | | | | |
| Trade payables | 308.5 | _ | 308.5 | 301.7 | _ | 301.7 | |
| Amounts owed to group undertakings | 0.6 | _ | 0.6 | _ | _ | _ | |
| Other taxation and social security | 10.7 | _ | 10.7 | 10.3 | - | 10.3 | |
| Group relief payable ¹ | 12.8 | 45.8 | 58.6 | _ | _ | _ | |
| Accruals | 469.8 | _ | 469.8 | 406.5 | _ | 406.5 | |
| Amounts owed to Bazalgette Tunnel Limited | _ | 8.9 | 8.9 | _ | - | _ | |
| Other payables | 112.4 | _ | 112.4 | 102.7 | _ | 102.7 | |
| | 914.8 | 54.7 | 969.5 | 821.2 | _ | 821.2 | |
| Current: | | | | | | | |
| Contract liabilities | 132.9 | 0.5 | 133.4 | 130.1 | _ | 130.1 | |
| | 1,047.7 | 55.2 | 1,102.9 | 951.3 | _ | 951.3 | |
| Total | 2,086.8 | 55.2 | 2,142.0 | 1,873.0 | _ | 1,873.0 | |

¹ Group relief can fluctuate between a receivable and payable position. For the year ended 31 March 2023 this was a receivable and was included in Note 16.

Current contract liabilities at 31 March 2024 includes £71.9 million (2023: £73.0 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payments in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2024 includes £561.5 million (2023: £546.2 million) of deferred infrastructure charges and £477.6 million of deferred income for nil cost "adopted" assets (2023: £375.5 million).

Other payables at 31 March 2024 includes £83.4 million (2023: £74.0 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed. The remainder of the balance includes various other payables such as credit balances reclassified from debtors, customer security deposits and defined contribution pension creditor amounts.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to its fair value as outlined in the "Comparison of fair value of financial instruments with their carrying amounts" section of Note 20 Financial Instruments.

2023







Notes to the consolidated financial statements continued

19. Borrowings

As at 21 March

| 13. Bullowings | | |
|---|------------|------------|
| As at 31 March | 2024 £m | 2023 €m |
| Secured bank loans and private placements | 5,004.8 | 4,427.9 |
| Bonds | 11,101.2 | 11,121.8 |
| Amounts owed to group undertakings | _ | 5.5 |
| | 16,106.0 | 15,555.2 |
| Interest payable on borrowings | 242.5 | 182.7 |
| Total | 16,348.5 | 15,737.9 |
| Disclosed within non-current liabilities | 14,145.8 | 13,457.4 |
| Disclosed within current liabilities | 2,202.7 | 2,280.5 |
| Total | 16,348.5 | 15,737.9 |

The Company, its wholly owned financing subsidiary TWUF and its immediate parent, Thames Water Utilities Holdings Limited ("TWUHL") are the Obligors within a whole business securitisation group. Secured bank loans, private placements and bonds are in an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee.

Pursuant to this arrangement, TWUHL guaranteed the obligations of each other Obligor under the finance agreement. Additionally, the Company, and TWUF, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. The guaranteed debt on a post swap basis as at 31 March 2024 was £17.3 billion (2023: £16.4 billion). Following the transition to IFRS 17, the Group made the election to apply the requirements in IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments' to these financial guarantee contracts. Refer to the accounting policies on page 119 for more information.

Breakdown of secured bank loans and private placements:

| As at 31 March | £m | £m |
|---|-------|-------|
| THAMES WATER UTILITIES LIMITED | | |
| £215.0m 0.460% index-linked loan due 2023 (a), (h) | _ | 316.1 |
| £144.8m 0.790% index-linked loan due 2033 (a), (e), (h), (l) | 145.9 | 139.9 |
| £180.1m 0.5975% index-linked loan due 2033 (a), (e), (h), (m) | 179.2 | 174.0 |
| £215.0m 0.380% index-linked loan due 2032 (a), (b), (h) | 187.6 | 198.7 |
| £100.0m 3.261% index-linked loan due 2043 (a), (d), (h) | 168.2 | 165.2 |
| £70.0m Class B 3.867% fixed rate loan due 2026 (a) | 70.0 | 70.0 |
| £50.0m Class B 3.875% fixed rate loan due 2026 (a) | 50.0 | 50.0 |
| £39.0m Class B 3.918% fixed rate loan due 2026 (a) | 38.8 | 38.7 |
| £20.0m Class B floating rate loan due 2026 (α), (j) | 20.0 | 20.0 |
| £50.0m Class B floating rate loan due 2025 (α), (j) | 49.9 | 49.9 |
| £100.0m Class B floating rate loan due 2028 (a), (j) | 99.3 | 99.2 |
| £150.0m Class B floating rate loan due 2029 (a), (j) | 148.8 | 148.6 |
| \$285.0m 3.570% private placement due 2025 (a), (f) | 225.4 | 230.4 |
| £216.0m 2.450% private placement due 2028 (a) | 215.7 | 215.6 |
| £210.0m 2.550% private placement due 2030 (a) | 209.5 | 209.5 |
| £40.0m 2.620% private placement due 2033 (a) | 39.9 | 39.9 |
| \$95.0m 4.890% private placement due 2029 (a), (f) | 75.0 | 76.6 |
| £18.0m 4.800% private placement due 2029 (a) | 18.0 | 18.0 |

| As at 31 March | 2024 £m | 2023 £m |
|---|-------------|------------|
| \$256.0m 5.010% private placement due 2032 (a), (f) | 202.0 | 206.5 |
| \$81.0m 5.300% private placement due 2037 (a), (f) | 63.9 | 65.3 |
| £150.0m 4.940% private placement due 2037 (a) | 149.6 | 149.6 |
| £90.0m 5.120% private placement due 2042 (a) | 89.7 | 89.7 |
| £150.0m floating rate loan due 2024 (a), (j) | _ | 149.9 |
| £125.0m floating rate loan due 2024 (a), (j), (k) | 125.0 | 124.9 |
| £51.1m floating rate loan due 2029 (a), (j) | 51.0 | 51.0 |
| £63.1m floating rate loan due 2031 (a), (j) | 62.9 | 62.9 |
| £100.0m floating rate loan due 2029 (a), (j) | 99.7 | 99.6 |
| £98.5m floating rate loan due 2029 (a), (j) | 98.2 | _ |
| £65.0m Class B floating rate loan due 2027 (a), (j) | 64.6 | _ |
| THAMES WATER UTILITIES FINANCE PLC | | |
| \$200.0m 4.020% private placement due 2024 (f) | _ | 161.8 |
| \$106.0m 4.070% private placement due 2026 (a), (f) | 83.8 | 85.7 |
| \$250.0m 4.220% private placement due 2027 (f) | 197.8 | 202.3 |
| \$131.0m 4.270% private placement due 2029 (a), (f) | 103.4 | 105.8 |
| €50.0m 2.100% private placement due 2030 (a), (f) | 42.6 | 43.8 |
| £200.0m Class B floating rate loan due 2026 (a), (j) | 198.7 | 198.1 |
| £220.7m Class B floating rate loan due 2023 (c), (j) | _ | 220.7 |
| £75.0m Class B floating rate loan due 2023 (i), (j) | _ | 75.0 |
| £75.0m Class B floating rate loan due 2023 (j) | _ | 75.0 |
| £270.0m floating rate loan due 2024 (c), (j) | 270.0 | _ |
| £260.0m floating rate loan due 2024 (c), (j) | 260.0 | _ |
| £280.0m floating rate loan due 2024 (c), (j) | 280.0 | _ |
| £250.0m floating rate loan due 2024 (c), (j) | 250.0 | _ |
| £220.7m Class B floating rate loan due 2024 (c), (g), (j) | 220.7 | _ |
| £75.0m Class B floating rate loan due 2024 (g), (i), (j) | 75.0 | _ |
| €75.0m Class B floαting rate loan due 2024 (g), (j) | 75.0 | _ |
| Total secured bank loans and private placements | 5,004.8 | 4,427.9 |
| | | |

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

- (a) These loans and private placements are shown net of issuance costs.
- (b) This debt amortises in equal tranches from 2017 onwards.
- (c) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both S&P and Moody's and the Group's GRESB Score.
- (d) This debt amortises from 2023 to 2033 in semi-annual tranches of £3.0 million, followed by semi-annual tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
- $\begin{tabular}{ll} \textbf{(e)} & \textbf{These loans contain a collar mechanism that limits total accretion repayment within a predetermined range. \\ \end{tabular}$
- $(f) \quad \text{The Group has entered into cross currency swap agreements which convert this debt into sterling debt.}$
- (g) In March 2024, the £370.7 million Class B revolving credit facilities were drawn in full. In April 2024, these Class B drawdowns were fully repaid.

 (h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
- (n) The value of the capital and interest elements of the index-linked loans is linked to movements in the ketail Price Index (RPI).
- (i) The interest margin of this loan is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both S&P and Moody's.
- (j) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
- (k) These loans contain a circular economy adjustment that reduces the interest rate if certain key performance indicators are met.
- (I) In October 2023, the £100.0 million Class A RPI loan originally due in February 2025, with accreted principal of £144.8 million, was extended to 2033. In addition to the extension, the interest rate on the loan was amended to 3.44% with effect from the original maturity date. As the extension and amendment was a substantial modification, a gain on extinguishment of £1.0 million was recognised in the income statement under net gains on financial instruments.
- (m) In October 2023, the £125.0 million Class A RPI loan originally due in March 2026, with accreted principal of £180.1 million, was extended to 2033. In addition to the extension, the interest rate on the loan was amended to 3.67% with effect from the original maturity date. As the extension and amendment was a substantial modification, a gain on extinguishment of £3.6 million was recognised in the income statement under net gains on financial instruments.

Thames Water Annual Report 2023/24 Governance Financial statements







Notes to the consolidated financial statements continued

19. Borrowings continued Breakdown of bonds:

| As at 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| THAMES WATER UTILITIES FINANCE PLC | | |
| £330.0m 6.750% fixed rate due 2028 (b) | 328.5 | 328.3 |
| €200.0m 6.500% fixed rate due 2032 (b) | 198.4 | 198.3 |
| £600.0m 5.125% fixed rate due 2037 (b) | 597.1 | 596.9 |
| £300.0m 1.680% index-linked due 2053 (b), (c) | 578.8 | 530.7 |
| £300.0m 1.681% index-linked due 2055 (b), (c) | 578.8 | 530.7 |
| £300.0m 4.375% fixed rate bond due 2034 (b) | 296.8 | 296.5 |
| ¥20.0bn 3.280% fixed rate bond due 2038 (a), (b) | 104.6 | 121.8 |
| £50.0m 3.853% index-linked bond due 2040 (d) | 78.6 | 76.8 |
| £500.0m 5.500% fixed rate bond due 2041 (b) | 491.2 | 490.9 |
| £50.0m 1.980% index-linked bond due 2042 (b), (c) | 91.1 | 86.6 |
| £55.0m 2.091% index-linked bond due 2042 (b), (c) | 97.3 | 92.7 |
| £40.0m 1.974% index-linked bond due 2045 (b), (c), (e) | 52.5 | 51.8 |
| £300.0m 4.625% fixed rate bond due 2046 (b) | 294.0 | 293.8 |
| £100.0m 1.846% index-linked bond due 2047 (b), (c) | 182.0 | 173.0 |
| £200.0m 1.819% index-linked bond due 2049 (b), (c) | 363.5 | 345.5 |
| £200.0m 1.771% index-linked bond due 2057 (b), (c) | 363.1 | 345.1 |
| £350.0m 1.760% index-linked due 2062 (b), (c) | 634.9 | 603.4 |
| £500.0m (now £314.5m) 4.000% fixed rate due 2025 (b), (f) | 313.9 | 498.4 |
| £40.0m 0.750% index-linked loan due 2034 (b), (c) | 58.2 | 55.5 |
| £45.0m 0.721% index-linked loan due 2027 (b), (c) | 65.4 | 62.4 |
| £300.0m 3.500% fixed rate loan due 2028 (b) | 298.4 | 298.0 |
| £400.0m 7.738% fixed rate bond due 2058 (b) | 416.8 | 417.3 |
| £250.0m 1.875% fixed rate bond due 2024 (b) | - | 249.6 |
| £250.0m 2.625% fixed rate bond due 2032 (b) | 248.3 | 248.1 |
| £300.0m 2.375% Class B fixed rate bond due 2023 (b) | _ | 300.0 |
| £250.0m 2.875% Class B fixed rate bond due 2027 (b) | 248.7 | 248.3 |
| CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b) | 145.9 | 148.9 |
| £350.0m 2.375% fixed rate bond due 2040 (b) | 346.5 | 346.3 |
| £40.0m 2.442% fixed rate bond due 2050 (b) | 39.9 | 39.9 |
| €84.7m 0.875% fixed rate bond due 2023 (b) | - | 84.7 |
| €500.0m 0.190% fixed rate bond due 2023 (a), (b) | - | 439.3 |
| \$57.0m 2.060% fixed rate bond due 2030 (a), (b) | 44.9 | 45.9 |
| \$40.0m 1.604% fixed rate bond due 2027 (a), (b) | 31.6 | 32.3 |
| €575.0m 0.875% fixed rate bond due 2028 (a), (b) | 489.6 | 503.2 |
| €575.0m 1.250% fixed rate bond due 2032 (a), (b) | 485.6 | 498.9 |
| €650.0m 4.000% fixed rate bond due 2027 (a), (b) | 552.0 | 566.7 |
| €1.0bn 4.375% fixed rate bond due 2031 (a), (b) | 851.2 | 875.3 |

| As at 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| £300.0m 8.250% fixed rate bond due 2040 (b) | 294.5 | _ |
| £275.0m 7.125% fixed rate bond due 2031 (b) | 271.5 | _ |
| £575.0m 7.750% fixed rate bond due 2044 (b) | 567.1 | _ |
| Total bonds | 11,101.2 | 11,121.8 |

All bonds are Class A except where highlighted.

- (a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt. (b) These bonds are shown net of issuance costs.
- (c) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").
 (d) This is a Limited Price Index ("LPI") bond. Accretion is calculated using an adjusted UK Retail Price Index.
 (e) The bond amortises semi-annually between October 2015 and October 2045 in accordance with a published schedule.
- (f) In January 2024, the Group repurchased £185.5 million principal (out of the £500.0 million external debt principal due in 2025) at a £7.0 million discount.

Breakdown of amounts owed to group undertakings:

| As at 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| THAMES WATER LIMITED | | |
| £0.3m floating rate loan due 2043¹ | _ | 0.3 |
| THAMES WATER UTILITIES HOLDINGS LIMITED | | |
| £5.2m floating rate loan due 2043² | _ | 5.2 |
| Total amounts owed to group undertakings | - | 5.5 |

- In March 2024, the Company repaid the £0.3 million floating rate loan from Thames Water Limited including associated interest.
 In March 2024, the Company repaid the £5.2 million floating rate loan from Thames Water Utilities Holdings Limited including associated interest.







Notes to the consolidated financial statements continued

20. Financial instruments

Categories of financial instruments

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

Financial assets:

| As at 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| Fair value through profit or loss | | |
| Cross currency swaps | 92.1 | 150.8 |
| Interest rate swaps | 247.6 | 257.4 |
| Index-linked swaps | 48.6 | 40.9 |
| Cash and cash equivalents – money market funds | 1,266.2 | 1,226.2 |
| | 1,654.5 | 1,675.3 |
| Amortised cost | | |
| Intercompany loans receivable | 1,200.6 | 1,249.3 |
| Trade and other receivables (excluding prepayments) | 483.7 | 449.4 |
| Cash and cash equivalents – short-term investments | _ | 605.0 |
| Cash and cash equivalents – cash at bank and in hand | 15.0 | 5.1 |
| | 1,699.3 | 2,308.8 |
| Total | 3,353.8 | 3,984.1 |

Financial liabilities:

| As at 31 March | 2024 <u>£</u> m | 2023 <u>£</u> m |
|---|--------------------|--------------------|
| Fair value through profit or loss | | |
| Cross currency swaps | (107.4) | (95.4) |
| Interest rate swaps | (288.9) | (316.3) |
| Index-linked swaps | (1,339.6) | (1,580.1) |
| | (1,735.9) | (1,991.8) |
| Amortised cost | | |
| Trade and other payables (excluding other taxation and social security) | (958.8) | (810.9) |
| Borrowings | (16,348.5) | (15,737.9) |
| Lease liabilities | (53.0) | (57.0) |
| Bank overdraft | (126.7) | _ |
| | (17,487.0) | (16,605.8) |
| <u>Total</u> | (19,222.9) | (18,597.6) |

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability 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 to 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; or

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 Group'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. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate, index-linked and cross currency swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result (refer to page X for further information). As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps. Credit risk sensitivity analysis is included further within this note. The table below sets out the valuation basis of financial instruments (excluding cash and cash equivalents – money market funds which are classified as level 1) held at fair value through profit or loss as at 31 March 2024:

| _ | | 21 |
|--|------------|------------|
| As at 31 March | 2024 £m | 2023 £m |
| Financial assets – derivative financial instruments | | |
| Cross currency swaps | 92.1 | 150.8 |
| Interest rate swaps | 247.6 | 257.4 |
| Index-linked swaps | 48.6 | 40.9 |
| | 388.3 | 449.1 |
| Financial liabilities – derivative financial instruments | | |
| Cross currency swaps | (107.4) | (95.4) |
| Interest rate swaps | (288.9) | (316.3) |
| Index-linked swaps | (1,339.6) | (1,580.1) |
| | (1,735.9) | (1,991.8) |
| Net total | (1,347.6) | (1,542.7) |

¹ The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties.

During the year, £18.7 million (2023: £21.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 109. The amounts recognised on the cash flow hedge reserve are recycled to the income statement as a phased release over the relevant hedging period and where the related debt has been issued and has not matured.

2024







Notes to the consolidated financial statements continued

20. Financial instruments continued

In November 2019, the maturity date of three index linked swaps, with a total notional value of £400.0 million, were extended. These swaps are measured at fair value through profit or loss. 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 £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, which continue to be significantly supported by observable inputs and hence it is appropriate for these index-linked swaps to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2024, £29.3 million (2023: £31.3 million) remained capitalised within derivative financial liabilities and £2.0 million had been recognised in the income statement within net gains/(losses) on financial instruments (2023: £2.0 million). In relation to the above transaction, during 2023/24, the Financial Reporting Council ("FRC") concluded a limited scope review of the annual report and accounts (in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures), primarily in respect of the application of IFRS 13 'Fair Value Measurement' and compliance with its requirements. No changes were required to our application of IFRS 13 or amounts included within the annual report and accounts following the conclusion of the review; we had previously provided enhanced disclosures in relation to the matter in the 2022/23 annual accounts.

Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Group's financial assets and financial liabilities are set out in the tables below.

Financial assets:

| | | 2024 | | 2023 | |
|---|------------------|------------------|------------------|-------------------|--|
| As at 31 March | Book value £m | Fair value £m | Book value ₤m | Fair value² £m | |
| Non-current | | | | | |
| Intercompany loans receivable ¹ | 1,200.6 | 630.1 | 1,249.1 | 935.3 | |
| Derivative financial instruments | | | | | |
| Cross currency swaps | 61.6 | 61.6 | 118.9 | 118.9 | |
| Interest rate swaps | 245.1 | 245.1 | 257.4 | 257.4 | |
| Index-linked swaps | 48.6 | 48.6 | 40.9 | 40.9 | |
| Other receivables (excluding prepayments) | 40.0 | 40.0 | 64.6 | 64.6 | |
| | 1,595.9 | 1,025.4 | 1,730.9 | 1,417.1 | |
| Current | | | | | |
| Cash and cash equivalents | 1,281.2 | 1,281.2 | 1,836.3 | 1,836.3 | |
| Intercompany loans receivable ¹ | _ | _ | 0.2 | 0.2 | |
| Trade and other receivables (excluding prepayments) | 443.7 | 443.7 | 384.8 | 384.8 | |
| Derivative financial instruments | | | | | |
| Cross currency swaps | 30.5 | 30.5 | 31.9 | 31.9 | |
| Interest rate swaps | 2.5 | 2.5 | _ | _ | |
| | 1,757.9 | 1,757.9 | 2,253.2 | 2,253.2 | |
| Total | 3,353.8 | 2,783.3 | 3,984.1 | 3,670.3 | |

¹ Intercompany loans receivable includes floating rate loans and related interest. This includes two loans are due from TWUHL, of which 1) is repayable on demand with a letter of comfort and the 2) repayable in 2037. The fair value for these loans is based on an estimate of future cash flows, including expectations about possible variations in the amount and timing of these cashflows.

Financial liabilities:

| | 2024 | | 2023 | |
|---|------------------|------------------|------------------|------------------|
| As at 31 March | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Non-current | | | | |
| Borrowings | | | | |
| Secured bank loans and private placements | (3,192.4) | (2,717.3) | (3,405.4) | (3,280.5) |
| Bonds | (10,953.4) | (9,002.8) | (10,046.5) | (9,419.5) |
| Amounts owed to group undertakings | _ | _ | (5.5) | (5.5) |
| Derivative financial instruments | | | | |
| Cross currency swaps | (107.4) | (107.4) | (81.7) | (81.7) |
| Interest rate swaps | (288.9) | (288.9) | (316.3) | (316.3) |
| Index-linked swaps | (1,094.2) | (1,094.2) | (1,526.7) | (1,526.7) |
| Lease liabilities | (45.2) | (45.2) | (49.7) | (49.7) |
| | (15,681.5) | (13,255.8) | (15,431.8) | (14,679.9) |
| Current | | | | |
| Borrowings | | | | |
| Secured bank loans and private placements | (1,812.4) | (1,777.9) | (1,022.5) | (1,021.2) |
| Bonds | (147.8) | (144.7) | (1,075.3) | (1,058.8) |
| Interest payable | (242.5) | (242.5) | (182.7) | (182.7) |
| Derivative financial instruments | | | | |
| Cross currency swaps | _ | _ | (13.7) | (13.7) |
| Index-linked swaps | (245.4) | (245.4) | (53.4) | (53.4) |
| Trade and other payables (excluding other taxation and social security) | (958.8) | (958.8) | (810.9) | (810.9) |
| Lease liabilities | (7.8) | (7.8) | (7.3) | (7.3) |
| Bank overdraft ¹ | (126.7) | (126.7) | _ | |
| | (3,541.4) | (3,503.8) | (3,165.8) | (3,148.0) |
| Total | (19,222.9) | (16,759.6) | (18,597.6) | (17,827.9) |

¹ Bank overdraft as at 31 March 2024 reflects the impact of £130.0 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024. This presentation follows our accounting policy, whereby committed payments are accounted for on the date the payment instruction is committed, which may be in advance of the cash settlement. Cash from money market funds and short term investments was sufficient to cover the cash outflows on the settlement date post year-end.

The fair value of borrowings represents the market value of the 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 Group'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 the loan has a short term maturity. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion and interest expected to accrue to maturity, discounted using a risk-free rate plus the Group's credit spread. Amounts owed to group undertakings includes two floating rate loans and related interest. The fair value of the entire balance is assumed to be the nominal value due to demand features to align with IFRS 13, paragraph 47.

² Values of non-current intercompany loans receivable have been amended from the published 2023 report, to present a corrected calculation







Notes to the consolidated financial statements continued

20. Financial instruments continued

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To retain the Company's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis without reliance on the £550 million liquidity facilities
- To maintain customer bills at a level which is both affordable and sustainable

It is recognised that at the date of signing the financial statements, the Group is not meeting its objective to maintain a minimum of 15-months liquidity (excluding £550.2 million liquidity facilities). Action is required to extend the liquidity runway through a combination of securing equity or debt funding, implementing cash conservation measures that do not threaten the Group's statutory duties, or securing creditor support. Whilst such an extension is not wholly within the Group's control, the Directors believe it is reasonable to assume that actions can be taken such that the Group has adequate resources, for a period of 12 months from the date of approval of the financial statements.

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (TWUF and Thames Water Utilities Holdings Limited ("TWUHL")) guarantee the funding activity of the Company, and the Company and TWUHL guarantee the funding activity of TWUF, which raises debt finance in external debt markets through the issuance of secured bonds and the entry into loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

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

| As at 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| Secured bank loans and private placements | (5,004.8) | (4,427.9) |
| Bonds | (11,101.2) | (11,121.8) |
| Lease liability | (53.0) | (57.0) |
| Amounts owed to group undertakings | _ | (5.5) |
| Bank overdraft | (126.7) | _ |
| Interest payable on borrowings | (242.5) | (182.7) |
| | (16,528.2) | (15,794.9) |
| Cash and cash equivalents | 1,281.2 | 1,836.3 |
| Net debt (statutory basis) | (15,247.0) | (13,958.6) |
| Reconciliation to net debt (covenant basis) | | |
| Interest payable on borrowings | 242.5 | 182.7 |
| Amounts owed to group undertakings | _ | 5.5 |
| Unamortised debt issuance costs and discount | (92.2) | (85.0) |
| Relevant derivative financial liabilities (Accretion and FX) | (1,122.8) | (831.7) |
| Unamortised IFRS 9 fair value adjustment | (4.3) | _ |
| Unamortised IFRS 9 transition adjustment | 22.5 | 23.1 |
| Bank overdraft not relevant for covenant | 126.7 | _ |
| Cash relevant/(not relevant) for covenant | 3.3 | (0.2) |
| Net debt (covenant basis) | (16,071.3) | (14,664.2) |
| Equity attributable to owners of the Group | 1,779.2 | 1,825.1 |

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment; includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rates on cross currency swaps held in the Group, bank overdraft not relevant for covenant purposes (reflecting the impact of £130.0 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024, and is excluded for covenant purposes), and cash is added for covenants purposes (which is based on cash and investments whereas the accounting definition adjusts for other items).







Notes to the consolidated financial statements continued

20. Financial instruments continued

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

| | | 2024 | | | 2023 | |
|--|------------------|--|----------------------------|------------------|--|----------------------------|
| As at 31 March | Borrowings £m | Net derivative financial liabilities £m | Lease liabilities £m | Borrowings £m | Net derivative financial liabilities £m | Lease liabilities £m |
| Opening balance | (15,737.9) | (1,542.7) | (57.0) | (13,296.7) | (2,149.6) | (63.3) |
| Non-current | (13,457.4) | (1,507.5) | (49.7) | (12,547.5) | (2,069.5) | (57.1) |
| Current | (2,280.5) | (35.2) | (7.3) | (749.2) | (80.1) | (6.2) |
| Cash flows | | | | | | |
| New loans raised | (3,097.4) | _ | _ | (5,068.0) | | _ |
| Repayment of borrowings | 2,666.8 | _ | _ | 3,221.4 | _ | _ |
| Repayment of lease principal | _ | _ | 10.2 | - | _ | 10.0 |
| Proceeds from derivative settlement ¹ | _ | (28.4) | _ | _ | (48.1) | _ |
| Payment for derivative settlement ² | _ | 171.8 | _ | - | 412.6 | _ |
| Interest paid ³ | 492.6 | _ | _ | 401.7 | _ | _ |
| Interest received ⁴ | _ | (138.8) | _ | _ | (165.1) | _ |
| | 62.0 | 4.6 | 10.2 | (1,444.9) | 199.4 | 10.0 |
| Non-cash changes | | | | | | |
| Interest accrued/Fees amortised | (562.1) | 155.7 | _ | (434.0) | 162.0 | _ |
| Foreign exchange movement | 124.6 | _ | _ | (102.1) | _ | _ |
| Indexation | (240.1) | _ | _ | (460.9) | _ | _ |
| Unamortised IFRS 9 fair value adjustment | 4.3 | _ | _ | _ | _ | _ |
| Unamortised IFRS 9 transition adjustment | 0.7 | _ | _ | 0.7 | _ | _ |
| Fair value changes | _ | 34.8 | _ | _ | 245.5 | _ |
| Lease additions | _ | _ | (3.1) | _ | _ | (2.3) |
| Interest accrued for IFRS 16 leases | _ | _ | (3.1) | - | _ | (1.4) |
| | (672.6) | 190.5 | (6.2) | (996.3) | 407.5 | (3.7) |
| Closing balance | (16,348.5) | (1,347.6) | (53.0) | (15,737.9) | (1,542.7) | (57.0) |
| Non-current | (14,145.8) | (1,135.2) | (45.2) | (13,457.4) | (1,507.5) | (49.7) |
| Current | (2,202.7) | (212.4) | (7.8) | (2,280.5) | (35.2) | (7.3) |

- 1 Proceeds from derivative settlement of £28.4 million (2023: £48.1 million) includes £nil (2023: £18.9 million) relating to accretion received on index-linked swaps and £28.4 million (2023: £29.2 million) relating to settlement of cross currency swaps.
- 2 Payment for derivative settlement of £171.8 million (2023: £412.6 million) includes £152.0 million (2023: £408.4 million) relating to accretion paydown on index-linked swaps and £19.8 million (2023: £4.2 million) relating to settlement of cross currency swaps.
- 3 Interest paid on borrowings of £492.6 million (2023: £401.7 million) includes £159.4 million of capitalised borrowing costs (2023: £215.2 million) and excludes £0.2 million of bank charges (2023: £0.3 million) and £0.2 million other interest expense (2023: £nil), resulting in interest paid per the consolidated statement of cash flows of £333.6 million (2023: £186.8 million).
- 4 Interest received on net derivative financial liabilities of £138.8 million (2023: £165.1 million) excludes £nil interest received on an intercompany loan with the Group's immediate parent company TWUHL (2023: £55.7 million), £51.0 million interest received on bank deposits (2023: £7.8 million) and £0.7 million other interest income (2023: £1.0 million), resulting in interest received per the consolidated statement of cash flows of £190.5 million (2023: £229.6 million).

Financial risk management

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

Market risk

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

| As at 31 March 2024: | Total at fixed rates | Total at floating rates | Total at RPI linked rates £m | Total £m |
|---------------------------------------|----------------------|-------------------------|------------------------------------|-------------|
| Interest bearing loans and borrowings | | | | |
| Net of corresponding swap assets | | | | |
| £ Sterling | 6,278.7 | 1,399.8 | 9,532.1 | 17,210.6 |
| As at 31 March 2023: | Total at fixed rates | Total at floating rates | Total at RPI linked rates £m | Total £m |
| Interest bearing loans and borrowings | | | | |
| Net of corresponding swap assets | | | | |
| £ Sterling | 6,329.4 | 531.1 | 9,503.3 | 16,363.8 |

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

| | interest rat | | period unt | |
|---------------------|--------------|-----------|---------------|---------------|
| Year ended 31 March | 2024 % | 2023 % | 2024 Years | 2023 Years |
| Fixed | 5.1 | 4.0 | 11.4 | 9.0 |
| Index-linked | 6.8 | 13.4 | 15.6 | 15.6 |

The assumptions used for interest rate, exchange rate and inflation risk sensitivity analysis is included on relevant sections below. The assumptions are based on reasonably possibles changes and their impact on financial instruments held at the reporting date. This does not represent the actual impact which will depend on actual future changes on external market variables.

Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 143.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2024. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

| | 2024 | 2024 | 2023 | 2023 |
|----------------|-------|---------|-------|---------|
| | +1% | -1% | +1% | -1% |
| As at 31 March | £m | £m | £m | £m |
| Profit/(loss) | 333.6 | (364.4) | 447.6 | (501.3) |
| Equity | 333.6 | (364.4) | 447.6 | (501.3) |

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements







Notes to the consolidated financial statements continued

20. Financial instruments continued

Exchange rate sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2024. This analysis assumes that all other variables in the valuation remain constant.

| | 2024 | 2024 | 2023 ¹ | 2023 ¹ |
|----------------|------|--------|-------------------|-------------------|
| | +10% | -10% | +10% | -10% |
| As at 31 March | £m | £m | £m | £m |
| Profit/(loss) | 6.6 | (50.7) | (1.0) | (59.3) |
| Equity | 6.6 | (50.7) | (1.0) | (59.3) |

¹ Values have been amended from the published 2023 report, to present a corrected calculation.

Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates on financial instruments at 31 March 2024. This analysis assumes that all other variables, in particular exchange rates, remain constant.

| | 2024 | 2024 | 2023 | 2023 |
|----------------|---------|-------|---------|-------|
| | +1% | -1% | +1% | -1% |
| As at 31 March | £m | £m | £m | £m |
| (Loss)/profit | (549.1) | 488.1 | (756.6) | 660.6 |
| Equity | (549.1) | 488.1 | (756.6) | 660.6 |

The Group has entered into swaps which are measured at fair value including the impact of credit risk as per IFRS 13. An increase of 10% on credit spreads for the valuation of swaps will result in £32.4 million increase in profit and a decrease of 10% on credit spreads for the valuation of swaps will result in £34.4 million decrease in profit. This analysis assumes that all other variables will remain same.

Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, contract assets, its loan to its immediate parent entity TWUHL, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. For household customers, due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets and contract assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2024, no collateral was held (2023: nil).

The following table summarises amounts held as cash at bank and in hand, in money market funds and short-term investments by credit rating of counterparties.

| As at 31 March | 2024 £m | 2023 £m |
|----------------|------------|------------|
| AAA | 1,266.2 | 1,226.2 |
| A+ | 15.0 | 230.0 |
| A | _ | 380.1 |
| Total | 1,281.2 | 1.836.3 |

Note: funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

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

| As at 31 March | 2024 £m | 2023 £m |
|----------------|------------|------------|
| AA- | 57.4 | 72.6 |
| A+ | 301.8 | 339.7 |
| A | 29.1 | 36.8 |
| Total | 388.3 | 449.1 |

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings are disclosed in note 19.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

| | 2024 | 2023 |
|------------------------------|------------|------------|
| As at 31 March | £m | £m |
| Within one year ¹ | (1,960.2) | (2,097.8) |
| Between one and two years | (557.1) | (675.9) |
| Between two and three years | (535.2) | (754.5) |
| Between three and four years | (1,785.8) | (697.4) |
| Between four and five years | (730.5) | (1,743.9) |
| After more than five years | (10,537.2) | (9,585.7) |
| Total | (16,106.0) | (15,555.2) |

^{1 £1,355.7} million (2023: £370.7 million) out of the £1,960.2 million due within one year (2023: £2,097.8 million) relates to revolving credit facility drawdowns that can be rolled over. Refer to Note 28 Post balance sheet events for information on revolving credit facility drawdowns post year end.







Notes to the consolidated financial statements continued

20. Financial instruments continued

Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

| As at 31 March Undiscounted amounts payable | 2024 £m | 2023 £m |
|--|------------|------------|
| Within one year ¹ | (3,445.8) | (3,426.8) |
| Between one and two years | (1,148.8) | (1,164.9) |
| Between two and three years | (1,051.4) | (1,415.7) |
| Between three and four years | (2,326.9) | (944.3) |
| Between four and five years | (1,203.4) | (2,167.4) |
| After more than five years | (21,366.7) | (21,210.0) |
| Total | (30,543.0) | (30,329.1) |

^{1 £1,355.7} million (2023: £370.7 million) out of the £3,445.8 million due within one year (2023: £3,426.8 million) relates to revolving credit facility drawdowns that can be rolled over. Refer to Note 28 Post balance sheet events for information on revolving credit facility drawdowns post year end.

Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

| As at 31 March Undiscounted amounts payable | 2024 £m | 2023 £m |
|--|------------|------------|
| Within one year | (142.9) | 144.4 |
| Between one and two years | 77.5 | (199.5) |
| Between two and three years | 124.8 | 110.9 |
| Between three and four years | (2.0) | 160.5 |
| Between four and five years | (295.3) | 30.5 |
| After more than five years | (2,455.6) | (2,780.0) |
| Total | (2,693.5) | (2,533.2) |

Cash flow hedges

The Group had designated a number of contracts which qualified, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 118.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2024, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the life of the relevant hedging period.

During the year, £18.7 million (2023: £21.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 109. The amount recycled of £18.7 million related to the phased release of cash flow hedge reserve where the related debt has been issued and has not matured.

The Group's cash flow hedge reserve disclosed on the 'Statement of changes in equity' on page 109 relate to forward starting interest rate swaps which have commenced.

| Cash flow hedge reserve | £m |
|---|--------|
| At 1 April 2022 | (33.2) |
| Cash flow hedge transferred to income statement | 21.1 |
| Deferred tax charge on cash flow hedges | (4.0) |
| At 31 March 2023 | (16.1) |
| Cash flow hedge transferred to income statement | 18.7 |
| Deferred tax charge on cash flow hedges | (4.7) |
| At 31 March 2024 | (2.1) |

As at 31 March 2024, £2.1 million remained on the cash flow hedge reserve (2023: £16.1 million), including £2.8 million representing phasing of amounts to be reclassified to the income statement from the cash flow hedge reserve relating to the Group's forward starting interest rate swaps which have commenced (2023: £21.5 million), offset by £0.7 million relating to deferred tax on the cash flow hedge reserve (2023: £5.4 million).

The following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

| As at 31 March Quantitative | 2024 £m | 2023 £m |
|--|--------------|--------------|
| Cash flow hedge transferred to income statement | 18.7 | 21.1 |
| As at 31 March Qualitative | 2024 | 2023 |
| Line item affected in income statement due to reclassification | Net gains on | Net gains/ |
| | financial | (losses) |
| | instruments | On financial |
| | | instruments |

The table below shows phasing of amounts to be reclassified to the income statement from the cash flow hedge reserve excluding the impact of the deferred tax charge on the cash flow hedge, which relates to the Group's forward starting interest rate swaps which have commenced:

| | 2024 | 2023 |
|------------------------------|-------|--------|
| As at 31 March | £m | £m |
| Interest rate swaps | | |
| Within one year | (2.8) | (18.7) |
| Between one and two years | _ | (2.8) |
| Between two and three years | _ | - |
| Between three and four years | - | _ |
| Between four and five years | _ | _ |
| After more than five years | _ | - |
| Total | (2.8) | (21.5) |
| | | |

Financial statements Thames Water Annual Report 2023/24 Strategic report Governance

Effects of offsetting on the Consolidated statement of financial position







Notes to the consolidated financial statements continued

20. Financial instruments continued

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2024 and 31 March 2023. The column 'net amount' shows the impact on the consolidated statement of financial position if circumstances arose for set-off rights to be applied.

| As at 31 March 2024 | Gross amounts £m | Amounts set off £m | Net amounts presented on consolidated statement of financial position £m | Impact of master netting arrangements £m | Net amounts £m |
|----------------------------------|------------------------|--------------------------|--|---|----------------------|
| Financial assets | | | | | |
| Derivative financial instruments | 388.3 | _ | 388.3 | (298.7) | 89.6 |
| | 388.3 | _ | 388.3 | (298.7) | 89.6 |
| Financial liabilities | | | | | |
| Derivative financial instruments | (1,735.9) | _ | (1,735.9) | 298.7 | (1,437.2) |
| | (1,735.9) | _ | (1,735.9) | 298.7 | (1,437.2) |
| Total | (1,347.6) | _ | (1,347.6) | _ | (1,347.6) |
| As at 31 March 2023 | Gross amounts £m | Amounts set off £m | Net amounts presented on consolidated statement of financial position £m | Impact of master netting arrangements £m | Net amounts £m |
| Financial assets | | | | | |
| Derivative financial instruments | 449.1 | _ | 449.1 | (301.9) | 147.2 |
| | 449.1 | _ | 449.1 | (301.9) | 147.2 |
| Financial liabilities | | | | | |
| Derivative financial instruments | (1,991.8) | _ | (1,991.8) | 301.9 | (1,689.9) |
| | (1,991.8) | _ | (1,991.8) | 301.9 | (1,689.9) |
| Total | (1,542.7) | _ | (1,542.7) | - | (1.542.7) |

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 31 March 2024 and 31 March 2023 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

| | Carrying value at | Carrying value at 31 March 2024 | | ch: Isition to an mark interest Iarch 2024 |
|---|-------------------|---------------------------------|--------------|---|
| | Assets £m | Liαbilities £m | Assets £m | Liαbilities £m |
| Assets and liabilities exposed to GBP LIBOR | | | | |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | | | | |
| Index-linked swaps ¹ | _ | (98.3) | _ | (98.3) |
| Amortised cost | | | | |
| Borrowings ² | _ | (168.2) | _ | (168.2) |
| Total assets and liabilities exposed to GBP LIBOR | _ | (266.5) | _ | (266.5) |

- 1 Consists of £98.3 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
- 2 Consists of £168.2 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The facility was amended in April 2024 to remove

| | Carrying value at 3 | Carrying value at 31 March 2023 | | ch: nsition to an nmark interest March 2023 |
|---|---------------------|---------------------------------|--------------|--|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Assets and liabilities exposed to GBP LIBOR | | | | |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | | | | |
| Index-linked swaps ¹ | _ | (111.4) | _ | (111.4) |
| Amortised cost | | | | |
| Borrowings ² | _ | (993.9) | _ | (993.9) |
| Total assets and liabilities exposed to GBP LIBOR | _ | (1,105.3) | _ | (1,105.3) |

- 1 Consists of £111.4 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
 2 Consists of £993.9 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation.







Notes to the consolidated financial statements continued

21. Deferred tax

An analysis of movements in the deferred tax liabilities and assets recognised by the Group is set out below:

| | Accelerated tax depreciation £m | Retirement benefits £m | Cash flow hedges £m | Tax losses carried forward £m | Other £m | Total £m |
|---|---------------------------------|------------------------------|---------------------------|-------------------------------------|-------------|-------------|
| At 1 April 2022 | (1,518.9) | 60.1 | 393.3 | _ | 19.1 | (1,046.4) |
| Credit/(charge) to income statement including impact of tax | | | | | | |
| rate change | 56.1 | 0.1 | (206.6) | 31.7 | (4.3) | (123.0) |
| Charge to other comprehensive income | _ | (16.8) | (4.0) | _ | - | (20.8) |
| At 31 March 2023 | (1,462.8) | 43.4 | 182.7 | 31.7 | 14.8 | (1,190.2) |
| Credit/(charge) to income statement | 56.5 | (11.0) | (112.4) | (31.7) | 4.0 | (94.6) |
| Charge to other comprehensive income | _ | (5.9) | (4.7) | _ | - | (10.6) |
| At 31 March 2024 | (1,406.3) | 26.5 | 65.6 | _ | 18.8 | (1,295.4) |

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group.

Deferred tax assets and liabilities have been offset in the statement of financial position. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

| | 2024 | 2023 |
|------------------------------|-----------|-----------|
| As at 31 March | £m | £m |
| Deferred tax assets | 110.9 | 272.6 |
| Deferred tax liabilities | (1,406.3) | (1,462.8) |
| Net deferred tax liabilities | (1,295.4) | (1,190.2) |

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of the Group's capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences normally increase every year. This year, capital allowances claimed are less than accounting depreciation so the deferred tax liability arising in respect of accelerated tax depreciation has reduced.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is recognised on the retirement benefit obligations booked in the financial statements. The £26.5 million deferred tax asset at 31 March 2024 is the net of an asset of £38.0 million (deficit on the TWPS pension scheme of £152.1 million at 25% tax rate) less a liability of £11.5 million (surplus on the TWMIPS pension scheme of £33.0 million at 35% tax rate). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- Cash flow hedges: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Tax losses carried forward: The Group had expected to have surplus tax losses for the prior year as at 31 March 2023 but these have now been sold as group relief for which payment has been received at the standard corporation tax rate for the prior year.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

In the Spring Budget 2024, the Government announced that from 6 April 2024, the tax rate applicable to a pension fund surplus, such as on the TWMIPS scheme, will decrease from 35% to 25%. Since the proposal to decrease the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change for the Group, had it been substantively enacted by the balance sheet date, would be to decrease the net deferred tax liability by £3.3 million; the tax expense for the period would reduce by £1.4 million and the tax charge in Other Comprehensive Income would reduce by £1.9 million.

22. Provisions for liabilities and charges

| A+ 1 April 2022 | Insured liabilities £m 75.9 | infrastructure provision £m | Dilapidations £m | environmental and legal provisions £m | Other provisions £m | Total £m |
|----------------------------------|--------------------------------------|-----------------------------|---------------------|---------------------------------------|---------------------|-------------|
| At 1 April 2022 | | | | | | |
| Utilised during the period | (14.7) | (4.6) | (0.6) | (0.1) | (17.2) | (37.2) |
| Additional provisions recognised | 39.1 | 3.6 | 0.8 | 25.2 | 29.1 | 97.8 |
| Unused amounts reversed | (2.8) | _ | _ | _ | (15.1) | (17.9) |
| At 31 March 2023 | 97.5 | 12.7 | 11.5 | 78.7 | 27.3 | 227.7 |
| Utilised during the period | (29.0) | (2.8) | (0.3) | (4.0) | (21.8) | (57.9) |
| Additional provisions recognised | 41.5 | 9.7 | 0.6 | 29.1 | 43.1 | 124.0 |
| Unused amounts reversed | _ | _ | (1.3) | (9.3) | (8.5) | (19.1) |
| At 31 March 2024 | 110.0 | 19.6 | 10.5 | 94.5 | 40.1 | 274.7 |
| | | Capital | | Environmental | | |

| | Insured liabilities £m | Capital infrastructure provision £m | Dilapidations £m | Environmental and legal provisions £m | Other provisions £m | Total £m |
|--|------------------------------|-------------------------------------|---------------------|--|---------------------------|-------------|
| Disclosed within non-current liabilities | 74.0 | 19.6 | 10.5 | 94.5 | 11.0 | 209.6 |
| Disclosed within current liabilities | 36.0 | _ | _ | _ | 29.1 | 65.1 |
| Total at 31 March 2024 | 110.0 | 19.6 | 10.5 | 94.5 | 40.1 | 274.7 |

The insured liabilities provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 16. The provision is split between current and non current based on management's estimate of the timing in which claims will be settled.

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. The Group considers it appropriate to classify these as non-current as management do not consider it likely that these will settle in the next 12 months.

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our outsourced property advisor. During the year one additional site has been included, one lease was extended and the provisions for three sites were utilised as the leases were terminated in the current financial year.

Environmental and legal provisions relate to legal claims including environmental and commercial matters. Environmental matters are in relation to the Company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016.

Other provisions relate to other claims and regulatory obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations. Unused amounts reversed relate to previously recognised provisions which were reassessed during the year and it was concluded there is no longer an obligation for these.





Notes to the consolidated financial statements continued

22. Provisions for liabilities and charges continued

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. Contingent liabilities identified have been disclosed in note 26. The timing of the settlement of provisions has been estimated based on the nature of the provision and informed by both timelines set and historical benchmarks. Amounts have been classified between current and non-current.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is a risk that the final outcome of legal claims could be materially different to amounts provided. Further details can be found within our accounting policies under our significant accounting judgements and key sources of estimation uncertainty.

23. Called up share capital and other reserves Called up share capital

| Called up share capital | | 2024 | | | 2024 2023 | | | 2023 | |
|---|------------------|-----------|-------------|------------------|------------------|-------------|--|------|--|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m | | | |
| Authorised, allotted, called up and fully paid: | | | | | | | | | |
| 76,550,000 ordinary shares of £1 each | | | | | | | | | |
| (2023: 29,050,000 ordinary shares of £1 each) | 76.5 | _ | 76.5 | 29.0 | _ | 29.0 | | | |

The Company has one class of ordinary share which carries 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.

During the year ended 31 March 2024, two internal inflation mechanism pension contribution payments were made totalling £47.5 million for the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme, by KWE, an intermediate parent of the company, on behalf of TWUL. Payments were recorded through intercompany transactions with a resultant intercompany payable balance in TWUL owed to its immediate parent, TWUHL. As a result, during the year, TWUL issued 47.5 million shares with a nominal value of £1 each to TWUHL, in exchange for the extinguishment of the intercompany payable owed to TWUHL, for a total value of £47.5 million.

Other reserves

| | | 2024 | | | 2023 | | |
|-------------------------|------------------|-----------|-------------|------------------|-----------|-------------|--|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m | |
| Share premium | 100.0 | _ | 100.0 | 100.0 | _ | 100.0 | |
| Cash flow hedge reserve | (2.1) | _ | (2.1) | (16.1) | _ | (16.1) | |
| Revaluation reserve | 770.9 | _ | 770.9 | 795.5 | _ | 795.5 | |
| Retained earnings | 356.2 | 477.7 | 833.9 | 526.4 | 390.3 | 916.7 | |
| Total | 1,225.0 | 477.7 | 1,702.7 | 1,405.8 | 390.3 | 1,796.1 | |

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS in the FY2015/16 period, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

24. Retirement benefit obligations

Background

The Group operates two defined benefit pension schemes and one defined contribution pension scheme.

Defined Contribution Scheme

This scheme was set up in April 2011 and was managed through Standard Life. From October 2020, this is managed through Aon MasterTrust. This scheme is open to all employees of the Company that are not members of the defined benefit pension schemes.

Defined Benefit Schemes Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit pension schemes:

- Thames Water Pension Scheme ("TWPS"): and
- Thames Water Mirror Image Pension Scheme ("TWMIPS").

Both are now career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the pension trustees. TWMIPS has been closed to new entrants since 1989 and TWPS since April 2011. Both schemes are closed to new employees. TWPS was closed to future accrual as of 31 March 2021. In a defined contribution pension scheme, the benefits are linked to:

contributions paid:

What are they?

- the performance of the individual's chosen investments:
- the form of benefits.

How do they impact the financial statements?

financial position.

A charge of £33.9 million (2023: £28.7 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £4.4 million of outstanding contributions (2023: £0.1 million) at the year-end recognised in the statement of

The Group has no exposure to investment or other experience risks.

In a defined benefit pension scheme, the benefits:

- are defined by the scheme rules;
- depend on a number of factors including age, years of service and pensionable pay; and
- do not depend on contributions made by the members or the Company.

A charge was recognised in the income statement of £10.5 million (2023: £9.8 million) relating to the following:

- service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period:
- administrative expenses for the pension schemes; and
- the net interest expense on pension scheme assets and liabilities.

An actuarial gain of £18.9 million (2023: £69.4 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic assumptions when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense.

A pension asset of £33.0 million (2023: £6.0 million surplus) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £152.1 million (2023: £182.0 million) is recognised in the statement of financial position for the TWPS scheme. As at 31 March 2024, the net pension deficit is £119.1 million (2023: £176.0 million).

Company contributions of £48.5 million (2023: £9.2 million) were made during the year ended 31 March 2024. £47.5 million of these contributions were paid by Kemble Water Eurobond plc on Thames Water Utilities Limited's behalf, refer to note 23 for further detail.

The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements







Notes to the consolidated financial statements continued

24. Retirement benefit obligations continued

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2024 these related payments amounted to £nil (2023: £nil).

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the trustees of the pension schemes and the Group. The purpose of this triennial valuation is to evaluate and, if necessary, modify the funding plans of the pension schemes so that the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation was carried out as at 31 March 2019 for TWPS, and at 31 March 2022 for TWMIPS on behalf of the pension trustees by David Gardiner of Aon, the actuary of the schemes. The 2019 valuation resulted in a combined funding deficit across the two schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million). The triennial valuation as at 31 March 2022 for TWMIPS was signed off by the Scheme Actuary in March 2024, with the market value of the assets being £699.1m and a funding deficit of £30.3m. Discussions are continuing with the Trustee and the Pension Regulator to complete the triennial valuation for TWPS as at 31 March 2022, which is now significantly overdue.

This triennial funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2019 to 31 March 2024. The 2019 funding valuation had been updated to an accounting valuation as at 31 March 2024 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 Employee Benefits and shown in this note to the financial statements.

Amounts recognised in the financial statements in respect of the defined benefit pension schemes **Income Statement**

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

| | 2024 | | 2023 | |
|--------------------------------|------------|--------------|--------------------|----------------------|
| Year ended | TWPS £m | TWMIPS £m | TWPS <u>£</u> m | TWMIPS <u>£</u> m |
| Current service cost | _ | 0.7 | _ | 1.6 |
| Scheme administration expenses | 0.5 | 1.7 | _ | 1.5 |
| Net interest cost/(income) | 8.2 | (0.6) | 7.0 | (0.3) |
| Total | 8.7 | 1.8 | 7.0 | 2.8 |

The net expense is recognised in the following captions within the income statement:

| | 2024 | | 2023 | |
|------------------------------|------------|--------------|------------|--------------|
| Year ended | TWPS £m | TWMIPS £m | TWPS £m | TWMIPS £m |
| Operating expenses | 0.5 | 2.4 | _ | 3.1 |
| Net finance expense/(income) | 8.2 | (0.6) | 7.0 | (0.3) |
| Total | 8.7 | 1.8 | 7.0 | 2.8 |

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

| As at 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Actual return less expected return on pension scheme assets | (103.6) | (629.1) |
| Experience gain/(loss) arising on scheme liabilities | 78.5 | (84.4) |
| Gain arising due to change in financial assumptions | 24.5 | 750.0 |
| Gain arising due to change in demographic assumptions | 19.5 | 32.9 |
| Total actuarial gain | 18.9 | 69.4 |
| Cumulative actuarial losses recognised | (419.5) | (438.4) |

Statement of financial position

The net pension liability recognised within the statement of financial position is as follows:

| | | 2024 2023 | | | 2023 | !3 | |
|--|------------|------------------|-------------|--------------------|--------------|-------------|--|
| As at 31 March | TWPS £m | TWMIPS £m | Total £m | TWPS <u>£</u> m | TWMIPS £m | Total £m | |
| Fair value of scheme assets | 1,094.4 | 522.6 | 1,617.0 | 1,145.5 | 538.1 | 1,683.6 | |
| Present value of defined benefit obligations | (1,246.5) | (489.6) | (1,736.1) | (1,327.5) | (532.1) | (1,859.6) | |
| (Deficit)/surplus | (152.1) | 33.0 | (119.1) | (182.0) | 6.0 | (176.0) | |
| Net pension deficit | | | (119.1) | | | (176.0) | |

Reconciliation of defined benefit plan assets and liabilities

The movements in the present value of the defined benefit obligations were as follows:

| | 2024 | | 2023 | |
|----------------------|------------|--------------|------------|--------------|
| | TWPS £m | TWMIPS £m | TWPS £m | TWMIPS £m |
| At 1 April | 1,327.5 | 532.1 | 1,897.4 | 686.7 |
| Current service cost | _ | 0.7 | _ | 1.6 |
| Interest cost | 62.4 | 24.7 | 52.3 | 18.4 |
| Benefits paid | (53.2) | (35.6) | (59.1) | (39.2) |
| Actuarial gains | (90.2) | (32.3) | (563.1) | (135.4) |
| At 31 March | 1,246.5 | 489.6 | 1,327.5 | 532.1 |

The movements in the fair value of scheme assets were as follows:

| | 2024 | | 2023 | |
|--|------------|--------------|------------|--------------|
| | TWPS £m | TWMIPS £m | TWPS £m | TWMIPS £m |
| At 1 April | 1,145.5 | 538.1 | 1,640.1 | 698.7 |
| Interest income on scheme assets | 54.2 | 25.3 | 45.3 | 18.7 |
| Contributions by sponsoring employers | 32.3 | 16.2 | 7.1 | 2.6 |
| Administration costs paid from scheme assets | (0.5) | (1.7) | _ | (1.5) |
| Benefits paid | (53.2) | (35.6) | (59.1) | (39.2) |
| Actuarial losses | (83.9) | (19.7) | (487.9) | (141.2) |
| At 31 March | 1,094.4 | 522.6 | 1,145.5 | 538.1 |







Notes to the consolidated financial statements continued

24. Retirement benefit obligations continued Analysis of assets

| | | 2024 | ı | | 2023 | | | | | |
|-------------------------------|--------------|----------------|-------------|-------------|--------------|----------------|-------------|-------------|--|--|
| As at 31 March | Quoted £m | Unquoted £m | Total £m | Total (% | Quoted £m | Unquoted £m | Total £m | Total (% | | |
| Equities | £III | £III | £III | (70 | £III | £III | £III | (70 | | |
| UK | 12.7 | | 12.7 | 0.8 | 16.6 | | 16.6 | 1.0 | | |
| | | _ | | | | _ | | | | |
| Rest of World | 95.9 | _ | 95.9 | 5.9 | 103.0 | _ | 103.0 | 6.1 | | |
| Bonds | | | | | | | | | | |
| Government – UK | 44.7 | _ | 44.7 | 2.8 | 52.7 | _ | 52.7 | 3.1 | | |
| Government – Rest of World | 110.8 | _ | 110.8 | 6.9 | 100.6 | _ | 100.6 | 6.0 | | |
| Corporates – UK | 43.7 | _ | 43.7 | 2.7 | 45.7 | _ | 45.7 | 2.7 | | |
| Corporates – Rest of World | 214.6 | 39.1 | 253.7 | 15.7 | 236.2 | 9.8 | 246.0 | 14.7 | | |
| Property | | | | | | | | | | |
| UK | _ | _ | _ | _ | _ | _ | _ | _ | | |
| Rest of world | _ | _ | _ | _ | _ | _ | _ | _ | | |
| Alternative assets | | | | | | | | | | |
| Liability driven instruments | 840.5 | _ | 840.5 | 52.0 | 914.9 | _ | 914.9 | 54.3 | | |
| Other (including derivatives) | 113.4 | (8.0) | 112.6 | 6.9 | 150.6 | _ | 150.6 | 8.9 | | |
| Cash | 87.0 | _ | 87.0 | 5.4 | 53.5 | _ | 53.5 | 3.2 | | |
| Other | 15.4 | _ | 15.4 | 0.9 | - | _ | - | _ | | |
| Total market value of assets | 1,578.7 | 38.3 | 1,617.0 | 100.0 | 1,673.8 | 9.8 | 1,683.6 | 100.0 | | |

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Redington. 52.0% (2023: 54.3%) of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

In the current period, Index Linked Gilts amount to £292.1 million (2023: £345.2 million) and Fixed Interest Gilts amount to £985.9 million (2023: £1,221.5 million) of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

IAS 19 Assumptions

The approach used to set the IAS 19 assumptions is detailed below:

| | Approach to set the assumptions |
|-------------------|--|
| Discount rate | As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2024. |
| RPI inflation | The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS with an adjustment made for an inflation risk premium. |
| CPI inflation | This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected. |
| Salary increases | Both defined benefit schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required. |
| Pension increases | It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits. |
| Longevity | The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates. |

Financial assumptions

The main assumptions used by the actuaries in the valuation of these schemes are as follows:

| | | 2024 | | |
|---|-------|--------|-------|--------|
| As at 31 March | TWPS | TWMIPS | TWPS | TWMIPS |
| Price inflation – RPI | 3.20% | 3.30% | 3.25% | 3.30 % |
| Price inflation – CPI (Pre 2030) | 1.00% | 1.00% | 1.00% | 1.00 % |
| Price inflation – CPI (Post 2030) | 0.10% | 0.10% | 0.10% | 0.10% |
| Rate of increase to pensions in payment – RPI | 3.20% | 3.30% | 3.25% | 3.30% |
| Rate of increase to pensions in payment – CPI (Pre 2030) | 1.00% | 1.00% | 1.00% | 1.00% |
| Rate of increase to pensions in payment – CPI (Post 2030) | 0.10% | 0.10% | 0.10% | 0.10% |
| Discount rate | 4.85% | 4.85% | 4.80% | 4.80% |

Mortality assumptions

The mortality assumptions were based on the post retirement mortality assumptions used for the previous financial year, but updated for the latest CMI 2020 model. The table below illustrates the life expectancies of an average member retiring at age 60 at the year-end reporting data and a member reaching age 60 at the year-end reporting date in 20 years.

| | 2024 | | 2023 | |
|---|---------------|-----------------|---------------|-----------------|
| As at 31 March | TWPS Years | TWMIPS Years | TWPS Years | TWMIPS Years |
| Life expectancy from age 60 – current age 60: | | | | |
| Male | 26.7 | 25.8 | 27.3 | 26.4 |
| Female | 29.2 | 28.3 | 29.6 | 28.8 |
| Life expectancy from age 60 – current age 40: | | | | |
| Male | 27.7 | 27.0 | 27.9 | 27.6 |
| Female | 30.2 | 29.9 | 30.7 | 30.0 |







Notes to the consolidated financial statements continued

24. Retirement benefit obligations continued

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, discount rate risk, inflation risk and longevity risk.

| | Definition of risk |
|--------------------|---|
| Investment risk | Assumptions are made about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long-term then additional contributions will need to be made to the schemes in order to fund the payment of future benefits. |
| Discount rate risk | A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings. |
| Inflation risk | The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. Additionally, the Company's contributions to the schemes are based on assumptions about the future levels of inflation, therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit. |
| Longevity risk | An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities. |

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below. The impact of the 1% in the other direction would largely be the same, in the opposite direction, as the movement presented in the table.

| | 2024 | | 2023 | | |
|---|------------|--------------|------------|----------------------|--|
| As at 31 March | TWPS £m | TWMIPS £m | TWPS £m | TWMIPS £ m | |
| Change in assumptions resulting in a (decrease)/increase in liabilities | | | | | |
| Change in discount rate (+ 1% p.a.) | (160.0) | (45.0) | (210.0) | (50.0) | |
| Change in rate of inflation (- 1% p.a.) | (100.0) | (30.0) | (135.0) | (30.0) | |
| Change in life expectancy (+ 1 year) | 45.0 | 15.0 | 55.0 | 20.0 | |

Future expected cash flows

The Group made a pension deficit repair payment of \pounds 69.7 million on 30 March 2021 covering the financial periods from 2021/22 to 2024/25, which was treated as an exceptional cash flow in the year ended 31 March 2021. The average duration of the benefit obligation at the end of the year is 14 years for TWPS and 10 years for TWMIPS (2023: 15 years for TWPS and 10 years for TWMIPS).

In March 2024, the triennial valuation of TWMIPS as at 31 March 2022 was finalised and agreed with the Trustees and actuaries.

In order to address the combined funding deficit, the Group is scheduled to make future deficit repair payments in line with the table below:

| Year to 31 March | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---------------------------|------|------|------|------|------|------|------|
| Deficit contribution (£m) | 69.7 | _ | _ | 7.3 | 31.4 | 33.8 | 32.9 |

The figures in the table above include TWPS contributions which allow for an estimate of RPI increases.

25. Capital commitments

| | 2024 | 2023 |
|---------------------------------------|-------|-------|
| As at 31 March | £m | £m |
| Property, plant and equipment | 901.6 | 826.2 |
| Intangible assets | 9.9 | 10.8 |
| Total contracted for but not provided | 911.5 | 837.0 |

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth of the infrastructure network. Capital commitments have increased during the year due to more investment being made in our infrastructure to help mitigate the challenge of ensuring resilience in our network from the impact of climate change and population growth.

26. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either possible but not probable or probable and cannot be measured reliably.

1. Claims under the Environmental Information Regulations 2004 regarding property searches

Group is currently defending five related sets of court proceedings commenced by different groups of Property Search Companies ("PSCs") seeking refunds of fees paid for property search data, including CON29DW and Commercial DW searches, from 18 December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004 ("EIR"), free of charge or for a smaller fee. The position is replicated across other Water & Sewerage Companies in England and the litigation is in progress. A process for determining the claim has been set by the court. A stage 1 trial on the Environmental Information Regulations legal issues only (not other issues or amount of damages) concluded in December 2023. The stage 1 judgment was handed down on 28 June 2024. The judgment is largely favourable to the WASCs, with the Judge determining that the EIR regime does not govern orders for the CON29DW reports. Next steps are still to be determined and depend upon whether the PSCs will apply for permission to appeal the judgment.

These claims are considered still at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of the Group.

2. Ofwat Regulatory Investigations

Ofwat's regulatory enforcement powers include the potential imposition of an enforcement order, the acceptance of enforceable undertakings and/or the imposition of a financial penalty on the company of up to 10% of annual turnover of the relevant regulated business.

a. Wastewater Business: Investigation into the operation of TWUL sewerage treatment works

Thames Water Utilities Limited ("TWUL") is subject to an ongoing investigation by Ofwat concerning alleged non-compliance with legal obligations concerning the operation of its sewerage treatment works. TWUL is currently one of six sewerage companies under investigation.

On 11 December 2023 Ofwat informed TWUL of its provisional findings, that TWUL has contravened Condition P of TWUL's Instrument of Appointment, section 94 of the Water Industry Act 1991, and Regulation 4 and Schedule 2 of the Urban Waste Water Treatment Regulations 1994. In light of these findings Ofwat has provisionally proposed a financial penalty on TWUL, and has also proposed to issue a draft enforcement order. TWUL has formally responded to these findings, and these findings are without prejudice to any further representations TWUL may make to Ofwat. The Ofwat Board has not yet confirmed its provisional findings, nor has it yet decided to issue a penalty notice under section 22A of the Water Industry Act.







Notes to the consolidated financial statements continued

26. Contingent liabilities continued

TWUL continues to engage with Ofwat in relation to this investigation. TWUL is, on a without prejudice basis, exploring the possibility of settling the investigation with a package of undertakings in lieu of the enforcement order ("Undertakings"). Consequently, the outcome of the investigation and the existence of any possible future financial obligations, or other consequences is not yet conclusive at this time.

b. October 2023 Dividend

In October 2023, Thames Water Utilities Limited ("TWUL") paid interim dividends of £37.5 million to its immediate parent Thames Water Utilities Holdings Limited and informed Ofwat accordingly at that time. As requested by Ofwat, TWUL subsequently provided further information on this matter and the basis on which this decision was made by its board (the "Board").

On 10 May 2024, a draft 'minded to' letter was received stating that Ofwat has preliminarily found evidence of a potential breach of condition P(30) by TWUL of its licence. In particular, the draft 'minded to' letter alleges that: (i) TWUL has not satisfied Ofwat that it has a dividend policy which has been approved by the Board and which complies with the principles contained in Condition P30; and (ii) the Board gave insufficient weight to how the dividend payment could be justified given the company's performance, including and beyond headline Performance Commitments performance, as it is required to do so under condition P(30).

In order to remedy the alleged breach, the letter contains a draft proposal to impose: (i) an enforcement order directing TWUL's compliance with condition P(30) of the Licence (pursuant to section 18 Water Industry Act 1991); and (ii) a penalty which, in line with the provisions in section 22A of the Water Industry Act 1991, would not exceed 10% of TWUL's relevant turnover for the preceding financial year.

TWUL firmly rejects these allegations, and has responded to the draft 'minded to' letter in full setting out its arguments and evidence for the absence of any such breach. Ofwat is currently considering TWUL's submissions and it is therefore too early to know the outcome of Ofwat's investigation and the extent and content of any enforcement action including financial penalties which may result from it. If Ofwat decides that it is minded to continue with the enforcement case and publishes a draft notice of enforcement, TWUL (and third parties) will be able to make representations and/or objections in relation to the allegations and the proposed enforcement approach at that time and under the statutory consultation process.

c. March 2024 Dividend

Separately, on 24 June 2024, TWUL received a request for information from Ofwat in relation to the March 2024 interim dividend and in particular the Company's decision to approve a dividend for the purpose of surrendering of FY23 tax losses from TWUL. The Company responded to Ofwat's request on 5 July 2024. Ofwat is currently considering TWUL's response and it is therefore too early to know the outcome of Ofwat's enquiries and the extent and content of any enforcement action including financial penalties which may result from it.

3. Environment Agency Wastewater regulatory investigation

The Group is subject to an ongoing investigation by the Environment Agency under the Environmental Permitting (England and Wales) Regulations 2016 into compliance with storm sewerage discharges in line with environmental permits. The Group is providing information requested by the Environment Agency to support with this ongoing investigation. The potential penalty for an environmental offence is a criminal conviction and an unlimited fine (in accordance with the Environmental Offences Sentencing Guidelines). The outcome of the investigation and the existence of any possible future financial obligations, or other consequences, cannot be reliably determined at this time.

4. Collective proceeding in the Competition Appeal Tribunal

The Group is subject to a collective proceedings claim in the Competition Appeal Tribunal alleging a breach of competition law in relation to the historic reporting of pollution incidents. The estimated quantum of damages provided by the claimant is £159m. This is an industry-wide issue and five other defendants have had similar claims made against them. The certification hearing is timetabled to take place in

September 2024 with a further hearing in January 2025. The Group considers the claim to be speculative and as the claim is still at a very early stage, it is not possible to determine merits or whether this would likely have any effect on the financial position of the Group.

5. DWI Draft Enforcement Order

DWI's regulatory enforcement powers include the potential imposition of an enforcement order, the acceptance of enforceable undertakings and/or the imposition of a financial penalty on the company of up to 10% of annual turnover of the relevant regulated business.

On 1 July 2024, the Company was notified by the Drinking Water Inspectorate ("DWI") of its intention to make two final enforcement orders under Section 18 of the Water Industry Act 1991 (the "Act") in relation to alleged contraventions by the Company relating to the physical security of its assets under the Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction 2022, and therefore Section 208 of the Act. The draft orders do not seek to impose any financial penalty on the Company under Section 22A of the Act, although they do include a draft schedule of works that requires the Company to complete certain actions by prescribed dates ranging from 2025 to 2040.

The Company continues to engage with the DWI and has until 1 August 2024 to make representations and/or objections to the proposed enforcement orders, which the DWI is required to consider before making the enforcement orders. The Company is currently assessing the extent to which the works required by the draft enforcement orders during AMP8 are included in its PR24 Business Plan, and if so, the Company will only have an indication of the extent to which the costs of such work will be funded when it has received Ofwat's Draft Determination due on 11 July 2024. Consequently, the outcome of this matter and the existence of any possible future financial consequences of the investigation is not yet conclusive at this time.

Other contingent liabilities include other contractual matters with suppliers incurred in the ordinary course of business, which may result in a liability that could have a material effect on the Group's financial statements. These contractual matters are unquantifiable and subject to significant uncertainties. The Group has considered these contractual matters as contingent liabilities.

27. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- leases not in the scope of IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

28. Post balance sheet events

In April 2024:

- a total of £370.7 million Class B Revolving Credit Facilities were repaid;
- a total of £530.0 million Class A Revolving Credit Facilities due in April 2024 were rolled over and are now due in October 2024;
- a £75.0 million Class B Revolving Credit Facility matured in line with the date on the original agreement;
- Moody's downgraded their Corporate Family Rating to Baa3, their Class A debt rating to Baa2 and their Class B debt rating to Ba3, all with a negative outlook; and
- S&P downgraded their Class A rating to BBB- with negative outlook and their Class B rating to BB with negative outlook.







Notes to the consolidated financial statements continued

28. Post balance sheet events continued

In May 2024:

• £365.8 million was drawn from a Class A Revolving Credit Facility.

In June 2024:

- £725.0 million was drawn from a Class A Revolving Credit Facility;
- £80.0 million was drawn from a Class A loan agreement originally entered into in November 2022; and
- a total of £530.0 million Class A Revolving Credit Facilities due in June 2024 were rolled over and are now due in December 2024.

29. Statement of cash flows

Reconciliation of operating profit to operating cash flows

| | | 2024 | | | 2023 | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|
| Year ended 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| (Loss)/profit for the financial year | (12.0) | 87.4 | 75.4 | (132.3) | 102.2 | (30.1) |
| Less finance income | (276.5) | _ | (276.5) | (223.7) | _ | (223.7) |
| Add finance expense excluding interest on lease liabilities | 666.7 | _ | 666.7 | 698.8 | _ | 698.8 |
| Add interest expense on lease liabilities | 3.1 | _ | 3.1 | 1.4 | _ | 1.4 |
| Add net (gains) on financial instruments | (152.3) | _ | (152.3) | (122.3) | _ | (122.3) |
| Add impairment losses on intercompany loan | 118.9 | _ | 118.9 | _ | _ | _ |
| Add/(less) taxation on profit/(loss) on ordinary activities | | | | | | |
| before taxation | 52.7 | 29.2 | 81.9 | 49.7 | (17.8) | 31.9 |
| Operating profit | 400.6 | 116.6 | 517.2 | 271.6 | 84.4 | 356.0 |
| Depreciation on property, plant and equipment | 655.6 | _ | 655.6 | 637.3 | _ | 637.3 |
| Amortisation of intangible assets | 71.2 | _ | 71.2 | 65.9 | _ | 65.9 |
| Depreciation of right of use asset | 6.7 | _ | 6.7 | 8.8 | _ | 8.8 |
| (Gain)/loss on sale of property, plant and equipment | (22.3) | _ | (22.3) | 3.0 | _ | 3.0 |
| Impairment of property, plant and equipment | 27.0 | _ | 27.0 | 18.2 | _ | 18.2 |
| Impairment of intangible assets | 3.0 | _ | 3.0 | _ | _ | _ |
| Difference between pension charge and cash contribution | 1.9 | _ | 1.9 | (6.6) | _ | (6.6) |
| Increase in inventory | (2.4) | _ | (2.4) | (7.9) | _ | (7.9) |
| Increase in trade and other receivables ¹ | (40.3) | (124.4) | (164.7) | (60.6) | (70.9) | (131.5) |
| (Increase)/decrease in contract assets | (35.0) | (2.3) | (37.3) | (2.6) | 3.3 | 0.7 |
| (Decrease)/increase in trade and other payables | (4.9) | 8.9 | 4.0 | 49.7 | (13.0) | 36.7 |
| Increase/(decrease) in contract liabilities | 136.9 | 0.5 | 137.4 | 94.9 | (2.0) | 92.9 |
| Group relief received | 137.0 | _ | 137.0 | _ | _ | _ |
| Increase in provisions | 47.0 | _ | 47.0 | 42.7 | _ | 42.7 |
| Net cash generated by operating activities ² | 1,382.0 | (0.7) | 1,381.3 | 1,114.4 | 1.8 | 1,116.2 |

¹ Movement in trade and other receivables excludes the movement in group relief receivable/payable; any amounts paid/received in the period are disclosed within "Group relief received".

Movement in net cash and cash equivalents

| Year ended 31 March Note | 2024 £m | 2023 £m |
|--------------------------------|------------|------------|
| Unrestricted cash movement | 9.9 | (8.4) |
| Bank overdraft | (126.7) | _ |
| Movement in money market funds | (565.0) | 1,419.7 |
| Total | (681.8) | 1,411.3 |

30. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'Transactions with associates and the non-appointed business' disclosure in the Annual Performance Report, which will be published on our website following their approval.

Trading transactions

| Year ended 31 March Ultimate parent Kemble Water Holdings Limited Intermediaries between the immediate and ultimate parent Kemble Water Eurobond plc Kemble Water Finance Limited Thames Water Limited Immediate parent Thames Water Utilities Holdings Limited Thames Water Utilities Holdings Limited Thames Water Properties Limited Thames Water Properties Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited Till Services provided Se by the Group Services Property Ada Services provided Services | ervices provided to the Group £'000 | Services provided by the Group £'000 915 35 284 720 | Services provided to the Group £'000 |
|--|-------------------------------------|---|--|
| Kemble Water Holdings Limited Intermediaries between the immediate and ultimate parent Kemble Water Eurobond plc Kemble Water Finance Limited Thames Water Limited Immediate parent Thames Water Utilities Holdings Limited Thames Water Utilities Holdings Limited Thames Water Utilities Holdings Limited Thames Water Properties Limited Thames Water Property Services Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 875 867 868 869 869 869 869 869 869 869 869 869 | - - - - | 35 284 | - - - |
| Intermediaries between the immediate and ultimate parent Kemble Water Eurobond plc Kemble Water Finance Limited Thames Water Limited Immediate parent Thames Water Utilities Holdings Limited¹ Thames Water Utilities Holdings Limited¹ Thames Water Utilities Holdings group Kennet Properties Limited Thames Water Property Services Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 836 | - - - | 35 284 | - - - |
| Kemble Water Eurobond plc46Kemble Water Finance Limited226Thames Water Limited864Immediate parent70,275Thames Water Utilities Holdings Limited¹70,275Other entities within the Kemble Water Holdings group112Kennet Properties Limited112Thames Water Property Services Limited-Thames Water Pension Trustees Limited-Trinzic Operations Limited938Trinzic Developments Limited836 | - | 284 | - - |
| Kemble Water Finance Limited226Thames Water Limited864Immediate parent70,275Thames Water Utilities Holdings Limited¹70,275Other entities within the Kemble Water Holdings group112Kennet Properties Limited112Thames Water Property Services Limited-Thames Water Pension Trustees Limited-Trinzic Operations Limited938Trinzic Developments Limited836 | - | 284 | - |
| Thames Water Limited Immediate parent Thames Water Utilities Holdings Limited¹ Thames Water Utilities Holdings Limited¹ To,275 Other entities within the Kemble Water Holdings group Kennet Properties Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 864 70,275 70,275 710,275 7112 721 732 733 733 743 753 753 764 775 770,275 7 | Ξ | | _ |
| Immediate parent Thames Water Utilities Holdings Limited¹ 70,275 Other entities within the Kemble Water Holdings group Kennet Properties Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 836 | - | 720 | |
| Thames Water Utilities Holdings Limited¹ Other entities within the Kemble Water Holdings group Kennet Properties Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 70,275 7112 725 736 737 737 748 757 757 758 758 758 758 75 | | 720 | _ |
| Other entities within the Kemble Water Holdings group Kennet Properties Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 836 | | | |
| Kennet Properties Limited Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited Trinzic Developments Limited 836 | _ | 47,462 | _ |
| Thames Water Property Services Limited Thames Water Pension Trustees Limited Trinzic Operations Limited 938 Trinzic Developments Limited 836 | | | |
| Thames Water Pension Trustees Limited Trinzic Operations Limited 938 Trinzic Developments Limited 836 | _ | 394 | 31 |
| Trinzic Operations Limited 938 Trinzic Developments Limited 836 | 124 | _ | 236 |
| Trinzic Developments Limited 836 | 968 | 331 | _ |
| | _ | 2,256 | _ |
| | _ | _ | _ |
| Entities external to the Kemble Water Holdings group | | | |
| SGN Commercial Services Limited | 4,495 | _ | _ |
| Dunelm Energy Limited – | 10 | _ | 16 |
| Southern Gas Networks plc – | 64 | _ | _ |
| Water UK - | 686 | _ | 788 |
| Worldpay (UK) Limited | 8 | _ | _ |
| Duchy Of Cornwall Estate | 2,240 | _ | _ |
| Total 73,972 | 8,595 | 52,397 | 1,071 |

¹ This amount relates to interest on the Intercompany loan, refer to note 5.

During the year the Group settled its immediate parent company, Thames Water Utilities Holdings Limited, dividends of £195.8 million (2023: £45.2 million). Additionally, during the year, TWUL issued 47.5 million shares with a nominal value of £1 each to TWUHL, in exchange for the extinguishment of the intercompany payable owed to TWUHL, for a total value of £47.5 million. Refer to note 23 for further detail.

² Net cash generated by operating activities for the year ended 31 March 2024 includes £37.6 million (2023: £nil) payments made during the year ended 31 March 2024 related to the exceptional costs recognised in the income statement of £43.9m (2023: £nil) for restructuring and transformation expenditure. Refer to note 3. Net cash generated by operating activities (excluding payments relating to exceptional items and BTL) for the year ended 31 March 2024 would be £1,419.6 million. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made, the net cash generated by operating activities for the year ended 31 March 2024, two payments for internal inflation mechanism pension contributions were made on TWUL's behalf by Kemble Water Eurobond plc and are not included in cash flows from operating activities above, one for £20.4 million in April 2023 and one for £27.1 million in March 2024, please refer to note 9 and note 23 for further details. If this was not the case, the April 2023 payment which was due in the year ended 31 March 2024 and the March 2024 payment which was not due until the year ended 31 March 2025, would otherwise have been recorded within operating cash flows.

Strategic report Thames Water Annual Report 2023/24 Governance Financial statements







Notes to the consolidated financial statements continued

30. Related party transactions continued

Outstanding balances

The following amounts were owed to the Group from related entities, and owed to related entities by the Group at the balance sheet date:

| | 20 | 24 | 202 | 23 |
|--|---------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| As at 31 March | Amounts owed to the Group £'000 | Amounts owed by the Group £'000 | Amounts owed to the Group £'000 | Amounts owed by the Group £'000 |
| Intermediaries between the immediate and ultimate parent | | | | |
| Kemble Water Eurobond plc | _ | _ | 96,146 ¹ | _ |
| Immediate parent | | | | |
| Thames Water Utilities Holdings Limited | 1,319,548 | 58,574 ¹ | 1,249,106 | 30,3971 |
| Entities external to the Kemble Water Holdings group | | | | |
| Water UK | _ | _ | _ | 328 |
| Total | 1,319,548 | 58,574 | 1,345,252 | 30,725 |

¹ These amounts relate to provisional group relief receivable/payable balances.

The amounts outstanding are unsecured. No quarantees have been given or received. In the current period a provision of £118.9 million was recognised as expected credit losses in respect of amounts owed by Thames Water Utilities Holdings Limited (2023: £nil). See note 14 for further detail.

Key management personnel

Key management personnel comprise the members of the Board and of the Executive Team during the year.

The remuneration of the Directors is included within the amounts disclosed below, and includes remuneration for services provided to other group companies. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 84-85.

| Year ended 31 March | 2024 £'000 | 2023 £'000 |
|-------------------------------|---------------|---------------|
| Fees | 551 | 545 |
| Salary | 3,769 | 4,376 |
| Pension and pension allowance | 332 | 436 |
| Bonus | 1,746 | 739 |
| Payment on loss of office | 1,139 | 209 |
| Other benefits | 1,341 | 1,316 |
| Total | 8,878 | 7,621 |

Information regarding transactions with post-employment benefits plans is included in note 24.

The bonuses for Board members for 31 March 2023 were officially waived. The bonus amounts for the year ended 31 March 2024 are in relation to the PRPP, with the increase largely due to the corporate payout figure being 68.9% (2023: 26.7%).

Payment on loss of office includes contractual payments of base salary and benefits of £436k during the notice period of Sarah Bentley, who stepped down as CEO and from the Board with effect from 27 June 2023. This notice period ended on 28 December 2023 and no further payments for loss of office were received. See further detail on page 85 in the Remuneration Committee Report.

Other benefits includes medical benefits, car allowances, relocation costs, salary adjustments and other incentive payments.

31. Intermediate and ultimate parent Company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to prepare consolidated financial statements.

Kemble Water Holdings Limited is owned by 9 shareholders, of which the largest holder is Ontario Municipal Employees Retirement System (OMERS) with a 31.777% holding.

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the financial statements for all entities may be obtained from The Group Secretary's Office at this address.







Company income statement

For the year ended 31 March 2024

| | | | 2024 | | | | 2023 | | |
|---|------|------------------|----------------------|-----------|-------------|------------------|----------------------------|-----------|-------------|
| | Note | Underlying £m | Exceptional items £m | BTL £m | Total £m | Underlying ∉m | Exceptional items ∉m | BTL ∉m | Total ≨m |
| Revenue | 2 | 2,401.4 | <u>=</u> | 116.8 | 2,518.2 | 2,180.7 | ±111 | 84.5 | 2,265.2 |
| Operating expenses | | , | | | , | • | | | , |
| excluding impairment | | | | | | | | | |
| losses on trade receivables and contract assets | | (2,066.2) | (/,2 0) | | (2,110.1) | (1,994.6) | | | (1 00/. 6) |
| | | (2,000.2) | (43.9) | _ | (2,110.1) | (1,994.0) | _ | _ | (1,994.6) |
| Impairment losses on trade receivables and | | | | | | | | | |
| contract assets | 3,16 | (39.5) | _ | (0.2) | (39.7) | (22.3) | _ | (0.1) | (22.4) |
| Total operating expenses | 32 | (2,105.7) | (43.9) | (0.2) | (2,149.8) | (2,016.9) | _ | (0.1) | (2,017.0) |
| Other operating income | 2 | 148.9 | | _ | 148.9 | 107.6 | _ | _ | 107.6 |
| Operating profit | | 444.6 | (43.9) | 116.6 | 517.3 | 271.4 | _ | 84.4 | 355.8 |
| Finance income | 33 | 305.0 | _ | _ | 305.0 | 229.5 | _ | _ | 229.5 |
| Finance expense | 33 | (746.5) | _ | _ | (746.5) | (810.6) | _ | _ | (810.6) |
| Net gains/(losses) on | | | | | | | | | |
| financial instruments | 34 | 32.3 | - | - | 32.3 | (52.8) | _ | _ | (52.8) |
| Impairment losses on | | | | | | | | | |
| intercompany loan | 35 | _ | (118.9) | _ | (118.9) | _ | _ | _ | |
| Profit/(loss) on ordinary | | | | | | | | | |
| activities before taxation | | 35.4 | (162.8) | 116.6 | (10.8) | (362.5) | _ | 84.4 | (278.1) |
| Tax (charge)/credit on | | | | | | | | | |
| (loss)/profit on ordinary | | | | | | | | | |
| activities | 36 | (21.4) | 11.0 | (29.2) | (39.6) | 17.6 | | 17.8 | 35.4 |
| Profit/(loss) for the year | | 14.0 | (151.8) | 87.4 | (50.4) | (344.9) | _ | 102.2 | (242.7) |

The Company's activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Company accounts for this arrangement is detailed in the accounting policies on pages 110-120.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements. Further detail can be seen in the accounting policies on page 119. This amount has been split out from our underlying figures to support the users of the financial statements better understand the underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements and underlying business performance.

Company statement of other comprehensive income

For the year ended 31 March 2024

| | | 2024 2023 | | | | | | | |
|---|------|------------------|----------------------|-----------|-------------|------------------|-------------------------|-----------|-------------|
| | Note | Underlying £m | Exceptional items £m | BTL £m | Total £m | Underlying £m | Exceptional items £m | BTL £m | Total £m |
| Profit/(loss) for | | | | | | | | | |
| the year | | 14.0 | (151.8) | 87.4 | (50.4) | (344.9) | _ | 102.2 | (242.7) |
| Other comprehensive income | | | | | | | | | |
| Will not be reclassified to the income statement: | | | | | | | | | |
| Net actuarial gain on pension schemes | 24 | 18.9 | _ | _ | 18.9 | 69.4 | _ | _ | 69.4 |
| Deferred tax charge on | | | | | | | | | |
| net actuarial gain May be reclassified to the income statement: Cash flow hedge | 44 | (5.9) | - | - | (5.9) | (16.8) | - | _ | (16.8) |
| transferred to income statement | 43 | 18.7 | _ | _ | 18.7 | 21.1 | _ | _ | 21.1 |
| Deferred tax charge on cash flow hedge | 44 | (4.7) | _ | _ | (4.7) | (4.0) | - | - | (4.0) |
| Other comprehensive income for the year | | 27.0 | _ | _ | 27.0 | 69.7 | _ | _ | 69.7 |
| Total comprehensive income/(expense) for | | | | | | | | | |
| the year | | 41.0 | (151.8) | 87.4 | (23.4) | (275.2) | | 102.2 | (173.0) |

Bazalgette Tunnel Limited ("BTL") is an independent company which was 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. Information on how the Company accounts for this arrangement is detailed in the accounting policies on pages 110-120.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements. Further detail can be seen in the accounting policies on page 119. This amount has been split out from our underlying figures to support the users of the financial statements better understand the underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements and underlying business performance.







Company statement of financial position

As at 31 March 2024

| | | 3 | 1 March 2024 | | 3 | 31 March 2023 | |
|--|------|------------------|--------------|-------------|------------------|---------------|-------------|
| | Note | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Non-current assets | | | | | | | |
| Intangible assets | 10 | 233.9 | _ | 233.9 | 263.3 | _ | 263.3 |
| Property, plant and equipment | 11 | 19,371.8 | _ | 19,371.8 | 18,017.4 | _ | 18,017.4 |
| Investment property | 12 | 2.0 | _ | 2.0 | 2.0 | _ | 2.0 |
| Investment in subsidiary undertakings | 37 | 207.7 | _ | 207.7 | 207.7 | _ | 207.7 |
| Right of use assets | 13 | 36.5 | _ | 36.5 | 39.8 | _ | 39.8 |
| Derivative financial assets | 43 | 293.8 | _ | 293.8 | 332.6 | _ | 332.6 |
| Intercompany loans receivable | 38 | 1,200.6 | _ | 1,200.6 | 1,549.1 | _ | 1,549.1 |
| Prepayments | 39 | _ | 493.4 | 493.4 | _ | 377.9 | 377.9 |
| Insurance, amounts owed to group undertakings | | | | | | | |
| and other receivables | 39 | 38.9 | - | 38.9 | 61.8 | _ | 61.8 |
| Pension asset | 24 | 33.0 | _ | 33.0 | 6.0 | _ | 6.0 |
| | | 21,418.2 | 493.4 | 21,911.6 | 20,479.7 | 377.9 | 20,857.6 |
| Current assets | | | | | | | |
| Inventories | 15 | 23.3 | _ | 23.3 | 20.9 | _ | 20.9 |
| Intercompany loans receivable | 38 | 351.2 | _ | 351.2 | 40.3 | _ | 40.3 |
| Trade receivables | 39 | 373.8 | 25.7 | 399.5 | 315.9 | 16.8 | 332.7 |
| Contract assets | 39 | 288.6 | 7.5 | 296.1 | 253.6 | 5.2 | 258.8 |
| Prepayments | 39 | 45.2 | _ | 45.2 | 48.8 | _ | 48.8 |
| Insurance, other receivables and amounts owed to | | | | | | | |
| group undertakings | 39 | 63.3 | _ | 63.3 | 156.5 | (16.6) | 139.9 |
| Derivative financial assets | 43 | 29.2 | _ | 29.2 | _ | _ | _ |
| Cash and cash equivalents | 40 | 1,273.3 | 6.3 | 1,279.6 | 1,828.1 | 7.0 | 1,835.1 |
| | | 2,447.9 | 39.5 | 2,487.4 | 2,664.1 | 12.4 | 2,676.5 |
| Current liabilities | | | | | | | |
| Contract liabilities | 41 | (132.9) | (0.5) | (133.4) | (130.1) | _ | (130.1) |
| Trade and other payables | 41 | (1,001.2) | (54.7) | (1,055.9) | (896.2) | _ | (896.2) |
| Bank overdraft | 40 | (126.7) | _ | (126.7) | _ | _ | _ |
| Borrowings | 42 | (2,813.1) | _ | (2,813.1) | (2,503.1) | _ | (2,503.1) |
| Lease liabilities | 13 | (7.8) | _ | (7.8) | (7.3) | _ | (7.3) |
| Derivative financial liabilities | 43 | (104.5) | _ | (104.5) | (53.4) | _ | (53.4) |
| Provisions for liabilities and charges | 22 | (65.1) | - | (65.1) | (35.0) | _ | (35.0) |
| | | (4,251.3) | (55.2) | (4,306.5) | (3,625.1) | _ | (3,625.1) |
| Net current (liabilities)/assets | | (1,803.4) | (15.7) | (1,819.1) | (961.0) | 12.4 | (948.6) |
| | | | | | | | |

| | | 31 | March 2024 | | | 31 March 2023 | |
|--|------|------------------|------------|-------------|------------------|---------------|-------------|
| | Note | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Non-current liabilities | | | | | | | |
| Contract liabilities | 41 | (1,039.1) | _ | (1,039.1) | (921.6) | _ | (921.6) |
| Borrowings | 42 | (14,146.4) | _ | (14,146.4) | (13,769.4) | _ | (13,769.4) |
| Lease liabilities | 13 | (45.2) | _ | (45.2) | (49.7) | _ | (49.7) |
| Derivative financial liabilities | 43 | (1,308.3) | _ | (1,308.3) | (1,495.7) | _ | (1,495.7) |
| Deferred tax | 44 | (1,328.0) | _ | (1,328.0) | (1,262.4) | _ | (1,262.4) |
| Provisions for liabilities and charges | 22 | (209.6) | _ | (209.6) | (192.7) | _ | (192.7) |
| Pension deficit | 24 | (152.1) | _ | (152.1) | (182.0) | _ | (182.0) |
| | | (18,228.7) | _ | (18,228.7) | (17,873.5) | _ | (17,873.5) |
| Net assets | | 1,386.1 | 477.7 | 1,863.8 | 1,645.2 | 390.3 | 2,035.5 |
| Equity | | | | | | | |
| Called up share capital ¹ | 45 | 76.5 | _ | 76.5 | 29.0 | _ | 29.0 |
| Share premium | 45 | 100.0 | _ | 100.0 | 100.0 | _ | 100.0 |
| Cash flow hedge reserve | 45 | (2.1) | _ | (2.1) | (16.1) | _ | (16.1) |
| Revaluation reserve | 45 | 770.9 | _ | 770.9 | 795.5 | _ | 795.5 |
| Retained earnings | 45 | 440.8 | 477.7 | 918.5 | 736.8 | 390.3 | 1,127.1 |
| Total equity | | 1,386.1 | 477.7 | 1,863.8 | 1,645.2 | 390.3 | 2,035.5 |

¹ 47,500,000 shares with a nominal value of £1 each were issued during the reporting period to Thames Water Utilities Holding Limited, for a total value of £47,500,000. Refer to Note 43 for further detail.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies on pages 110-120.

The Company only financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 9 July 2024 and signed on its behalf by:

Alastair Cochran

Chief Financial Officer

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements









Company statement of changes in equity

For the year ended 31 March 2024

| | | Called up Share capital | Share premium | Cash flow hedge reserve | Revaluation reserve | Retained earnings | Total equity |
|--|------|----------------------------|---------------|-------------------------|---------------------|-------------------|--------------|
| | Note | £m | £m | £m | £m | £m | £m |
| 1 April 2022 | | 29.0 | 100.0 | (33.2) | 820.1 | 1,337.8 | 2,253.7 |
| Loss for the year | | _ | - | _ | _ | (242.7) | (242.7) |
| Cash flow hedge transfer to the income statement | 43 | _ | _ | 21.1 | _ | _ | 21.1 |
| Deferred tax charge on cash flow hedge | 44 | _ | _ | (4.0) | _ | _ | (4.0) |
| Net actuarial gain on pension scheme | 24 | _ | _ | _ | _ | 69.4 | 69.4 |
| Deferred tax charge on net actuarial gain | 44 | _ | _ | _ | _ | (16.8) | (16.8) |
| Loss for the year | 44 | | | | | | |
| Total comprehensive income/(expense) | | _ | _ | 17.1 | _ | (190.1) | (173.0) |
| Transfer of depreciation ¹ | | _ | _ | _ | (32.8) | 32.8 | _ |
| Deferred tax on depreciation transfer ¹ | | _ | _ | _ | 8.2 | (8.2) | _ |
| Dividends paid | 9 | _ | _ | _ | _ | (45.2) | (45.2) |
| 31 March 2023 | | 29.0 | 100.0 | (16.1) | 795.5 | 1,127.1 | 2,035.5 |
| Profit for the year | | _ | _ | _ | _ | (50.4) | (50.4) |
| Cash flow hedge transfer to the income statement | 43 | _ | _ | 18.7 | _ | - | 18.7 |
| Deferred tax charge on cash flow hedge | 44 | _ | _ | (4.7) | _ | _ | (4.7) |
| Net actuarial gain on pension scheme | 24 | _ | _ | _ | _ | 18.9 | 18.9 |
| Deferred tax charge on net actuarial gain | 44 | _ | _ | _ | _ | (5.9) | (5.9) |
| Total comprehensive income/(expense) | | _ | _ | 14.0 | _ | (37.4) | (23.4) |
| Transfer of depreciation ¹ | | _ | _ | _ | (32.8) | 32.8 | - |
| Deferred tax on depreciation transfer ¹ | | _ | _ | _ | 8.2 | (8.2) | _ |
| Dividends paid | 9 | _ | _ | _ | _ | (195.8) | (195.8) |
| Share capital issued ² | 45 | 47.5 | _ | _ | _ | _ | 47.5 |
| 31 March 2024 | | 76.5 | 100.0 | (2.1) | 770.9 | 918.5 | 1,863.8 |
| | | | | | | | |

The movement between the revaluation reserve and retained earnings arises from the depreciation and associated deferred tax on the fair value uplift on assets. This relates to assets which were revalued during the IFRS transition and received an uplift in their value, where the uplift was recognised in equity as a separate revaluation reserve balance. This depreciation on the uplift is transferred to retained earnings along with the associated deferred tax as per IAS 16 guidance.

Company statement of cash flows

For the year ended 31 March 2024

| Note of Em Canda and Em Canda and Em <th></th> <th></th> <th></th> <th>2024</th> <th></th> <th></th> <th>2023</th> <th></th> | | | | 2024 | | | 2023 | |
|--|---|------|-----------|-------|-----------|-----------|------|-------------|
| Investing activities: Purchase of property, plant and equipment ² | | Note | | | | | | Total £m |
| Purchase of property, plant and equipment ² (1,958.7) - (1,958.7) (1,554.8) - (1,554.8) Purchase of intangible assets (43.2) - (43.2) (43.6) - (43.6) Proceeds/(costs) from sale of property, plant and equipment ³ 6.4 - 6.4 (7.0) - (7.0) Interest received 216.8 - 216.8 228.9 - 228.9 Repayment of loans by parent company 444.3 - 444.3 Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: New loans raised ⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ 7.9 - 7.9 Payment for derivative settlement ⁷ (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net (acsh generated by/(used in) financing activities (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Net cash generated by operating activities ¹ | 49 | 1,416.1 | (0.7) | 1,415.4 | 1,120.0 | 1.8 | 1,121.8 |
| Purchase of intangible assets (43.2) - (43.2) (43.6) - (43.6) Proceeds/(costs) from sale of property, plant and equipment³ 6.4 - 6.4 (7.0) - (7.0) Interest received 216.8 - 216.8 228.9 - 228.9 Repayment of loans by parent company 444.3 - 444.3 Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: New loans raised⁴ 8,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement⁵ 7.9 - 7.9 Payment for derivative settlement² (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (82.2) - (82.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Investing activities: | | | | | | | |
| Proceeds/(costs) from sale of property, plant and equipment³ 6.4 - 6.4 (7.0) - (7.0) Interest received 216.8 - 216.8 228.9 - 228.9 Repayment of loans by parent company - - - - 444.3 - 444.3 Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: (1,778.7) - (1,778.7) (932.2) - (932.2) Revolumn raised 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings5 (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) - (3,250.1) - (3,250.1) - (3,250.1) - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 - 7.9 | Purchase of property, plant and equipment ² | | (1,958.7) | _ | (1,958.7) | (1,554.8) | _ | (1,554.8) |
| and equipment³ 6.4 - 6.4 (7.0) - (7.0) Interest received 216.8 - 216.8 228.9 - 228.9 Repayment of loans by parent company 444.3 - 444.3 Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: New loans raised⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement⁵ 7.9 - 7.9 - 7.9 Payment for derivative settlement² (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase | Purchase of intangible assets | | (43.2) | _ | (43.2) | (43.6) | _ | (43.6) |
| Interest received 216.8 - 216.8 228.9 - 228.9 Repayment of loans by parent company 444.3 - 444.3 - 444.3 Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: New loans raised ⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ 7.9 - 7.9 - 7.9 Payment for derivative settlement ⁷ (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682. | Proceeds/(costs) from sale of property, plant | | | | | | | |
| Repayment of loans by parent company - - - 444.3 - 444.3 Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: New loans raised ⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ - - - - 7.9 - 7.0 | and equipment ³ | | 6.4 | _ | 6.4 | (7.0) | _ | (7.0) |
| Net cash used in investing activities (1,778.7) - (1,778.7) (932.2) - (932.2) Financing activities: New loans raised ⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ 7.9 - 7.9 Payment for derivative settlement ⁷ (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.0) - (10.0) Interest paid (393.9) - (193.0) - (193.0) Fees paid (8.2) - (15.0) - (193.0) Fees paid (8.2) - (15.0) - (193.0) Fees paid (195.8) - (195.8) (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in | Interest received | | 216.8 | _ | 216.8 | 228.9 | _ | 228.9 |
| Financing activities: New loans raised ⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ 7.9 - 7.9 - 7.9 Payment for derivative settlement ⁷ (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Repayment of loans by parent company | | _ | _ | _ | 444.3 | _ | 444.3 |
| New loans raised ⁴ 3,099.4 - 3,099.4 5,092.1 - 5,092.1 Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ 7.9 - 7.9 Payment for derivative settlement ⁷ (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Net cash used in investing activities | | (1,778.7) | _ | (1,778.7) | (932.2) | _ | (932.2) |
| Repayment of borrowings ⁵ (2,693.0) - (2,693.0) (3,250.1) - (3,250.1) Proceeds from derivative settlement ⁶ | Financing activities: | | | | | | | |
| Proceeds from derivative settlement ⁶ Payment for derivative settlement ⁷ Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | New loans raised ⁴ | | 3,099.4 | _ | 3,099.4 | 5,092.1 | _ | 5,092.1 |
| Payment for derivative settlement ⁷ (117.2) - (117.2) (365.1) - (365.1) Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Repayment of borrowings ⁵ | | (2,693.0) | _ | (2,693.0) | (3,250.1) | _ | (3,250.1) |
| Repayment of lease principal (10.2) - (10.2) (10.0) - (10.0) Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Proceeds from derivative settlement ⁶ | | _ | _ | _ | 7.9 | _ | 7.9 |
| Interest paid (393.9) - (393.9) (193.0) - (193.0) Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Payment for derivative settlement ⁷ | | (117.2) | _ | (117.2) | (365.1) | _ | (365.1) |
| Fees paid (8.2) - (8.2) (15.0) - (15.0) Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Repayment of lease principal | | (10.2) | _ | (10.2) | (10.0) | _ | (10.0) |
| Dividends paid (195.8) - (195.8) (45.2) - (45.2) Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Interest paid | | (393.9) | _ | (393.9) | (193.0) | _ | (193.0) |
| Net cash generated by/(used in) financing activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Fees paid | | (8.2) | _ | (8.2) | (15.0) | _ | (15.0) |
| activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Dividends paid | | (195.8) | _ | (195.8) | (45.2) | _ | (45.2) |
| activities (318.9) - (318.9) 1,221.6 - 1,221.6 Net (decrease)/increase in cash and cash equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | Net cash generated by/(used in) financing | | | | | | | |
| equivalents (681.5) (0.7) (682.2) 1,409.4 1.8 1,411.2 | | | (318.9) | _ | (318.9) | 1,221.6 | _ | 1,221.6 |
| | Net (decrease)/increase in cash and cash | | | | | | | |
| Net cash and cash equivalents at beginning | equivalents | | (681.5) | (0.7) | (682.2) | 1,409.4 | 1.8 | 1,411.2 |
| | Net cash and cash equivalents at beginning | | | | | | | |
| of period 1,828.1 7.0 1,835.1 418.7 5.2 423.9 | of period | | 1,828.1 | 7.0 | 1,835.1 | 418.7 | 5.2 | 423.9 |
| Net cash and cash equivalents at end of period 1,146.6 6.3 1,152.9 1,828.1 7.0 1,835.1 | Net cash and cash equivalents at end of period | | 1,146.6 | 6.3 | 1,152.9 | 1,828.1 | 7.0 | 1,835.1 |

- Net cash generated by operating activities for the year ended 31 March 2024 includes £37.6 million (2023; £nil) payments made during the year ended 31 March 2024 related to the exceptional costs recognised in the income statement of £43.9m (2023: £nil) for restructuring and transformation expenditure. Refer to note 3. Net cash generated by operating activities (excluding payments relating to exceptional items and BTL) for the year ended 31 March 2024 would be £1,453.7 million. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made, the net cash generated by operating activities for the year ended 31 March 2024 would have included a cash payment of £10.2 million. In the year ended 31 March 2024, two payments for internal inflation mechanism pension contributions were made on TWUL's behalf by Kemble Water Eurobond plc and are not included in cash flows from operating activities above, one for £20.4 million in April 2023 and one for £27.1 million in March 2024, please refer to note 9 and note 23 for further details. If this was not the case, the April 2023 payment which was due in the year ended 31 March 2024 and the March 2024 payment which was not due until the year ended 31 March 2025, would otherwise have been recorded within operating cash flows.
- 2 Purchase of property, plant and equipment includes an adjustment to account for the cash on accruals relating to additions of capital investment in the period, therefore this figure does not tie to the additions
- 3 Proceeds from sale of property, plant and equipment does not include £16.7 million (2023: £nil) of disposal presented in other operating income, which was in exchange for land (non-cash). 4 New loans raised of £3,099.4 million (2023: £5,092.1 million) represents amounts raised by TWUF and on lent to the Company and includes £1,801.3 million (2023: £2,616.3 million) of drawdowns relating to revolving credit facilities, including £1,060.0 million Class A (2023: £1,875.0 million) and £741.3 million Class B (2023: £741.3 million). The remaining £1,298.1 million (2023: £2,475.8 million) relates to £1,134.6 million (net of fees) bonds issuances by TWUF and on lent to the Company (2023: £1,458.2 million) and £163.5 million loans raised by the Company (2023: £1,017.6 million). Rollovers of drawdowns under revolving credit facilities will not appear as new cash flows in the cash flow statement.
- 5 Repayment of borrowings of £2,693.0 million (2023: £3,250.1 million) mainly represents amounts repaid to TWUF and includes £741.3 million (2023: £2,616.3 million) of repayments relating to revolving credit facilities, including £nil Class A (2023: £1,875.0 million) and £741.3 million Class B (2023: £741.3 million). The remaining £1,951.7 million (2023: £633.8 million) includes £1,438.8 million relating to amounts repaid to TWUF (2023: £445.0 million), £507.4 million was repaid to external counterparties (2023: £188.8 million), £5.2 million relating to amounts repaid to TWUHL (2023: £nil) and £0.3 million relating to
- 6 Proceeds from derivative settlement of £nil (2023: £7.9 million) relating to settlement of cross currency swaps.
- 7 Payment for derivative settlement of £117.2 million (2023: £365.1 million) relating to accretion paydown on index-linked swaps.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies on pages 110-120.

^{47,500,000} shares with a nominal value of £1 each were issued during the reporting period to the immediate parent, Thames Water Utilities Holdings Limited, for a total value of £47,500,000. Refer to Note 45



2023



Notes to the Company financial statements

32. Operating expenses

The Company's total operating expenses for the year end 31 March 2024 are £2,149.8 million (31 March 2023: £2,017.0 million). This is lower than the Group's total operating expenses total for the year by £0.1 million (31 March 2023: higher by £0.2 million).

33. Finance income and expense

During the year ended 31 March 2024, the Company recognised finance income of £305.0 million (2023: £229.5 million) relating mainly to interest income on swaps, intercompany loans receivable, money market funds and short-term investments.

Finance income

| Year ended 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| Interest income on money market funds, short-term investments and cash at bank and in hand | 50.1 | 13.4 |
| Interest income on intercompany loans receivable | 97.8 | 54.1 |
| Interest income on swaps | 156.7 | 161.1 |
| Trading interest income | 0.4 | 0.9 |
| Total finance income | 305.0 | 229.5 |

Finance expense

The Company also recognised finance expenses of £746.5 million (2023: £810.6 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and other finance fees.

| Year ended 31 March | Note | 2024 £m | 2023 £m |
|--|------|------------|------------|
| Interest in relation to bank and other loans: | | | |
| Interest expense | | (131.7) | (79.0) |
| RPI accretion on loans | | (48.5) | (118.5) |
| Interest in relation to intercompany borrowings: | | | |
| Interest expense | | (490.1) | (393.0) |
| RPI accretion on loans | | (222.6) | (424.7) |
| Interest in relation to defined benefit obligation | | | |
| Net interest expense on defined benefit obligation | 24 | (7.6) | (6.7) |
| Interest in relation to leases | | | |
| Leases | 13 | (3.1) | (1.4) |
| Interest in relation to non-household business | | | |
| Trading interest expense | | (0.1) | (0.1) |
| Fees | | | |
| Other finance fees | | (2.2) | (2.4) |
| Gross finance expense | | (905.9) | (1,025.8) |
| Capitalised borrowing costs | | 159.4 | 215.2 |
| Total finance expense | | (746.5) | (810.6) |

34. Net gains/(losses) on financial instruments

The reconciliation to net gains/(losses) on financial instruments has been provided below:

| Year ended 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| Net exchange gains/(losses) on foreign currency borrowings | 30.1 | (0.1) |
| Net gains/(losses) arising on swaps where hedge accounting is not applied ¹ | 9.3 | (31.6) |
| Gain on extinguishment of debt ² | 11.6 | _ |
| Losses on cash flow hedge transferred from equity ³ | (18.7) | (21.1) |
| Total | 32.3 | (52.8) |

- 1 In the current period the net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations, higher own credit spread and lower inflation rate expectations. The amount includes the fair value of £270.8 million (2023: £625.3 million) accreted on index linked swaps during the year. In September 2023, £93.8 million was paid to early settle £100.8 million accretion on index-linked swaps, the difference of £7.0 million reflecting the discount for early repayment.
- 2 Gain on extinguishment of debt includes £4.6 million relating to two loan amendment and extensions in October 2023, including £1.0 million relating to α £100.0 million Class A RPI loan originally due to mature in 2025, and £3.6 million relating to α £125.0 million Class A RPI loan originally due to mature in 2026. The remaining £7.0 million relates to a gain from the partial repurchase of the intercompany loan relating to the £500.0 million Class A fixed rate bond (originally due to mature in 2025) in January 2024.
- 3 Refer to note 43 Financial Instruments on page 168 for more information on the loss on cash flow hedge transferred from equity.

35. Impairment losses on intercompany loan

| Year ended 31 March | 2024 €m) | 2023 £m |
|---|-------------|------------|
| Impairment loss on loan receivable from Thames Water Utilities Holdings Limited | 118.9 | _ |
| Total | 118.9 | _ |

The Company has an intercompany loan receivable due from Thames Water Utilities Holdings Limited, comprising £1,249.1 million (2023: £1,249.1 million) in principal, together with accrued interest of £70.4 million (2023: £0.2 million). As a result of the impairment raised in the period on the intercompany loan, an expected credit loss of £118.9 million (2023: £nil) has been recognised in the Income Statement as an exceptional item, as these impairments are not as a result of the ordinary course of business. The impairment has been recognised following an analysis of the loan receivable's recovery in line with IFRS 9. Refer to note 38 for further details of the provision on the intercompany loan.

36. Tax charge/(credit) on (loss)/profit on ordinary activities

| | 2024 | | | | 2023 | | |
|--|------------------|----------------------|-----------|-------------|------------------|-------------------|-------------|
| Year ended 31 March | Underlying £m | Exceptional items £m | BTL £m | Total £m | Underlying £m | BTL £ m | Total £m |
| Current tax: | | | | | | | |
| Amounts payable/(receivable) | | | | | | | |
| in respect of group relief | 20.9 | (11.0) | 29.2 | 39.1 | (98.9) | _ | (98.9 |
| Adjustments in respect of prior periods | (54.5) | _ | _ | (54.5) | 23.8 | (17.8) | 6.0 |
| Current tax subtotal | (33.6) | (11.0) | 29.2 | (15.4) | (75.1) | (17.8) | (92.9 |
| Deferred tax: | | | | | | | |
| Origination and reversal of timing differences | (15.1) | _ | _ | (15.1) | 43.1 | _ | 43.1 |
| Effect of tax rate change | _ | _ | _ | _ | 21.0 | _ | 21.0 |
| Adjustments in respect of prior periods | 70.1 | _ | _ | 70.1 | (6.6) | _ | (6.6) |
| Deferred tax subtotal | 55.0 | _ | _ | 55.0 | 57.5 | _ | 57.5 |
| Tax charge/(credit) on (loss)/profit | | | | | | | |
| on ordinary activities | 21.4 | (11.0) | 29.2 | 39.6 | (17.6) | (17.8) | (35.4 |
| | | | | | | | |

Thames Water Annual Report 2023/24 Governance Financial statements







Notes to the Company financial statements continued

36. Tax charge/(credit) on (loss)/profit on ordinary activities continued

The tax charge for the year ended 31 March 2024 is higher (2023: lower charge) than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2024 | | | | 2023 | | | | | |
|---|------------------|-------------|-----------|-------------|---------------|------------------|-------------|-----------|-------------|---------------|
| | | Exceptional | | I | Effective tax | | Exceptional | | | Effective tax |
| Year ended 31 March | Underlying £m | items £m | BTL £m | Total £m | rate % | Underlying £m | items £m | BTL £m | Total £m | rate % |
| Profit/(loss) on ordinary | ZIII | LIII | ZIII | 2111 | 70 | ZIII | LIII | LIII | LIII | 70 |
| activities before taxation | 35.4 | (162.8) | 116.6 | (10.8) | | (362.5) | _ | 84.4 | (278.1) | |
| Corporation tax at 25% | | (102.0) | | (1010) | | (002.0) | | 0 | (= / 01.1) | |
| (2023: 19%) on profit/ | | | | | | | | | | |
| (loss) on ordinary | | | | | | | | | | |
| activities before taxation | 8.8 | (40.7) | 29.2 | (2.7) | 25.0% | (68.8) | _ | 16.0 | (52.8) | 19.0% |
| Effects of: | 0.0 | (1011) | | (=12) | | (33.3) | | | (02.0) | . 3.0 70 |
| Recurring items: | | | | | | | | | | |
| Depreciation on assets | | | | | | | | | | |
| that do not qualify for | | | | | | | | | | |
| tax relief | 6.3 | _ | _ | 6.3 | | 4.7 | _ | _ | 4.7 | |
| Disallowable expenditure ¹ | 4.8 | _ | _ | 4.8 | | 4.8 | _ | _ | 4.8 | |
| Non-taxable income ² | (14.0) | _ | _ | (14.0) | | (7.5) | _ | _ | (7.5) | |
| Property disposals | (1.5) | _ | - | (1.5) | | 0.2 | _ | - | 0.2 | |
| Impact of "super- | | | | | | | | | | |
| deduction" allowance | | | | | | | | | | |
| on capital expenditure ³ | _ | _ | _ | - | | (5.2) | _ | _ | (5.2) | |
| Impact of tax loss not | | | | | | | | | | |
| paid for at standard rate ⁴ | - - | - | - | | | 16.0 | _ | (16.0) | _ | |
| Other | 1.4 | _ | | 1.4 | | | _ | _ | _ | |
| Tax (credit)/charge | | | | | | | | | | |
| as adjusted for | | | | | | (== a) | | | | |
| recurring items | 5.8 | (40.7) | 29.2 | (5.7) | 52.8% | (55.8) | _ | _ | (55.8) | 20.1% |
| Non-recurring items: | | | | | | 21.0 | | | 21.0 | |
| Effect of tax rate change ⁵ | _ | 29.7 | _ | 29.7 | | 21.0 | _ | _ | 21.0 | |
| Impairment losses Adjustments in respect of | _ | 29.7 | _ | 29.7 | | _ | _ | _ | _ | |
| prior periods – current tax ⁶ | (54.5) | | | (54.5) | | 23.8 | | (17.8) | 6.0 | |
| Adjustments in respect | (34.3) | _ | _ | (34.3) | | 23.0 | _ | (17.0) | 0.0 | |
| of prior periods – | | | | | | | | | | |
| deferred tax ⁶ | 70.1 | | | 70.1 | | (6.6) | _ | _ | (6.6) | |
| Total tax charge/(credit) | 21.4 | (11.0) | 29.2 | 39.6 | 36.6% | (17.6) | _ | (17.8) | (35.4) | 12.7% |
| | | (/ | | | 2 2.073 | (, , , | | \ . / / | (55.1) | , /0 |

Disallowable expenditure primarily relates to fines included in operating expenses.

The Company is not currently in a cash tax paying position with HMRC (although it does pay or receive amounts for group relief), primarily due to capital allowances on capital expenditure, tax deductions for borrowing costs and group relief which has arisen on interest expenses in holding companies. The differences between (loss)/profit on ordinary activities before taxation at the standard corporation tax rate and the current tax (credit)/charge for the year are set out below.

| | | 2024 | | | 2023 | | | |
|--|------------|-------------------|-------|--------|------------|-------------------|--------|---------|
| | Underlying | Exceptional items | BTL | Total | Underlying | Exceptional items | BTL | Total |
| Year ended 31 March | £m | £m | £m | £m | €m | £m | £m | £m |
| Profit/(loss) on ordinary activities | | | | | | | | |
| before taxation | 35.4 | (162.8) | 116.6 | (10.8) | (362.5) | | 84.4 | (278.1) |
| Corporation tax at 25% (2023: 19%) | | | | | | | | |
| on (loss)/profit on ordinary activities | | | | | | | | |
| before taxation | 8.8 | (40.7) | 29.2 | (2.7) | (68.8) | _ | 16.0 | (52.8) |
| Effects of: | | | | | | | | |
| Depreciation on assets that | | | | | | | | |
| do not qualify for relief | 6.3 | _ | - | 6.3 | 4.7 | _ | _ | 4.7 |
| Disallowable expenditure ¹ | 4.8 | _ | _ | 4.8 | 4.8 | _ | _ | 4.8 |
| Non-taxable income ² | (14.0) | _ | _ | (14.0) | (7.5) | _ | _ | (7.5) |
| Property disposals | (1.5) | _ | _ | (1.5) | 0.2 | - | _ | 0.2 |
| Impact of tax loss not paid | | | | | | | | |
| for at standard rate ⁴ | _ | _ | _ | _ | 16.0 | _ | (16.0) | _ |
| Capital allowances for the year | | | | | | | | |
| lower than depreciation ⁷ | 132.8 | _ | _ | 132.8 | 82.2 | _ | _ | 82.2 |
| Capitalised borrowing costs | | | | | | | | |
| allowable for tax ⁸ | (36.8) | _ | _ | (36.8) | (40.8) | _ | _ | (40.8) |
| Losses on financial derivatives ⁹ | (72.9) | _ | _ | (72.9) | (108.8) | _ | _ | (108.8) |
| Pension cost charge lower than | | | | | | | | |
| pension contributions | (9.5) | _ | _ | (9.5) | _ | _ | _ | _ |
| Other short term timing differences | 2.9 | _ | _ | 2.9 | (5.0) | _ | _ | (5.0) |
| Tax losses carried forward ¹⁰ | _ | _ | _ | _ | 24.1 | _ | _ | 24.1 |
| Impairment losses | _ | 29.7 | _ | 29.7 | _ | _ | _ | _ |
| Adjustments in respect of prior | | | | | | | | |
| periods – current tax ⁶ | (54.5) | _ | _ | (54.5) | 23.8 | _ | (17.8) | 6.0 |
| Current tax (credit)/charge for | | | | | | | | |
| the year | (33.6) | (11.0) | 29.2 | (15.4) | (75.1) | _ | (17.8) | (92.9) |

⁷ Capital allowances claimed were lower than depreciation in order to avoid tax losses arising in the current year and to reduce tax losses arising In the prior year.

Non-taxable income relates primarily to income received towards fixed assets such as new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.

The UK government introduced an accelerated capital allowance called a "super-deduction" which was available on some of the Group's capital expenditure for two years up to 31 March 2023. The allowance included an additional 30% allowance in excess of expenditure on qualifying plant and machinery, which resulted in a tax credit in the income statement in the prior year, which was shown as a recurring item.

⁴ In the current year, all taxable profits of the Company will be covered by group relief bought from a group company at the standard tax rate. Tax losses arising in the underlying business in the prior year were used to cover taxable profits of BTL, for which no payment was made as all amounts arose within the Company. Tax charges for BTL are calculated based on the profit before tax and any non-taxable// non-allowable transactions related to BTL.

⁵ The tax rate change enacted in 2021 was primarily reflected in the year ended 31 March 2022, although the prior year reflected some additional tax rate change impact on deferred tax, as some timing differences had unwound earlier or later than expected.

During the current year, the Company finalised its corporation tax returns for the prior year, which claimed more capital allowances in the prior year than had been anticipated, rather than deferring them. In addition, the Company had expected to carry forward some tax losses as at 31 March 2023 and had provided a deferred tax asset on these at the rate of 25%, but in the event these tax losses, together with the additional capital allowances claimed, were sold to group companies at the standard tax rate for the prior year of 19%. The current tax prior year credit arose from the sale of these extra tax losses at 19%, while the deferred tax prior year charge arose at 25% from the higher capital allowance claim and the sale of losses for the prior year.

⁸ Capitalised borrowing costs are eligible for a full tax deduction in the year.

⁹ Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.

¹⁰ As explained in footnote 6 above, the Company had expected to carry forward some tax losses as at 31 March 2023, but in the event these tax losses were sold to group companies at the standard tax rate for the prior year of 19% and the impact of this is included in the current tax prior year credit shown above.







Notes to the Company financial statements continued

36. Tax charge/(credit) on (loss)/profit on ordinary activities continued Uncertain tax positions

At 31 March 2024 the total value of uncertain tax positions was £nil (2023: £nil).

Tax charged directly to other comprehensive income

The deferred tax (charged)/credited directly to other comprehensive income during the year is as follows:

| | 2024 | 2023 |
|--|--------|--------|
| Year ended 31 March | £m | £m |
| Deferred tax charge on net actuarial gain in the year | (5.9) | (16.8) |
| Deferred tax charge on cash flow hedges in the year | (4.7) | (4.0) |
| Total tax charged directly to other comprehensive income | (10.6) | (20.8) |

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Company.

37. Investment in subsidiary undertaking

| Year ended 31 March | 2024 £m) | 2023 £m |
|---------------------|-------------|------------|
| Cost: | | |
| At 31 March | 207.7 | 207.7 |
| Net book value | 207.7 | 207.7 |

The Company has no interest in joint ventures or associates. The Company had the following investment in a subsidiary undertaking as at 31 March 2024 and 31 March 2023:

| Entity | Holding | Principal undertaking | Country of incorporation | Class of shares held | rights & shares held |
|------------------------------------|---------|-----------------------|--------------------------|----------------------|----------------------|
| Thames Water Utilities Finance plc | Direct | Finance Company | United Kingdom | £1 Ordinary | 100% |

The subsidiary undertaking is wholly owned by the Company.

The address of the registered office of Thames Water Utilities Finance plc is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

In accordance with IAS 36 where an impairment trigger is identified, an impairment on the investment is recognised on this such that a net amount, which is deemed recoverable based on the calculations performed on transition, is recognised in the Income Statement each year.

Management makes an estimate of the recoverable value of the investment by performing an analysis that takes into account expected changes in debt and margin earned by the investment over a 20 year period to derive a future net asset value. The investment is then compared to this value and impairment is then recognised in the Income Statement under Impairment losses.

This assessment has been performed in the period and no impairment (2023: none) on the investment in Thames Water Utilities Finance plc ("TWUF") has been recognised.







Notes to the Company financial statements continued

38. Intercompany loans receivable

| - The second of the second of | 2024 £m | 2023 £m |
|---|------------|------------|
| Amounts owed by group undertakings: | | |
| Thames Water Utilities Holdings Limited | 1,249.1 | 1,249.1 |
| Thames Water Utilities Finance plc | 300.0 | 300.0 |
| Total principal owed | 1,549.1 | 1,549.1 |
| Interest receivable on amounts owed by group undertakings: | | |
| Thames Water Utilities Holdings Limited | 70.4 | 0.2 |
| Thames Water Utilities Finance plc | 51.2 | 40.1 |
| Total interest receivable | 121.6 | 40.3 |
| Impairment on amounts owed by group undertakings: | | |
| Provision for bad and doubtful debt | (118.9) | - |
| Total Intercompany loan receivable | 1,551.8 | 1,589.4 |
| | | |
| Disclosed within non-current assets | 1,200.6 | 1,549.1 |
| Disclosed within current assets | 351.2 | 40.3 |

The above intercompany loans are unsecured. These balances have not been included within the Company's net debt and covenant calculations.

Intercompany loans receivable due to the Company include the following:

- £735.7 million (2023: £735.7 million) owed by Thames Water Utilities Holdings Limited ("TWUHL", the Company's immediate parent), the loan is unsecured and interest is charged at a rate of SONIA + 0.6266% (2023: SONIA + 0.6266%). The loan is repayable on 30 August 2037.
- £513.4 million (2023: £513.4 million) owed by TWUHL, is unsecured and interest is charged at a rate of SONIA + 0.6266% (2023: SONIA + 6.266%) and is repayable on demand. The TWUL directors have provided a letter of comfort to the directors of Thames Water Holdings Limited stating that they do not expect to seek repayment of the loan outstanding or interest owed by Thames Water Utilities Holdings Limited for at least 12 months from the date of signing the financial statements and as such the loan has been classified as non-current.
- £200.0 million (2023: £200.0 million) owed by Thames Water Utilities Finance plc ("TWUF", the Company's financing subsidiary), the interest charge per the agreement is LIBOR plus 2% margin (2023: LIBOR plus 2% margin) but in line with the GBP LIBOR transition plan, the accruals have been calculated at a rate of SONIA plus 2% margin. The loan is repayable on demand, the principal and associated interest has been classified as current.
- £100.0 million (2023: £100.0 million) owed by TWUF, the interest charge per the agreement is LIBOR plus 1.55% margin (2023: LIBOR plus 1.55% margin) but in line with the GBP LIBOR transition plan, the accruals have been calculated at a rate of SONIA plus 1.55% margin. The loan is repayable on demand, the principal and associated interest has been classified as current.

During the year ended 31 March 2024, the Company accrued £70.2 million of interest income related to the intercompany loans due from TWUHL (2023: £47.5 million). As at 31 March 2024, £70.4 million interest receivable is outstanding from TWUHL (2023: £0.2 million) relating to the intercompany loans.

During the year ended 31 March 2024, the Company accrued £27.5 million of interest income related to the intercompany loans due from TWUF (2023: £6.6 million). As at 31 March 2024, £51.2 million interest receivable is outstanding from TWUF (2023: £40.1 million) relating to these loans.

Impairment of intercompany loans receivable due from TWUHL assessment

Refer to note 14 for details of the impairment of the intercompany loans receivable due from TWUHL assessment.

Impairment of intercompany loans receivable due from TWUF assessment

Expected credit loss on the loan from TWUF to TWUL has been assessed by considering recoverability of the receivable under various scenarios, including a downside scenario where TWUF is unable to repay this loan and interest. It was concluded that if that downside scenario did occur, the most likely outcome is that the intercompany loans receivable due from TWUF above will be off set with the borrowings amounts owed by group undertaking of £13,981.3 million. As a result of this assessment, no material impairment has been recognised on the loan due from TWUF to TWUL.

39. Trade and other receivables

| | 2024 | | | 2023 | | |
|--------------------------------------|------------------|-----------|-------------|------------------|-----------|-------------|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Non-current: | | | | | | |
| Prepayments | _ | 493.4 | 493.4 | _ | 377.9 | 377.9 |
| Insurance claims receivable | 38.1 | _ | 38.1 | 33.9 | _ | 33.9 |
| Other receivables | 0.8 | _ | 8.0 | 27.9 | _ | 27.9 |
| | 38.9 | 493.4 | 532.3 | 61.8 | 377.9 | 439.7 |
| Current: | | | | | | |
| Gross trade receivables | 523.8 | 30.4 | 554.2 | 468.9 | 21.0 | 489.9 |
| Less doubtful debt provision | (150.0) | (4.7) | (154.7) | (153.0) | (4.2) | (157.2) |
| Net trade receivables | 373.8 | 25.7 | 399.5 | 315.9 | 16.8 | 332.7 |
| Other receivables | 41.9 | _ | 41.9 | 47.1 | _ | 47.1 |
| Contract assets | 288.6 | 7.5 | 296.1 | 253.6 | 5.2 | 258.8 |
| Prepayments | 45.2 | _ | 45.2 | 48.8 | _ | 48.8 |
| Insurance claims receivable | 18.5 | _ | 18.5 | _ | _ | _ |
| Amounts owed by group undertakings | 2.9 | _ | 2.9 | 7.9 | _ | 7.9 |
| Group relief receivable ¹ | _ | _ | _ | 101.5 | (16.6) | 84.9 |
| | 770.9 | 33.2 | 804.1 | 774.8 | 5.4 | 780.2 |
| Total | 809.8 | 526.6 | 1,336.4 | 836.6 | 383.3 | 1,219.9 |

¹ Group relief can fluctuate between a receivable and payable position. For the year ended 31 March 2024 this is a payable and is included in Note 41.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to its fair value.

Non-current prepayments at 31 March 2024 of £493.4 million (2023: £377.9 million) relate to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to the Company once construction is complete.

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements





Notes to the Company financial statements continued

39. Trade and other receivables continued

Contract assets at 31 March 2024 includes £217.2 million (2023: £178.2 million) of services provided to metered customers. Included within this amount is a provision of £9.3 million for bad debt (31 March 2023: £8.0 million). The remaining amount relates to accrued capital contributions and accrued income from the BTL arrangement. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

BTL receivables relates to the amount of receivables collected from other parties and passed on to BTL.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

| | 2024 £m | 2023 £m |
|--|------------|------------|
| At 1 April | (157.2) | (150.5) |
| Charge for bad and doubtful debts – charged against revenue ¹ | (54.8) | (65.5) |
| Charge for bad and doubtful debts – included within operating expenses | (39.7) | (22.4) |
| Amounts written off | 97.0 | 81.2 |
| Total at 31 March | (154.7) | (157.2) |

Included within this is a £5.7 million increase (2023: £2.8 million decrease) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The increase of the provision in the current financial year is debited to gross revenue. The remaining amount relates to the £49.1 million (2023: £68.3 million) charge for bad and doubtful debts against revenue.

Ageing of gross receivables is as follows:

| | 2024 | 2023 |
|-------------------|-------|-------|
| As at 31 March | £m | £m |
| Up to 365 days | 385.3 | 329.3 |
| 1 – 2 years | 88.4 | 83.9 |
| 2 – 3 years | 41.6 | 41.5 |
| More than 3 years | 38.9 | 35.2 |
| Total | 554.2 | 489.9 |

The ageing of gross BTL receivables is as follows:

| | 2024 | 2023 |
|----------------|------|------|
| As at 31 March | £m | £m |
| Up to 365 days | 22.8 | 15.1 |
| 1 – 2 years | 5.2 | 4.0 |
| 2 – 3 years | 2.4 | 1.9 |
| Total | 30.4 | 21.0 |

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

| As at 31 March | 2024 £m | 2023 £m |
|-------------------|------------|------------|
| Up to 365 days | 83.2 | 83.9 |
| 1 – 2 years | 26.2 | 26.4 |
| 2 – 3 years | 16.5 | 17.1 |
| More than 3 years | 28.8 | 29.8 |
| Total | 154.7 | 157.2 |

Ageing of impaired BTL receivables is as follows:

| As at 31 March | 2024 £m | |
|----------------|------------|-----|
| Up to 365 days | 3.1 | 2.8 |
| 1 – 2 years | 1.0 | 0.9 |
| 2 – 3 years | 0.6 | 0.5 |
| Total | 4.7 | 4.2 |

40. Cash and cash equivalents

| | | 2024 | | | 2023 | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Cash at bank and in hand | 14.8 | _ | 14.8 | 5.1 | - | 5.1 |
| Money market funds & short-term investments | 1,258.5 | 6.3 | 1,264.8 | 1,823.0 | 7.0 | 1,830.0 |
| Cash and cash equivalents ¹ | 1,273.3 | 6.3 | 1,279.6 | 1,828.1 | 7.0 | 1,835.1 |
| Bank overdraft ² | (126.7) | _ | (126.7) | _ | _ | _ |
| Net cash and cash equivalents | 1,146.6 | 6.3 | 1,152.9 | 1,828.1 | 7.0 | 1,835.1 |

Cash and cash equivalents subject to WBS terms and conditions was £71.9 million for the year ended 31 March 2024 (2023: £81.3 million).

For the purposes of the statement of cash flows, the total balance above includes cash and cash equivalents net of outstanding bank overdrafts. The net cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as per the above within current assets and current liabilities.

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

Bank overdraft as at 31 March 2024 reflects the impact of £130.0 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024. This presentation follows our accounting policy, whereby committed payments are accounted for on the date the payment instruction is committed, which may be in advance of the cash settlement. Cash from money market funds and short term investments was sufficient to cover the cash outflows on the settlement date post year-end.







Notes to the Company financial statements continued

41. Trade and other payables

| The trade area of the payables | 2024 | | 2023 | | | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Non-current: | | | | | | |
| Contract liabilities | 1,039.1 | _ | 1,039.1 | 921.6 | _ | 921.6 |
| Current: | | | | | | |
| Trade payables | 308.5 | _ | 308.5 | 301.7 | _ | 301.7 |
| Amounts owed to group undertakings | 90.8 | _ | 90.8 | 75.7 | _ | 75.7 |
| Other taxation and social security | 10.7 | _ | 10.7 | 10.3 | _ | 10.3 |
| Amounts payable in respect of group relief ¹ | 9.8 | 45.8 | 55.6 | _ | _ | _ |
| Accruals | 469.5 | _ | 469.5 | 406.4 | _ | 406.4 |
| Amounts owed to Bazalgette Tunnel Limited | _ | 8.9 | 8.9 | _ | _ | _ |
| Other payables | 111.9 | _ | 111.9 | 102.1 | _ | 102.1 |
| | 1,001.2 | 54.7 | 1,055.9 | 896.2 | - | 896.2 |
| Current: | | | | | | |
| Contract liabilities | 132.9 | 0.5 | 133.4 | 130.1 | _ | 130.1 |
| | 1,134.1 | 55.2 | 1,189.3 | 1,026.3 | _ | 1,026.3 |
| Total | 2,173.2 | 55.2 | 2,228.4 | 1,947.9 | _ | 1,947.9 |

 $^{1\}quad Group\ relief\ can fluctuate\ between\ a\ receivable\ and\ payable\ position.\ For\ the\ year\ ended\ 31\ March\ 2023\ this\ was\ a\ receivable\ and\ was\ included\ in\ Note\ 39.$

Current contract liabilities at 31 March 2024 includes £71.9 million (2023: £73.0 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payments in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2024 includes £561.5 million (2023: £546.2 million) of deferred infrastructure charges and £477.6 million of deferred income for nil cost "adopted" assets (2023: £375.5 million).

Amounts owed to group undertakings at 31 March 2024 of £90.8 million (2023: £75.7 million) primarily reflects £90.1 million (2023: £75.1 million) relating to interest received by the Company on behalf of TWUF plc in relation to restructured swaps.

Other payables at 31 March 2024 includes £83.4 million (2023: £74.0 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed. The remainder of the balance includes various other payables as credit balances reclassified from debtors, customer security deposits and defined contribution pension creditor amounts.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to its fair value as outlined in the "Comparison of fair value of financial instruments with their carrying amounts" section of Note 20 Financial Instruments.

42. Borrowings

| As at 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| Secured bank loans and private placements | 2,947.8 | 3,259.7 |
| Amounts owed to group undertakings | 13,680.0 | 12,719.8 |
| | 16,627.8 | 15,979.5 |
| Interest payable on secured bank loans and private placements | 30.4 | 25.6 |
| Interest payable on amounts owed to group undertakings | 301.3 | 267.4 |
| | 331.7 | 293.0 |
| Total | 16,959.5 | 16,272.5 |
| Disclosed within non-current liabilities | 14,146.4 | 13,769.4 |
| Disclosed within current liabilities | 2,813.1 | 2,503.1 |
| Total | 16,959.5 | 16,272.5 |

The Company, its wholly owned financing subsidiary TWUF and its immediate parent, Thames Water Utilities Holdings Limited ("TWUHL") are the Obligors within a whole business securitisation group. Secured bank loans, private placements and amounts owed to group undertakings are in an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, TWUHL guaranteed the obligations of each other Obligor under the finance agreement. Additionally, the Company, and TWUF, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. The guaranteed debt on a post swap basis as at 31 March 2024 was £17.3 billion (2023: £16.4 billion). 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 these financial guarantee contracts. Refer to the accounting policies on page 119 for more information.

As at 31 March 2024, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £13,981.3 million (2023: £12,981.5 million) owed to TWUF. Financing costs arising in TWUF are directly recharged with an additional margin of ten basis points or one basis point, except for a subset of loans where financing costs are recharged under mirrored terms.
- £nil (2023: £5.4 million) owed to Thames Water Utilities Holdings Limited.
- £nil (2023: £0.3 million) owed to Thames Water Limited

A maturity analysis of borrowings is presented in note 43.

Financial statements Thames Water Annual Report 2023/24 Governance







Notes to the Company financial statements continued

42. Borrowings continued Breakdown of secured bank loans and private placements:

| As at 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| £215.0m 0.460% index-linked loan due 2023 ^{(a), (f)} | _ | 316.1 |
| £144.8m 0.790% index-linked loan due 2033 ^{(a), (d), (f), (i)} | 145.9 | 139.9 |
| £180.1m 0.5975% index-linked loan due 2033 (a), (d), (f), (j) | 179.2 | 174.0 |
| £215.0m 0.380% index-linked loan due 2032 ^{(a), (b), (f)} | 187.6 | 198.7 |
| £100.0m 3.261% index-linked loan due 2043 ^{(a), (c), (f)} | 168.2 | 165.2 |
| £70.0m Class B 3.867% fixed rate loan due 2026 ^(a) | 70.0 | 70.0 |
| £50.0m Class B 3.875% fixed rate loan due 2026 ^(a) | 50.0 | 50.0 |
| £39.0m Class B 3.918% fixed rate loan due 2026 ^(a) | 38.8 | 38.7 |
| £20.0m Class B floating rate loan due 2026 ^{(a), (g)} | 20.0 | 20.0 |
| £50.0m Class B floating rate loan due 2025 ^{(a), (g)} | 49.9 | 49.9 |
| £100.0m Class B floating rate loan due 2028 (a), (g) | 99.3 | 99.2 |
| £150.0m Class B floating rate loan due 2029 (a), (g) | 148.8 | 148.6 |
| \$285.0m 3.570% private placement due 2025 ^{(a), (e)} | 225.4 | 230.4 |
| £216.0m 2.450% private placement due 2028 ^(a) | 215.7 | 215.6 |
| £210.0m 2.550% private placement due 2030 ^(a) | 209.5 | 209.5 |
| £40.0m 2.620% private placement due 2033 ^(a) | 39.9 | 39.9 |
| \$95.0m 4.890% private placement due 2029 (a), (e) | 75.0 | 76.6 |
| £18.0m 4.800% private placement due 2029 ^(a) | 18.0 | 18.0 |
| \$256.0m 5.010% private placement due 2032 ^{(a), (e)} | 202.0 | 206.5 |
| \$81.0m 5.300% private placement due 2037 ^{(a), (e)} | 63.9 | 65.3 |
| £150.0m 4.940% private placement due 2037 ^(a) | 149.6 | 149.6 |
| £90.0m 5.120% private placement due 2042 (a) | 89.7 | 89.7 |
| £150.0m floating rate loan due 2024 ^{(a). (g)} | - | 149.9 |
| £125.0m floating rate loan due 2024 ^{(a), (g), (h)} | 125.0 | 124.9 |
| £51.1m floating rate loan due 2029 ^{(a), (g)} | 51.0 | 51.0 |
| £63.1m floating rate loan due 2031 ^{(a), (g)} | 62.9 | 62.9 |
| £100.0m floating rate loan due 2029 ^{(a), (g)} | 99.7 | 99.6 |
| £98.5m floating rate loan due 2029 ^{(α), (g)} | 98.2 | _ |
| £65.0m Class B floating rate loan due 2027 ^{(a). (g)} | 64.6 | _ |
| Total secured bank loans and private placements | 2,947.8 | 3,259.7 |

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

- (a) These loans and private placements are shown net of issuance costs.
- (b) This debt amortises in equal tranches from 2017 onwards.
- (c) This debt amortises from 2023 to 2033 in semi-annual tranches of £3.0 million, followed by semi-annual tranches of £750,000 until maturity where there will be a bullet repayment of £25.0 million.
- (d) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
- (e) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.
- (f) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
- (g) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
- (h) These loans contain a circular economy adjustment that reduce the interest rate of the loans if certain key performance indicators are met.
- (i) In October 2023, the £100.0 million Class A RPI loan originally due in February 2025, with accreted principal of £144.8 million, was extended to 2033. In addition to the extension, the interest rate on the loan was amended to 3.44% with effect from the original maturity date. As the extension and amendment was a substantial modification, a gain on extinguishment of £1.0 million was recognised in the income statement under net gains/(losses) on financial instruments.
- (j) In October 2023, the £125,0 million Class A RPI loan originally due in March 2026, with accreted principal of £180.1 million, was extended to 2033. In addition to the extension, the interest rate on the loan was amended to 3.67% with effect from the original maturity date. As the extension and amendment was a substantial modification, a gain of extinguishment of £3.6 million was recognised in the income statement under net gains/(losses) on financial instruments.

Breakdown of amounts owed to group undertakings:

These amounts are intercompany loans.

| As at 31 March | 2024 £m | 2023 £m |
|---|------------|------------|
| THAMES WATER UTILITIES FINANCE PLC | | |
| £330.0m 6.750% fixed rate due 2028 (b) | 328.5 | 328.3 |
| £200.0m 6.500% fixed rate due 2032 (b) | 198.4 | 198.3 |
| £600.0m 5.125% fixed rate due 2037 ^(b) | 597.1 | 597.0 |
| £300.0m 1.680% index-linked due 2053 (b). (j) | 578.8 | 530.7 |
| £300.0m 1.681% index-linked due 2055 (b), (j) | 578.8 | 530.7 |
| £82.0m 2.9720% fixed rate due 2026 ^(a) | 81.9 | 81.9 |
| £101.3m 3.2300% fixed rate due 2029 (a) | 101.1 | 101.1 |
| £44.1m 3.1468% fixed rate due 2030 ^(a) | 43.9 | 43.9 |
| £128.7m 4.300% fixed rate due 2024 (a) | _ | 128.8 |
| £161.1m 4.534% fixed rate due 2027 ^(a) | 161.0 | 161.0 |
| £100.0m 1.790% index-linked due 2029 (c), (e), (j) | 140.1 | 131.4 |
| £300.0m 4.375% fixed rate due 2034 (a), (b) | 296.8 | 296.5 |
| ¥20.0bn 3.280% fixed rate due 2038 (a), (h) | 104.6 | 121.8 |
| £200.0m 0.205% index-linked due 2039 (a), (c), (e), (j), (m) | 281.8 | 264.5 |
| £50.0m 3.853% index-linked due 2040 (a), (d) | 78.6 | 76.8 |
| £500.0m 5.500% fixed rate due 2041 (a), (b) | 491.1 | 490.8 |
| £50.0m 1.980% index-linked due 2042 (a), (b), (j) | 91.0 | 86.6 |
| £55.0m 2.091% index-linked due 2042 (a), (b), (j) | 97.3 | 92.7 |
| £40.0m 1.974% index-linked due 2045 (a), (b), (j)), (k) | 52.5 | 51.8 |
| £300.0m 4.625% fixed rate due 2046 (a), (b) | 294.2 | 294.0 |
| £100.0m 1.846% index-linked due 2047 (a), (b), (j) | 182.1 | 173.0 |
| £200.0m 1.819% index-linked due 2049 (a), (b), (j) | 363.6 | 345.5 |
| £200.0m 1.771% index-linked due 2057 (a), (b), (j) | 363.2 | 345.1 |
| £100.0m index-linked due 2060 (a), (c), (j), (m) | 101.8 | 131.5 |
| £350.0m 1.760% index-linked due 2062 (a), (b), (j) | 634.9 | 603.4 |
| £500.0m (now £314.5m) 4.000% fixed rate due 2025 (a), (b), (f) | 313.9 | 498.4 |
| £40.0m 0.750% index-linked loan due 2034 ^{(a), (b), (j)} | 58.2 | 55.5 |
| £45.0m 0.721% index-linked loan due 2027 (a), (b), (j) | 65.4 | 62.3 |
| £300.0m 3.500% fixed rate loan due 2028 (a), (b) | 298.3 | 298.0 |
| £400.0m 7.738% fixed rate bond due 2058 ^{(a), (b)} | 416.6 | 417.1 |
| £250.0m 1.875% fixed rate bond due 2024 (a), (b) | _ | 249.7 |
| £250.0m 2.625% fixed rate bond due 2032 (a), (b) | 248.3 | 248.1 |
| £300.0m 2.375% Class B fixed rate bond due 2023 (a). (b) | _ | 300.0 |
| £250.0m 2.875% Class B fixed rate bond due 2027 (a), (b) | 248.7 | 248.4 |
| £143.6m 2.296% fixed rate bond due 2024 (a), (b) | 143.5 | 143.4 |
| £350.0m 2.375% fixed rate bond due 2040 (a), (b) | 346.4 | 346.2 |
| £40.0m 2.442% fixed rate bond due 2050 (a), (b) | 39.9 | 39.9 |







Notes to the Company financial statements continued

42. Borrowings continued

| As at 31 March | 2024 £m | 2023 £m |
|--|------------|------------|
| £84.7m 0.875% fixed rate bond due 2023 ^(a) | _ | 84.6 |
| £362.8m 0.987% fixed rate bond due 2023 (a) | _ | 362.7 |
| £90.4m 1.009% fixed rate bond due 2023 ^(a) | _ | 90.4 |
| £44.2m 1.619% fixed rate bond due 2030 ^(a) | 44.1 | 44.1 |
| £29.6m 1.233% fixed rate bond due 2027 (a) | 29.6 | 29.6 |
| £483.6m 2.218% fixed rate bond due 2028 (a) | 482.1 | 481.7 |
| £483.7m 2.483% fixed rate bond due 2032 ^(a) | 481.9 | 481.7 |
| £200.0m Class B floating rate loan due 2026 (a), (b), (l) | 198.7 | 198.2 |
| £573.6m 4.100% fixed rate bond due 2027 (a) | 574.2 | 573.6 |
| £882.9m 4.475% fixed rate bond due 2031 (a) | 883.3 | 882.9 |
| £220.7m Class B floating rate loan due 2023 (a), (l), (l) | _ | 220.7 |
| £75.0m Class B floating rate loan due 2023 (a), (l) | _ | 75.0 |
| £75.0m Class B floating rate loan due 2023 (a), (l) | _ | 75.0 |
| £270.0m floating rate loan due 2024 (a), (i) (l) | 270.0 | _ |
| £260.0m floating rate loan due 2024 (a), (i), (l) | 260.0 | _ |
| £280.0m floating rate loan due 2024 (a), (i), (l) | 280.0 | _ |
| £250.0m floating rate loan due 2024 (a), (i) (l) | 250.0 | _ |
| £220.7m Class B floating rate loan due 2024 (a), (g), (i), (l) | 220.7 | _ |
| £75.0m Class B floating rate loan due 2024 (a), (g), (i), (l) | 75.0 | _ |
| £75.0m Class B floating rate loan due 2024 (a), (g), (l) | 75.0 | _ |
| £300.0m 8.250% fixed rate bond due 2040 (a), (b) | 294.5 | _ |
| £275.0m 7.125% fixed rate bond due 2031 (a), (b) | 271.5 | _ |
| £575.0m 7.750% fixed rate bond due 2044 (a), (b) | 567.1 | _ |
| THAMES WATER LIMITED | | |
| £0.3m floating rate loan due 2043¹ | _ | 0.3 |
| THAMES WATER UTILITIES HOLDINGS LIMITED | | |
| £5.2m floating rate loan due 2043² | _ | 5.2 |
| Total amounts owed to group undertakings | 13,680.0 | 12,719.8 |

All debt is Class A except where highlighted.

- (a) TWUF charges the Company a margin of ten basis points in respect of the loans.
- (b) These loans are shown net of issuance costs.
- (c) This intercompany loan has been disclosed as current as it is expected to be settled within 12 months.
- $(d) \ \ This is a \ Limited \ Price \ Index \ ("LPI") \ loan. \ Accretion \ is \ calculated \ using \ an \ adjusted \ UK \ Retail \ Price \ Index.$
- (e) These amounts have been swapped into RPI-linked debt within the financing subsidiary and the net proceeds lent to the Company.
- (f) In January 2024, the Company repurchased £185.5 million of the intercompany loan from TWUF (out of the £500.0 million intercompany loan due in 2025) at a £7.0 million discount.
- (g) In March 2024, £370.7 million Class B revolving credit facilities were drawn. In April 2024, these Class B drawdowns were fully repaid.
- (h) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.
- (i) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Company assigned by both S&P and Moody's and the Group's GRESB Score.
- (j) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
- (k) The intercompany loan amortises semi-annually between October 2015 and October 2045 in accordance with a published schedule.
 (l) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
- (m) This intercompany loan has been disclosed as current as it is repayable on demand.
- 1 In March 2024, the Company repaid the £0.3 million floating rate loan from Thames Water Limited including associated interest.
- 2 In March 2024, the Company repaid the £5.2 million floating rate loan from Thames Water Utilities Holdings Limited including associated interest.

43. Financial instruments

Categories of financial instruments

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

| The earlying values of the financial assets and hashines of the company are as follows. | | |
|---|------------|------------|
| Financial assets: | | |
| As at 31 March | 2024 £m | 2023 £m |
| Fair value through profit or loss | | |
| Cross currency swaps | 26.7 | 34.3 |
| Interest rate swaps | 247.6 | 257.4 |
| Index-linked swaps | 48.7 | 40.9 |
| Cash and cash equivalents – money market funds | 1,264.8 | 1,225.0 |
| | 1,587.8 | 1,557.6 |
| Amortised cost | | |
| Intercompany loans receivable | 1,551.8 | 1,589.4 |
| Trade and other receivables (excluding prepayments) | 483.2 | 449.5 |
| Cash and cash equivalents – short-term investments | _ | 605.0 |
| Cash and cash equivalents – cash at bank and in hand | 14.8 | 5.1 |
| | 2,049.8 | 2,649.0 |
| Total | 3,637.6 | 4,206.6 |
| Financial liabilities: | | |
| | 2024 | 2023 |
| As at 31 March | £m | £m |
| Fair value through profit or loss | (70.0) | (////) |
| Cross currency swaps | (79.9) | (44.4) |
| Interest rate swaps | (288.9) | (316.3) |
| Index-linked swaps | (1,044.0) | (1,188.4) |
| Association Local | (1,412.8) | (1,549.1) |
| Amortised cost | (4.04.7.0) | (005.0) |
| Trade and other payables (excluding other taxation and social security) | (1,045.2) | (885.9) |
| Borrowings | (16,959.5) | (16,272.5) |
| Lease liabilities | (53.0) | (57.0) |
| Bank overdraft ¹ | (126.7) | (47.245.1) |
| | (18,184.4) | (17,215.4) |
| Total | (19,597.2) | (18,764.5) |

¹ Bank overdraft as at 31 March 2024 reflects the impact of £130.0 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024. This presentation follows our accounting policy, whereby committed payments are accounted for on the date the payment instruction is committed, which may be in advance of the cash settlement. Cash from money market funds and short term investments was sufficient to cover the cash outflows on the settlement date post year-end.







Notes to the Company financial statements continued

43. Financial instruments continued

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability 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 to 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; or

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. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate, index-linked and cross currency 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 derivative instruments as level 2. IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Company and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied in the valuation of such swaps. Credit risk sensitivity analysis is included in Note 43. The table below sets out the valuation basis of financial instruments (excluding cash and cash equivalents – money market funds which are classified as level 1) held at fair value through profit or loss as at 31 March 2024:

| | | 2' |
|--|------------|------------|
| As at 31 March | 2024 £m | 2023 £m |
| Financial assets – derivative financial instruments | | |
| Cross currency swaps | 26.7 | 34.3 |
| Interest rate swaps | 247.6 | 257.4 |
| Index-linked swaps | 48.7 | 40.9 |
| | 323.0 | 332.6 |
| Financial liabilities – derivative financial instruments | | |
| Cross currency swaps | (79.9) | (44.4) |
| Interest rate swaps | (288.9) | (316.3) |
| Index-linked swaps | (1,044.0) | (1,188.4) |
| | (1,412.8) | (1,549.1) |
| Net total | (1,089.8) | (1,216.5) |

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

During the year, £18.7 million (2023: £21.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 155. The amount recycled of £18.7 million consisted of the phased release of cash flow hedge reserve over the relevant hedging period where the related debt has been issued and has not matured.

In November 2019, the maturity date of an index linked swap, with a notional value of £200.0 million, was extended to 2038. The index linked swap is measured at fair value through profit or loss. At the restructuring date the fair value of the instrument, as indicated by the fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value

of £15.8 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swap, which continue to be significantly supported by observable inputs and hence it is appropriate for the index-linked swap to be categorised within level 2 of the fair value hierarchy on an ongoing basis. IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Company and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence super seniority adjustment is applied to such swaps. Credit risk sensitivity analysis is included in Note 43. Therefore, such movement was deferred on the statement of financial position in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2024, £11.9 million within derivative financial liabilities (2023: £12.8 million) remained capitalised and £0.9 million had been recognised in the income statement within net gains/(losses) on financial instruments (2023: £0.9 million). During 2023/24, the Financial Reporting Council ("FRC") concluded a limited scope review of the annual report and accounts (in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures), primarily in respect of the application of IFRS 13 'Fair Value Measurement' and accounts following the conclusion of the review; we had previously provided enhanced disclosures in relation to the matter in the 2022/23 annual accounts.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's intercompany loans receivable, trade and other receivables, cash and cash equivalents and amounts owed to group undertaking are considered to be approximate to their fair values, except where noted below. The fair values and carrying values of the Company's financial assets and financial liabilities are set out in the tables below.

Financial assets:

| Tillaticial assets. | 202 | 4 | 2023 | |
|--|------------------|------------------|------------------|-------------------|
| As at 31 March | Book value £m | Fair value £m | Book value £m | Fair value² £m |
| Non-current | | | | |
| Intercompany loans receivable ¹ | 1,200.6 | 630.1 | 1,549.1 | 1,235.3 |
| Derivative financial instruments | | | | |
| Cross currency swaps | _ | _ | 34.3 | 34.3 |
| Interest rate swaps | 245.1 | 245.1 | 257.4 | 257.4 |
| Index-linked swaps | 48.7 | 48.7 | 40.9 | 40.9 |
| Other receivables (excluding prepayments) ¹ | 38.9 | 38.9 | 61.8 | 61.8 |
| | 1,533.3 | 962.8 | 1,943.5 | 1,629.7 |
| Current | | | | |
| Cash and cash equivalents | 1,279.6 | 1,279.6 | 1,835.1 | 1,835.1 |
| Intercompany loans receivable ¹ | 351.2 | 351.2 | 40.3 | 40.3 |
| Trade and other receivables (excluding prepayments) | 444.3 | 444.3 | 387.7 | 387.7 |
| Derivative financial instruments | | | | |
| Cross currency swaps | 26.7 | 26.7 | _ | _ |
| Interest rate swaps | 2.5 | 2.5 | _ | _ |
| | 2,104.3 | 2,104.3 | 2,263.1 | 2,263.1 |
| Total | 3,637.6 | 3,067.1 | 4,206.6 | 3,892.8 |

¹ Per Note 38, intercompany loans receivable includes floating rate loans and related interest. This includes two loans due from TWUF that are repayable on demand where the carrying amounts of the loans are considered to be approximate to their fair values. The remaining two loans are due from TWUHL, of which 1) is repayable on demand with a letter of comfort and the 2) repayable in 2037. For these loans, the fair value is based on an estimate of future cash flows, including expectations about possible variations in the amount and timing of these cashflows.

² Values of non-current intercompany loans receivable have been amended from the published 2023 report, to present a corrected calculation.







Notes to the Company financial statements continued

43. Financial instruments continued Financial liabilities:

| | | 2024 | | 2023 | |
|---|------------------|------------------|------------------|------------------|--|
| As at 31 March | Book value £m | Fair value £m | Book value £m | Fair value £m | |
| Non-current | | | | | |
| Borrowings | | | | | |
| Secured bank loans and private placements | (2,566.1) | (2,159.8) | (2,769.6) | (2,678.4) | |
| Amounts owed to group undertakings | (11,580.3) | (9,530.0) | (10,999.8) | (10,555.2) | |
| Derivative financial instruments | | | | | |
| Cross currency swaps | (79.9) | (79.9) | (44.4) | (44.4) | |
| Interest rate swaps | (288.9) | (288.9) | (316.3) | (316.3) | |
| Index-linked swaps | (939.5) | (939.5) | (1,135.0) | (1,135.0) | |
| Lease liabilities | (45.2) | (45.2) | (49.7) | (49.7) | |
| | (15,499.9) | (13,043.3) | (15,314.8) | (14,779.0) | |
| Current | | | | | |
| Borrowings | | | | | |
| Secured bank loans and private placements | (381.7) | (372.3) | (490.1) | (491.1) | |
| Amounts owed to group undertakings | (2,099.7) | (2,107.3) | (1,720.0) | (1,733.8) | |
| Interest payable | (331.7) | (331.7) | (293.0) | (293.0) | |
| Derivative financial instruments | | | | | |
| Index-linked swaps | (104.5) | (104.5) | (53.4) | (53.4) | |
| Trade and other payables (excluding other taxation and social security) | (1,045.2) | (1,045.2) | (885.9) | (885.9) | |
| Lease liabilities | (7.8) | (7.8) | (7.3) | (7.3) | |
| Bank overdraft ¹ | (126.7) | (126.7) | _ | _ | |
| | (4,097.3) | (4,095.5) | (3,449.7) | (3,464.5) | |
| Total | (19,597.2) | (17,138.8) | (18,764.5) | (18,243.5) | |

¹ Bank overdraft as at 31 March 2024 reflects the impact of £130.0 million committed external payments where cash settlement occurred on 2nd and 3rd April 2024. This presentation follows our accounting policy, whereby committed payments are accounted for on the date the payment instruction is committed, which may be in advance of the cash settlement. Cash from money market funds and short term investments was sufficient to cover the cash outflows on the settlement date post year-end.

Secured bank loans, private placements and bonds issued by the company's subsidiary TWUF are on-lent to the Company through intercompany agreements. Amounts owed to group undertakings include the outstanding balances owed by the Company to TWUF in respect of these intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of secured bank loans and private placements is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread. The fair value of amounts owed to group undertakings represents the market value of the underlying debt instrument, associated derivative instrument and relevant margin on the intercompany loan. 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. The fair value for amounts owed to group undertakings is based on an estimate of future cash flows, including expectations about possible variations in the amount and timing of these cashflows.

Capital risk management

Capital risk primarily relates to whether the Company is adequately capitalised and financially solvent. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Company's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, along with TWUHL, guarantees the funding activity of TWUF which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. TWUF and TWUHL guarantee the debt obligations of the Company. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Group is included on page 140.







Notes to the Company financial statements continued

43. Financial instruments continued

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

| | | 2024 | | 2023 | | |
|--|------------------|--|----------------------------|------------------|---|----------------------------|
| As at 31 March | Borrowings £m | Net derivative financial liabilities £m | Lease liabilities £m | Borrowings £m | Net derivative financial liabilities £m | Lease liabilities £m |
| Opening balance | (16,272.5) | (1,216.5) | (57.0) | (13,836.8) | (1,540.5) | (63.3) |
| Non-current | (13,769.4) | (1,163.1) | (49.7) | (12,862.5) | (1,485.7) | (57.1) |
| Current | (2,503.1) | (53.4) | (7.3) | (974.3) | (54.8) | (6.2 |
| Cash flows | | | | | | |
| New loans raised | (3,097.4) | _ | _ | (5,089.3) | _ | _ |
| Repayment of borrowings | 2,693.0 | _ | _ | 3,250.1 | _ | _ |
| Repayment of lease principal | _ | _ | 10.2 | _ | _ | 10.0 |
| Proceeds from derivative settlement ¹ | _ | _ | _ | _ | (7.9) | _ |
| Payment for derivative settlement ² | _ | 117.2 | _ | _ | 365.1 | _ |
| Interest paid ³ | 552.9 | _ | _ | 408.0 | | - |
| Interest received ⁴ | _ | (156.5) | _ | _ | (162.7) | - |
| | 148.5 | (39.3) | 10.2 | (1,431.2) | 194.5 | 10.0 |
| Non-cash changes | | | | | | |
| Interest accrued/Fees amortised | (599.5) | 156.7 | _ | (461.9) | 161.1 | _ |
| Foreign exchange movement | 30.1 | _ | _ | (0.1) | _ | - |
| Indexation | (271.1) | _ | _ | (543.1) | _ | _ |
| Fair value changes | _ | 9.3 | _ | _ | (31.6) | - |
| Lease additions | _ | _ | (3.1) | _ | _ | _ |
| Interest accrued for IFRS 16 leases | _ | _ | (3.1) | _ | | (2.3 |
| Unamortised IFRS 9 fair value adjustment | 4.3 | _ | _ | _ | _ | - |
| Unamortised IFRS 9 transition adjustment | 0.7 | _ | _ | 0.6 | _ | (1.4 |
| | (835.5) | 166.0 | (6.2) | (1,004.5) | 129.5 | (3.7 |
| Closing balance | (16,959.5) | (1,089.8) | (53.0) | (16,272.5) | (1,216.5) | (57.0 |
| Non-current | (14,146.4) | (1,014.5) | (45.2) | (13,769.4) | (1,163.1) | (49.7 |
| Current | (2,813.1) | (75.3) | (7.8) | (2,503.1) | (53.4) | (7.3 |

- 1 Proceeds from derivative settlement of £nil (2023: £7.9 million) relating to settlement of cross currency swaps.
- 2 Payment for derivative settlement of £117.2 million (2023: £365.1 million) relating to accretion paydown on index-linked swaps.
- Interest paid on borrowings of £552.9 million (2023: £408.0 million) includes £159.4 million of capitalised borrowing costs (2023: £215.2 million) and excludes £0.2 million of bank charges (2023: £0.2 million) and £0.2 million other interest expense (2023: £11), resulting in interest paid per the company statement of cash flows of £393.9 million (2023: £193.0 million)
- 4 Interest received on net derivative financial liabilities of £156.5 million (2023: £162.7 million) excludes £nil interest received on an intercompany loan with the Group's immediate parent company TWUHL (2023: £55.7 million), £8.6 million interest received on an intercompany loan with subsidiary TWUF (2023: £1.7 million), £51.0 million interest received on bank deposits (2023: £7.8 million) and £0.7 million other interest income (2023: £1.0 million), resulting in interest received per the company statement of cash flows of £216.8 million (2023: £228.9 million).

Financial risk management

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

(a) Market risk

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

| As at 31 March 2024: | Total at fixed rates £m | Total at floating rates £m | Total at RPI linked rates £m | Total £m |
|---------------------------------------|-------------------------|----------------------------|------------------------------------|-------------|
| Interest bearing loans and borrowings | | | | |
| Net of corresponding swap assets | | | | |
| £ Sterling | 6,089.4 | 2,099.8 | 9,410.2 | 17,599.4 |
| As at 31 March 2023: | Total at fixed rates £m | Total at floating rates | Total at RPI linked rates £m | Total £m |
| Interest bearing loans and borrowings | | | | |
| Net of corresponding swap assets | | | | |
| £ Sterling | 6,342.5 | 1,031.1 | 9,388.6 | 16,762.2 |

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

| | | Weighted average interest rate | | Weighted average period until maturity | |
|---------------------|---|--------------------------------|------|--|--|
| Year ended 31 March | - | 024 2023 | | | |
| Fixed | | 5.2 4.1 | 11.3 | 9.0 | |
| Index-linked | | 5.7 13.5 | 15.5 | 15.6 | |

The assumptions used for interest rate, exchange rate and inflation risk sensitivity analysis is included on relevant sections below. The assumptions are based on reasonably possible changes and their impact on financial instruments held at the reporting date. This does not represent the actual impact which will depend on actual future changes on external market variables.

Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 168.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2024. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

| | 2024 | 2024 | 2023 | 2023 |
|----------------|-------|---------|-------|---------|
| | +1% | -1% | +1% | -1% |
| As at 31 March | £m | £m | £m | £m |
| Profit/(loss) | 137.6 | (155.4) | 190.1 | (216.4) |
| Equity | 137.6 | (155.4) | 190.1 | (216.4) |







Notes to the Company financial statements continued

43. Financial instruments continued

Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Company has no material unhedged monetary assets or liabilities denominated in a currency other than Sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (\pm) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2024. This analysis assumes that all other variables in the valuation remain constant.

| As at 31 March | + | 024 2024 10% -10% £m £m | +10% | 2023 -10% £m |
|----------------|----|-------------------------------|-------|--------------------|
| Loss | (2 | 2.3) (8.5 | (1.4) | (11.0) |
| Equity | (2 | 2.3) (8.5 | (1.4) | (11.0) |

Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Company as a regulated water and wastewater company is subject to fluctuations in its revenues due to movements in inflation. Therefore, the Company's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2024. This analysis assumes that all other variables, in particular exchange rates, remain constant.

| | 2024 | 2024 | 2023 | 2023 |
|----------------|---------|-------|---------|-------|
| | +1% | -1% | +1% | -1% |
| As at 31 March | £m | £m | £m | £m |
| (Loss)/profit | (414.9) | 376.0 | (548.8) | 492.6 |
| Equity | (414.9) | 376.0 | (548.8) | 492.6 |

The Group has entered into swaps which are measured at fair value including the impact of credit risk as per IFRS 13. An increase of 10% on credit spreads over swaps will result in £25.7 million increase in profit and a decrease of 10% on credit spreads over swaps will result in £27.1 million decrease in profit. This analysis assume that all other variables will remain same.

(b) Credit risk

Credit risk relates to the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Company's trade receivables, its loans to its immediate parent entity TWUHL, insurance receivables short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Company and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Company's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 37. For non-household customers, the Company's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Company's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Company's maximum exposure to credit risk is the carrying amount of financial assets and contract assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2024, no collateral was held (2023: nil).

The following table summarises amounts held on cash at bank and in hand, in money market funds and short-term investments by credit rating of counterparties.

| As at 31 March | 2024 £m | 2023 £m |
|----------------|------------|------------|
| AAA | 1,264.8 | 1,225.0 |
| A+ | 14.8 | 230.0 |
| A | _ | 380.1 |
| Total | 1.279.6 | 1.835.1 |

Note: funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

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

| As at 31 March | 2024 £m | 2023 £m |
|----------------|------------|------------|
| AA- | 43.7 | 47.0 |
| A+ | 262.1 | 265.0 |
| A | 17.2 | 20.6 |
| Total | 323.0 | 332.6 |

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in note 42.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

| As at 31 March | 2024 £m | 2023 £m |
|------------------------------|------------|------------|
| Within one year ¹ | (2,481.4) | (2,210.1) |
| Between one and two years | (557.1) | (670.4) |
| Between two and three years | (496.6) | (754.5) |
| Between three and four years | (1,796.6) | (652.3) |
| Between four and five years | (732.4) | (1,726.7) |
| After more than five years | (10,563.7) | (9,965.5) |
| Total | (16,627.8) | (15,979.5) |

^{1 £1,355.7} million (2023: £370.7 million) out of the £2,481.4 million due within one year (2023: £2,210.1 million) relates to intercompany loans with TWUF relating to revolving credit facility drawdowns that can be rolled over. Refer to Note 48 Post balance sheet events for information on intercompany loans relating to revolving credit facility drawdowns post year end.

Thames Water Annual Report 2023/24 Strategic report Governance Financial statements





Notes to the Company financial statements continued

43. Financial instruments continued

Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

| As at 31 March | 2024 £m | 2023 £m |
|------------------------------|------------|------------|
| Undiscounted amounts payable | | |
| Within one year ¹ | (4,104.6) | (3,476.9) |
| Between one and two years | (1,177.5) | (1,337.4) |
| Between two and three years | (1,041.9) | (1,428.9) |
| Between three and four years | (2,352.9) | (917.1) |
| Between four and five years | (1,219.2) | (2,179.5) |
| After more than five years | (21,428.6) | (21,905.2) |
| Total | (31,324.7) | (31,245.0) |

^{1 £1,355.7} million (2023: £370.7 million) out of the £4,104.6 million due within one year (2023: £3,476.9 million) relates to intercompany loans with TWUF relating to revolving credit facility drawdowns that can be rolled over. Refer to Note 48 Post balance sheet events for information on intercompany loans relating to revolving credit facility drawdowns post year end.

Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

| As at 31 March | 2024 £m | 2023 £m |
|------------------------------|------------|------------|
| Undiscounted amounts payable | | |
| Within one year | (5.9) | 119.5 |
| Between one and two years | 90.6 | (27.0) |
| Between two and three years | 100.0 | 124.1 |
| Between three and four years | 9.0 | 133.3 |
| Between four and five years | (294.2) | 42.6 |
| After more than five years | (1,832.5) | (2,084.8) |
| Total | (1,933.0) | (1,692.3) |

Cash flow hedges

The Company has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 118.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2024, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the relevant hedging period.

During the year, £18.7 million (2023: £21.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 155. The amount recycled of £18.7 million consisted of a phased release of cash flow hedge reserve where the related debt has been issued and has not matured.

The Company's cash flow hedge reserve disclosed on the statement of changes in equity on page 155 relate to forward starting interest rate swaps which have now commenced.

| Cash flow hedge reserve | £m |
|---|--------|
| At 1 April 2022 | (33.2) |
| Cash flow hedge transferred to income statement | 21.1 |
| Deferred tax charge on cash flow hedge | (4.0) |
| At 31 March 2023 | (16.1) |
| Cash flow hedge transferred to income statement | 18.7 |
| Deferred tax charge on cash flow hedge | (4.7) |
| At 31 March 2024 | (2.1) |

As at 31 March 2024, £2.1 million remained on the cash flow hedge reserve (2023: £16.1 million), including £2.8 million representing phasing of amounts to be reclassified to the income statement from the cash flow hedge reserve relating to the Company's forward starting interest rate swaps which have commenced (2023: £21.5 million), offset by £0.7 million relating to deferred tax on the cash flow hedge reserve (2023: £5.4 million).

The following are the effects of forward starting interest rate swaps which have commenced on the Company's financial position and performance:

| As at 31 March Quantitative | 2024 £m | 2023 £m |
|--|--------------|--------------|
| Cash flow hedge transferred to income statement | 18.7 | 21.1 |
| | | |
| As at 31 March Qualitative | 2024 | 2023 |
| Line item affected in income statement due to reclassification | Net gains | Net losses |
| | on financial | on financial |
| | instruments | instruments |

1) The table below shows phasing of amounts to be reclassified to income statement from the cash flow hedge reserve, which relates to the Company's forward starting interest rate swaps which have commenced:

| | 2024 | 2023 |
|------------------------------|-------|--------|
| As at 31 March | €m | £m |
| Interest rate swaps | | |
| Within one year | (2.8) | (18.7) |
| Between one and two years | _ | (2.8) |
| Between two and three years | _ | - |
| Between three and four years | _ | - |
| Between four and five years | _ | _ |
| After more than five years | _ | _ |
| Total | (2.8) | (21.5) |
| | | |





Of which:



Notes to the Company financial statements continued

43. Financial instruments continued

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2024 and 31 March 2023. The column 'net amounts' shows the impact on the statement of financial position if circumstances arose for set-off rights to be applied.

| | Effects of offsetting on the Company statement of financial position | | | | | |
|----------------------------------|--|--------------------------|---|--|----------------------|--|
| As at 31 March 2024 | Gross amounts £m | Amounts set off £m | Net amounts presented on Company statement of financial position £m | Impact of master netting arrangements £m | Net amounts £m | |
| Financial assets | | | | | | |
| Derivative financial instruments | 323.0 | _ | 323.0 | (275.2) | 47.8 | |
| | 323.0 | _ | 323.0 | (275.2) | 47.8 | |
| Financial liabilities | | | | | | |
| Derivative financial instruments | (1,412.8) | _ | (1,412.8) | 275.2 | (1,137.6) | |
| | (1,412.8) | - | (1,412.8) | 275.2 | (1,137.6) | |
| Total | (1,089.8) | _ | (1,089.8) | _ | (1,089.8) | |

| | Effects | Effects of offsetting on the Company statement of financial position | | | | | |
|----------------------------------|------------------------|--|--|---|----------------------|--|--|
| As at 31 March 2023 | Gross amounts £m | Amounts set off £m | Net amounts presented on Company statement of financial position | Impact of master netting arrangements £m | Net amounts £m | | |
| Financial assets | | | | | | | |
| Derivative financial instruments | 332.6 | _ | 332.6 | (270.8) | 61.8 | | |
| | 332.6 | _ | 332.6 | (270.8) | 61.8 | | |
| Financial liabilities | | | | | | | |
| Derivative financial instruments | (1,549.1) | _ | (1,549.1) | 270.8 | (1,278.3) | | |
| | (1,549.1) | _ | (1,549.1) | 270.8 | (1,278.3) | | |
| Total | (1,216.5) | _ | (1,216.5) | _ | (1,216.5) | | |
| | | | | | | | |

IBOR reform

The following table contains details of all of the financial instruments that the Company holds at 31 March 2024 and 31 March 2023 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

| | Carrying value at 31 March 2024 | | Of which: Have yet to transition to an alternative benchmark interes rate as at 31 March 2024 | |
|---|---------------------------------|-------------------|--|-------------------|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Assets and liabilities exposed to GBP LIBOR | | | | |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | | | | |
| Index-linked swaps ¹ | _ | (98.3) | _ | (98.3) |
| Amortised cost | | | | |
| Intercompany loans receivable ² | 300.0 | _ | 300.0 | _ |
| Borrowings ³ | _ | (168.2) | _ | (168.2) |
| Total assets and liabilities exposed to GBP LIBOR | 300.0 | (266.5) | 300.0 | (266.5) |

- 1 Consists of £98.3 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
- Consists of £300.0 million intercompany loans receivable where the interest rate is directly linked to LIBOR.
 Consists of £168.2 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The facility was amended in April 2024 to remove LIBOR references.

| | Carrying value at 2 | 31 March 2023 | Have yet to tran alternative bench rate as at 31 M | mark interest |
|---|---------------------|-------------------|--|-------------------|
| | Assets £m | Liαbilities £m | Assets £ m | Liabilities £m |
| Assets and liabilities exposed to GBP LIBOR | | | | |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | | | | |
| Index-linked swaps ¹ | _ | (111.4) | _ | (111.4) |
| Amortised cost | | | | |
| Intercompany loans receivable ² | 300.0 | _ | 300.0 | |
| Borrowings ³ | _ | (993.9) | _ | (993.9) |
| Total assets and liabilities exposed to GBP LIBOR | 300.0 | (1,105.3) | 300.0 | (1,105.3) |

- 1 Consists of £111.4 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
- 2 Consists of £300.0 million intercompany loans receivable where the interest rate is directly linked to LIBOR.
- $3 \quad \text{Consists of £993.9 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation.} \\$





Notes to the Company financial statements continued

44. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Company is set out below:

| | Accelerated tax depreciation £m | Retirement benefits £m | Cash flow hedge £m | Tax losses carried forward £m | Other £m | Total £m |
|---|---------------------------------|------------------------------|--------------------------|-------------------------------------|-------------|-------------|
| At 1 April 2022 | (1,519.0) | 60.1 | 255.7 | _ | 19.1 | (1,184.1) |
| (Charge)/credit to income statement including impact of tax | | | | | | |
| rate change | 56.1 | 0.1 | (141.1) | 31.7 | (4.3) | (57.5) |
| (Charge)/credit to other comprehensive income | _ | (16.8) | (4.0) | _ | _ | (20.8) |
| At 31 March 2023 | (1,462.9) | 43.4 | 110.6 | 31.7 | 14.8 | (1,262.4) |
| (Charge)/credit to income statement | 56.5 | (11.0) | (72.8) | (31.7) | 4.0 | (55.0) |
| Charge to other comprehensive income | _ | (5.9) | (4.7) | _ | _ | (10.6) |
| At 31 March 2024 | (1,406.4) | 26.5 | 33.1 | _ | 18.8 | (1,328.0) |

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

| As at 31 March | 2024 £m | 2023 £m |
|------------------------------|------------|------------|
| Deferred tax assets | 78.4 | 200.5 |
| Deferred tax liabilities | (1,406.4) | (1,462.9) |
| Net deferred tax liabilities | (1,328.0) | (1,262.4) |

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of the Company's capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Company mean that the temporary differences normally increase every year. This year, capital allowances claimed are less than accounting depreciation so the deferred tax liability arises in respect of accelerated tax depreciation has reduced.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is recognised on the retirement benefit obligations booked in the financial statements. The £26.5 million deferred tax asset at 31 March 2024 is the net of an asset of £38.0 million (deficit on the TWPS pension scheme of £152.1 million at 25% tax rate) less a liability of £11.5 million (surplus on the TWMIPS pension scheme of £33.0 million at 35% tax rate). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- Cash flow hedges: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- **Tax losses carried forward:** The Company had expected to have surplus tax losses for the prior year as at 31 March 2023 but these have now been sold as group relief for which payment has been received at the standard corporation tax rate for the prior year.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

45. Called up share capital and other reserves Called up share capital

| | 2024 | | | | 2023 | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| Authorised, allotted, called up and fully paid: | | | | | | |
| 76,550,000 ordinary shares of £1 each (2023: 29,050,000 | | | | | | |
| ordinary shares of £1 each) | 76.5 | - | 76.5 | 29.0 | _ | 29.0 |

The Company has one class of ordinary share which carries 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.

During the year ended 31 March 2024, two internal inflation mechanism pension contribution payments were made totalling £47.5 million for the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme, by KWE, an intermediate parent of the company, on behalf of TWUL. Payments were recorded through intercompany transactions with a resultant intercompany payable balance in TWUL owed to its immediate parent, TWUHL. As a result, during the year, TWUL issued 47.5 million shares with a nominal value of £1 each to TWUHL, in exchange for the extinguishment of the intercompany payable owed to TWUHL, for a total value of £47.5 million.

Other reserves

| | | 2024 | | | 2023 | | |
|-------------------------|------------------|-----------|-------------|------------------|-----------|-------------|--|
| As at 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m | |
| Share premium | 100.0 | _ | 100.0 | 100.0 | _ | 100.0 | |
| Cash flow hedge reserve | (2.1) | _ | (2.1) | (16.1) | _ | (16.1) | |
| Revaluation reserve | 770.9 | _ | 770.9 | 795.5 | _ | 795.5 | |
| Retained earnings | 440.8 | 477.7 | 918.5 | 736.8 | 390.3 | 1,127.1 | |
| Total | 1,309.6 | 477.7 | 1,787.3 | 1,616.2 | 390.3 | 2,006.5 | |

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax,

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Refer to note 9 for information on the dividends paid by the Company.





Notes to the Company financial statements continued

46. Contingent liabilities

Contingent liabilities for the Company are consistent with the Group, as detailed in note 26.

47. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases that do not fall under IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

48. Post balance sheet events

In April 2024:

- the intercompany loans with TWUF in respect of a total of £370.7 million Class B Revolving Credit Facilities were repaid;
- the intercompany loans with TWUF in respect of a total of £530.0 million Class A Revolving Credit Facilities due in April 2024 were rolled over and are now due in October 2024; and
- the intercompany loan with TWUF in respect of a £75.0 million Class B Revolving Credit Facility matured in line with the date on the original agreement.
- Moody's downgraded their Corporate Family Rating to Baa3, their Class A debt rating to Baa2 and their Class B debt rating to Ba3, all with a negative outlook; and
- S&P downgraded their Class A rating to BBB- with negative outlook and their Class B rating to BB with negative outlook.

In May 2024:

• £365.8 million was drawn from a Class A Revolving Credit Facility by TWUF. TWUF loaned the proceeds from the drawdowns to the Company on the same terms plus a margin.

In June 2024:

- £725.0 million was drawn from a Class A Revolving Credit Facility by TWUL;
- £80.0 million was drawn from a Class A loan agreement originally entered into in November 2022; and
- the intercompany loans with TWUF in respect of a total of £530.0 million Class A Revolving Credit Facilities due in June 2024 were rolled over and are now due in December 2024.

49. Statement of cash flows

Reconciliation of operating profit to operating cash flows

| | 2024 | | | | 2023 | |
|---|------------------|-----------|-------------|------------------|-----------|-------------|
| Year ended 31 March | Underlying £m | BTL £m | Total £m | Underlying £m | BTL £m | Total £m |
| (Loss)/profit for the financial year | (137.8) | 87.4 | (50.4) | (344.9) | 102.2 | (242.7) |
| Less finance income | (305.0) | _ | (305.0) | (229.5) | _ | (229.5) |
| Add finance expense excluding interest on lease liabilities | 743.4 | _ | 743.4 | 809.2 | _ | 809.2 |
| Add interest expense on lease liabilities | 3.1 | _ | 3.1 | 1.4 | _ | 1.4 |
| Add/(less) net losses/(gains) on financial instruments | (32.3) | _ | (32.3) | 52.8 | - | 52.8 |
| Add impairment losses on intercompany loan | 118.9 | _ | 118.9 | _ | _ | _ |
| Add/(less) taxation on (loss)/profit on ordinary activities | 10.4 | 29.2 | 39.6 | (17.6) | (17.8) | (35.4) |
| Operating profit | 400.7 | 116.6 | 517.3 | 271.4 | 84.4 | 355.8 |
| Depreciation on property, plant and equipment | 655.6 | - | 655.6 | 637.3 | _ | 637.3 |
| Amortisation of intangible assets | 71.2 | - | 71.2 | 65.9 | _ | 65.9 |
| Depreciation of right of use asset | 6.7 | - | 6.7 | 8.8 | _ | 8.8 |
| (Gain)/loss on sale of property, plant and equipment | (22.3) | - | (22.3) | 3.0 | _ | 3.0 |
| Impairment of property, plant and equipment | 27.0 | - | 27.0 | 18.2 | _ | 18.2 |
| Impairment of intangible assets | 3.0 | - | 3.0 | _ | _ | _ |
| Difference in pension charge and cash contribution | 1.9 | - | 1.9 | (6.6) | _ | (6.6) |
| Increase in inventory | (2.4) | - | (2.4) | (7.9) | _ | (7.9) |
| (Increase) in trade and other receivables ¹ | (39.7) | (124.4) | (164.1) | (60.7) | (70.9) | (131.6) |
| (Increase)/decrease in contract assets | (35.0) | (2.3) | (37.3) | (3.2) | 3.9 | 0.7 |
| Increase/(decrease) in trade and other payables | 9.4 | 8.9 | 18.3 | 55.6 | (13.0) | 42.6 |
| Increase/(decrease) in contract liabilities | 137.0 | 0.5 | 137.5 | 95.5 | (2.6) | 92.9 |
| Group relief received | 156.0 | - | 156.0 | _ | _ | _ |
| Increase in provisions | 47.0 | - | 47.0 | 42.7 | _ | 42.7 |
| Net cash generated by operating activities ² | 1,416.1 | (0.7) | 1,415.4 | 1,120.0 | 1.8 | 1,121.8 |
| | | | | | | |

- 1 Movement in trade and other receivables excludes the movement in group relief receivable/payable; any amounts paid/received in the period are disclosed within "Group relief paid".
- 2 Net cash generated by operating activities for the year ended 31 March 2024 includes £37.6 million (2023: £nil) payments made during the year ended 31 March 2024 related to the exceptional costs recognised in the income statement of £43.9m (2023: £nil) for restructuring and transformation expenditure. Refer to note 3. Net cash generated by operating activities (excluding payments relating to exceptional items and BTL) for the year ended 31 March 2024 would be £1,453.7 million. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made, the net cash generated by operating activities for the year ended 31 March 2024 would have included a cash payment of £10.2 million. In the year ended 31 March 2024, two payments for internal inflation mechanism pension contributions were made on TWUL's behalf by Kemble Water Eurobond plc and are not included in cash flows from operating activities above, one for £20.4 million in April 2023 and one for £27.1 million in March 2024, please refer to note 9 and note 23 for further details. If this was not the case, the April 2023 payment which was due in the year ended 31 March 2024 and the March 2024 payment which was not due until the year ended 31 March 2025, would otherwise have been recorded within operating rash flows.

Movement in net cash and cash equivalents

| | 2024 | 2023 |
|--------------------------------|---------|---------|
| Year ended 31 March Note | £m | £m |
| Unrestricted cash movement | 9.7 | (7.3) |
| Bank overdraft 40 | (126.7) | _ |
| Movement in money market funds | (565.2) | 1,418.5 |
| Total | (682.2) | 1,411.2 |







Notes to the Company financial statements continued

50. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'supply of trade' disclosure in the Annual Performance Report, which will be published on our website following their approval.

Trading transactions

| Trading transactions | 2024 | | 2023 | |
|--|--|---|--|---|
| Year ended 31 March | Services provided by the Company £'000 | Services provided to the Company £'000 | Services provided by the Company £'000 | Services provided to the Company £'000 |
| Ultimate parent | £ 000 | £ 000 | £ 000 | £ 000 |
| Kemble Water Holdings Limited | 675 | _ | 915 | _ |
| Intermediaries between the immediate and ultimate parent | 073 | | 313 | |
| Kemble Water Eurobond plc | 46 | _ | 35 | _ |
| Kemble Water Finance Limited | 226 | _ | 284 | _ |
| Thames Water Limited | 864 | _ | 720 | _ |
| Immediate parent | | | | |
| Thames Water Utilities Holdings Limited | 70,275 ¹ | _ | 47,462 | _ |
| Subsidiary | · | | | |
| Thames Water Utilities Finance plc | 27,501 ¹ | 475,665 | 6,595 | 379,745 |
| Other entities within the Kemble Water Holdings group | | | | |
| Kennet Properties Limited | 112 | _ | 394 | 31 |
| Thames Water Property Services Limited | _ | 124 | _ | 236 |
| Thames Water Pension Trustees Limited | _ | 968 | 331 | _ |
| Trinzic Operations Limited | 938 | _ | 2,256 | _ |
| Trinzic Developments Limited | 836 | _ | _ | _ |
| Entities external to the Kemble Water Holdings group | | | | |
| SGN Commercial Services Limited | _ | 4,495 | - | _ |
| Dunelm Energy Limited | _ | 10 | - | 16 |
| Southern Gas Networks plc | _ | 64 | - | _ |
| Water UK | _ | 686 | _ | 788 |
| Worldpay (UK) Limited | _ | 8 | _ | _ |
| Duchy Of Cornwall Estate | _ | 2,240 | _ | _ |
| Total | 101,47 3 | 484,260 | 58,992 | 380,816 |

¹ This amount relates to interest on the intercompany loans receivable refer to note 38.

During the year the Company paid its immediate parent company, Thames Water Utilities Holdings Limited, dividends of £195.8 million (2023: £45.2 million). Additionally, during the year, TWUL issued 47.5 million shares with a nominal value of £1 each to TWUHL, in exchange for the extinguishment of the intercompany payable owed to TWUHL, for a total value of £47.5 million. Refer to note 45 for further detail.

Outstanding balances

The following amounts were owed to the Company from related entities, and owed to related entities by the Company at the balance sheet date:

| | 2024 | | 2023 | |
|--|--|--|--|--|
| As at 31 March | Amounts owed to the Company £'000 | Amounts owed by the Company £'000 | Amounts owed to the Company £'000 | Amounts owed by the Company £'000 |
| Intermediaries between the immediate and ultimate parent | | | | |
| Kemble Water Eurobond plc | _ | _ | 96,146 ¹ | _ |
| Immediate parent | | | | |
| Thames Water Utilities Holdings Limited | 1,319,548 | 55,645 ¹ | 1,249,106 | 16,641 ¹ |
| Subsidiary | | | | |
| Thames Water Utilities Finance plc | 351,111 | 14,103,548 | 345,488 | 13,057,285 |
| Entities external to the Kemble Water Holdings group | | | | |
| Water UK | _ | _ | _ | 328 |
| Total | 1,670,659 | 14,159,193 | 1,690,740 | 13,074,254 |

¹ These amounts relate to provisional group relief receivable/(payable) balances.

The amounts outstanding are unsecured. No guarantees have been given or received. In the current period a provision of £118.9 million was recognised as expected credit losses in respect of amounts owed by Thames Water Utilities Holdings Limited (2023: £nil). See note 38 for further detail.