Our Interim Report 2021/22

Delivering life's essential service, so our customers, communities and the environment can thrive

A snapshot

- Turnaround plan launched in March 2021 – focused on fixing the basics, raising the bar and shaping the future
- New, experienced Executive team, with eight members appointed since 1 March 2021, including new CFO, Alastair Cochran
- Journey begun to improve complaints and water metrics – however still a long way to go
- Improved operating profit, driven by growth in allowed revenue and partial recovery of non-household consumption
- Higher reported losses reflecting increases in deferred tax and non-cash losses on financial instruments
- Major step forward in the way we manage our water network – our shareholders have approved a £300 million contribution towards future investment to speed up improvements to London's network and we've launched the overhaul of our water network operating model from 2022
- Performance off track in waste metrics with serious pollutions and sewer flooding affected by extreme impact of climate change
- Planned £1.2 billion capital investment to upgrade and maintain sewage treatment works between 2020 and 2025 – alongside ensuring compliance with our obligations, this investment will help tackle sewage spills and we will provide alerts at all of our 468 permitted overflow points by the end of 2022

Contents

Key performance indicators

Our performance for the six months April – September 2021

Operational

Water supply interruptions
3 minutes 46 seconds
September 2020: 3 minutes 54 seconds

Water quality
compliance risk index
1.71
September 2020: 2.39

Leakage
(year to date annual average in megalitres per day)
577.6 Ml/d
September 2020: 538.7 Ml/d

Acceptability of water to consumers
0.37
Number of contacts per 1,000 people
September 2020: 0.40

Clearance of blockages
36,569
Number of blockages
September 2020: 35,105

Treatment works compliance
98.96%
September 2020: 99.74%

Pollution incidents
20.92
Number per 10,000km of sewers
September 2020: 21.62

Internal sewer flooding
2.11
Number per 10,000 connections
September 2020: 1.02

Financial*

Investment in assets
£627 million
September 2020: £499 million

Total revenue
£1.1 billion
September 2020: £1.0 billion

Total EBITDA
£591 million
September 2020: £535 million

Total (loss) after tax
£(581) million
September 2020: £(200) million

Credit rating

Moody's Corporate Family Rating
Baa2 (stable)
September 2020: Baa2 (stable)

Standard & Poor's Class A Rating
BBB+ (negative)
September 2020: BBB+ (negative)

Customer

Customer measure of experience (C-MeX)
70.11/17th
Score out of 100
September 2020: 74/17th

Total household complaints**
59,181
September 2020: 102,218

Per capita consumption
146.8
Litres per person per day
September 2020: 151.7

People

Lost time injuries frequency rate
(number per 100,000 hours worked)
0.10
September 2020: 0.13

Employee engagement***
75%
2020: 64%

*We have rationalised our key financial performance indicators, removing "Dividends to service debt obligations" and "Dividends to external shareholders" which were previously reported within our Annual Report and Sustainability Report 2020/21. We continue to report dividends within "Our financial review" section and within our notes to the accounts.

**A change to our complaints metric: Our previous KPI for household complaints only included written complaints, as it was the metric we were measured on by Ofwat. With the industry and the CCW moving to total complaints, and to give a better picture of our complaints position as a whole, we've updated our KPI to reflect that. For transparency as we transition, our written complaints number was 21,433 (September 2020: 19,371) with retail written complaints substantially reduced but an increase in waste written complaints due to poor operational performance in this area

***This is an annual measure assessed in February each year

A changing Thames

Ian Marchant – Chairman

It's been a busy six months, with Sarah and her new team mobilising Thames Water's turnaround plan. As a Board, we've been fully focused on supporting the Executive team as they start the transformation of Thames Water into a high performing company.

Board activity

Over the last six months, we've been affected by a range of external pressures including the pandemic, climate change, an increase in power costs and petrol availability. We've been receiving regular updates from the business about these risks and have supported decision-making to protect our essential service.

Increasing our understanding of our risks and their impact on our operations forms an important part of the turnaround plan. As a Board, we've been re-evaluating our risk governance and framework to make sure they're fit for purpose and complement the plan.

As well as risk, we've had focused Board sessions with members of the Executive team, and other teams across the business, about the turnaround plan, the evolving strategy and the progress to define a Vision for 2050. Being innovative is really important to our success and it's something we've been particularly focused on.

In recent months, the conversation on sewage in rivers has been changing and the Board fully endorses the increased focus. It's unacceptable for any sewage to be entering rivers and we're supporting the development of short-term and longer-term plans to make a real difference.

A culture to support our Purpose

As part of the turnaround plan, we, and the Executive team, are fully focused on driving and monitoring a culture at Thames Water that we can all be proud of. That means making sure we're all living our values and behaviours. We've been engaged on the plan to support improved leadership and to drive behaviour change.

Ian Pearson, our Workforce Engagement Lead Director, has continued to engage with our employees, particularly with those on the frontline. As a frontline first company, the feedback we receive from the employees interacting every day with our customers helps us make the right customer-led decisions at Board level. In the last six months, there have been sessions at sites such as Chertsey, Fobney, Brixton and Bourne End water treatment works, as well as with the Customer Experience Design Team. Feedback has focused on our response to Covid-19 and our future way of working plans, as well as the need to have improved visibility and input to investment decisions for sites, vans and tools, for example. Sessions also covered the need for more understanding and visibility of transformation plans, the lack of progression opportunities and robust learning and development intervention. As well as using the feedback to support Board decision-making, we're also making sure there's a feedback loop so other areas of the business can make sure they're using the insight too.

We've been out and about on sites over the last six months, getting a first-hand look at operations and meeting stakeholders. In July, our Deputy Chairman, Nick Land and Ian Pearson visited our water production teams at Coppermills water treatment works and our corporate responsibility team at Walthamstow Wetlands. I also visited our sewage treatment works in Woking to understand the challenges of a small plant and how we could tackle storm water and related discharges.

Supportive external shareholders

Our external shareholders, with our two largest representing key worker pension funds in Canada and the UK, continue to be extremely supportive. They recognise the importance of looking to the long-term and are fully on board with our turnaround plan. They've also approved an extra future £300 million of investment into the business, to unlock the conditional allowances built into our final determination and speed up improvements to our water network in London, which we all know is urgently needed.

As well as the extra investment, our external shareholders have agreed not to take dividends again this half year. That means they've now not taken dividends for four years, with the only distributions being paid to service debt obligations and other group related costs.

We're also investing heavily outside of London, with plans moving forward for a brand-new sewage treatment works in Guildford among many other projects. During the first six months of the year, we invested over £625 million in our infrastructure.

Changes to the Board and Executive team

With a 75% change in the Executive team since September 2020, we've supported the recruitment of the new members of the team. We've also seen changes to the Board. Brandon Rennet stepped down as our Chief Financial Officer in September 2021 and was replaced by Alastair Cochran. Paul Donovan, one of our Non-Executive Directors, who represented our shareholders Aquila, BCI, QIC and PGGM, also resigned from the Board, effective from 1 October.

Looking to the future

This is a pivotal moment for Thames Water, with a huge amount of activity underway to set the right path for the future. We know it will be a challenging journey. However we look forward to supporting the team at Thames as we transform into a water company our stakeholders, customers and employees can be truly proud of.

Ian Marchant
Chairman

The start of our journey

Sarah Bentley – Chief Executive Officer

In March 2021, we launched our plan to transform Thames Water's performance. After engaging with our customers, stakeholders and employees, alongside getting a better understanding of the challenges we're facing, we developed our turnaround plan. It focuses on three themes – to fix the basics, raise the bar and shape the future.

We know we have a long way to go to deliver what our customers and stakeholders rightly expect of us, which is why it's a challenging plan that will take time. Stretching over eight years, it is designed to transform us from an underperforming company to join the higher performers in our industry. From there we have the opportunity to lead the way.

It certainly won't be quick or easy to deliver and we've already faced some difficult challenges, but I'm excited we've started the journey and we promise to keep engaging with you along the way. This plan is for everyone in our region, so we want to keep hearing your views.

A challenging external environment

It's been a challenging six months, with the ongoing Covid-19 pandemic, extreme weather, increasing power costs, sewage spills and the petrol crisis having a big impact on the running of our essential service. That said, we've kept taps running and sewers flowing thanks to our brilliant key workers who've shown unrelenting dedication and resilience.

We've continued to help lots of households and businesses who are finding themselves in difficult financial circumstances as a result of the pandemic. Over 240,000 customers are now on our social tariffs and we've invested over £580,000 in our independent trust fund, which provides debt advice to customers.

We know this support is making a real difference to people's lives and our contribution makes us the biggest supporter of charitable debt advice in our region. We're also supporting customers through our customer assistance fund, which helps them clear their water debt, as well as our flexible payment plan, which gives businesses more options with bill payments.

Alongside the ongoing impact of Covid-19, the effects of climate change have been fully felt by some of our customers this year. It's been absolutely devastating to see the impact of the flash flooding on people's homes and livelihoods across our region during the last few months. We're working hard with other organisations responsible for drainage, so we can join forces to make bigger improvements for people living in our region. We'll also keep investing in our infrastructure to increase our capacity and make our network more resilient as climate change has an increasing impact on our world and our daily lives.

We're taking a progressive stance on river health. It is unacceptable for any sewage to enter rivers, from both a public health and environmental perspective, and we're challenging the status quo. It will take time and money to stop wastewater entering rivers, because our existing infrastructure wasn't designed for the increasing pressure from population growth and climate change, but we're changing the conversation and are taking steps in the right direction.

This year's COP26 has brought climate change to the top of the global agenda. There have been some moves forward, but clearly there is so much more to do. I hope this becomes the defining point in our world's history as we commit to working together to tackle the biggest threat to our planet. It's in all our interests to do the right thing. As we've seen over the last few years, there's no time to waste and, at Thames Water, we have a really important role to play in changing the way energy is created and used in the UK. It's a great opportunity and we've set up a new Ventures division to increase the pace of our work, as we explore ways of supporting energy transition and helping others reach their climate goals too. We launched our own roadmap to net zero earlier in the year and we'll keep building on it as we move towards becoming net zero by 2030 and climate positive by 2040.

A focus on fixing the basics

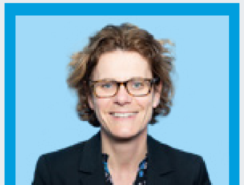
Our most immediate priority is to fix the basics. As we all know, our performance has been unacceptable in recent years and we're focused on getting back on track. Only when we do that can we really build trust with you – our customers and stakeholders – and move forward with the rest of our plan. Being able to shape the future is really exciting, but we absolutely need to get things right for today's customers first.

After the launch of the plan, the first thing on my list was to make sure we have the right team to lead our transformation. We're at the start of a very long and challenging journey, so having the right skills and expertise to deliver is crucial. I'm delighted we now have our new Executive team in place, and I know everyone is ready for the challenge ahead. Eight are new to Thames Water since the beginning of March 2021, with Norma Dove-Edwin being the final new member who will join the team in Spring next year. Here's an introduction to our new Executive team line up.

Introducing our new Executive team

Warren Buckley
Retail Director
Joined March 2021

Steve Spencer
Operations Director
Joined April 2017



Caroline Sheridan
Engineering and Asset Director
Joined September 2021

Francis Paonessa
Capital Delivery Director
Joined April 2021

Putting the customer first and leading our day-to-day operations

Cathryn Ross
Strategy and Regulatory Affairs Director
Joined June 2021

Tony Vasishta
Managing Director Ventures
Joined June 2021

Nevil Muncaster
Strategic Resources Director
Joined September 2021

Norma Dove-Edwin
Digital Transformation Director
Will join in 2022

Challenging our business to become more proactive, innovative and collaborative

Lynne Graham
People Director
Joined January 2020

George Mayhew
Corporate Affairs and Sustainability Director
Joined August 2019

Delivering support and expertise

Sarah Bentley
Chief Executive Officer
Joined September 2020

Alastair Cochran
Chief Financial Officer
Joined September 2021

Leading and inspring Team Thames

We're also investing in the development of our senior leadership team, to make sure they have the right skills to lead and inspire their teams, and support our frontline first approach. Focusing on using coaching skills to deliver enhanced individual and team performance enables teams to feel empowered to deliver their best for our customers. We started rolling out the programme in June and all of our senior leaders have now completed it, with follow up sessions to embed coaching skills planned for 2022.

The health and safety of our people is our number one priority. After a record low earlier in 2021, our lost time injuries are up in the first six months, so we're increasing our focus to make sure everyone goes home safe and well. Improving our performance, particularly in customer service, leakage and pollutions, is the most important part of fixing the basics and we have a long way to go. In customer service we've reduced total complaints and backlogs and have also improved our resolution times. However, our year end forecast remains at the bottom of the league tables as we have a significant change programme to deliver, in order to catch up with our peers. That said, we've been making lots of changes, under the leadership of our new Retail Director, Warren Buckley, to lay the right groundwork to improve and we're seeing some promising signs.

Elsewhere, I'm pleased with the improvements we've made in water quality as well as reducing water quality contacts and supply interruptions over the past six months. While we're behind where we were at this time last year, we're broadly on track to meet our performance commitment for the reduction of leakage.

We're currently not on track for serious pollutions, sewer flooding or blockages. We've improved our total pollutions performance since the same time last year, however there's still a way to go to meet our target and we're investing in infrastructure and technology to improve performance in our waste metrics. One of the new digital tools we've launched, linked to our sewer depth monitors, is helping us get better at finding blockages on customer pipes, which are a leading cause of sewer flooding.

Being innovative is so important to our success and we were also delighted to be awarded £6.3million as part of the Ofwat innovation fund to help decarbonise wastewater treatment.

Raising the bar

Raising the bar will take our performance to the next level and, as well as overhauling our approach to customer service, we're also making major changes to the way we repair and maintain our water network. While everyone has been working really hard to make improvements in recent years, we've made the decision to move away from an alliance model and bring more activity in-house. The change aligns with customer feedback and will give us more control of the work that's directly affecting our customers every day and as we invest more in our network.

We're investing in lots of new capital delivery projects, with major investment in Mogden sewage treatment works and trunk mains in London, such as Queen's Drive being just a couple of examples. However, we also need to make sure we're getting the best performance from our existing pipes and treatment works too. Improving our performance isn't just about building brand-new infrastructure. Some of our existing infrastructure isn't working to its maximum potential and getting better at understanding our assets is an important part of our plan to raise the bar and take our performance to the next level.

One of our biggest projects over the last six months has been to drain our Queen Elizabeth II reservoir as part of our maintenance programme. It's one of our largest reservoirs, on the outskirts of London, and contains almost 20 billion litres of water. While it may sound like a simple exercise, reducing our storage by that much water, while making sure customers always had supplies in their taps, was no mean feat. We've made sure the reservoir is in great condition, to help protect water supplies to the millions of customers it serves.

Shaping the future

Having the opportunity to help shape the future of this essential business, our industry and our region is something I'm really passionate about and it fits so perfectly with our Purpose – to deliver life's essential service, so our customers, communities and the environment can thrive. It's our responsibility to leave a positive legacy for future generations, just like the Victorians did for us.

To define that legacy and set our Vision for 2050, we've been engaging with lots of you to hear your views. Protecting water resources, improving river health, leading the way in energy transition and making a positive impact on communities are all themes we've been exploring. We've had some great conversations and really valuable feedback – thank you. In tandem, we're also looking at our strategy, to make sure we're focusing on the right outcomes and we'll update you on that in our Annual Report.

As we take steps to improve the health of our rivers, we're making some progress already. We're investing in better monitoring of our network, including more sensors, better processing of data and improved alerts. We'll be investing £1.2 billion in our sewage treatment works during this regulatory period, which will help tackle sewage spills and we will provide alerts at all of our 468 permitted overflow points by the end of 2022. Our sewage release alert trial at six locations in the Oxford area has been going well and we're exploring the next step in those plans.

We're also moving forward with our three smarter water catchment management plans for the Rivers Chess, Crane and Evenlode to help restore these beautiful waterways to their natural beauty. The plans, which we officially launched with stakeholders in October 2021, will see us working in partnership with organisations in these river catchments to make bigger and better improvements to river quality.

Changing the way we behave

In the past we've been seen as arrogant and difficult to work with and we're absolutely committed to changing. Living the right values and behaviours is so important to our success, as an employer of choice, a collaborative stakeholder and a provider of a critical service for our customers and the environment. So, we've launched a reset programme as part of our turnaround plan, to make sure our refreshed focus on our values and behaviours runs through every part of the business. Where they don't, we're taking action.

Promoting diversity and inclusion is a core focus as we build a team at Thames which fully reflects the diversity of our region. In the last six months, we've welcomed new kickstarters, graduates and apprentices to the team. We've also supported the 10,000 Black Interns Programme and Business in the Community Young Black Men Project, and in September we launched our 'Inclusion Heroes' toolkit training to all employees.

Recognising our efforts, we were delighted to receive the award for 'Outstanding Commitment to Diversity & Inclusion in the Water Industry 2021' at the Institute of Water awards. We know there's still a long way to go, however we're pleased with our progress so far this year.

Together we're stronger, and our combined efforts can make a much bigger impact on the future of our region. We've been delighted to work more closely with some of you – our stakeholders – on some brilliant projects over the last few months. As well as the launch of our smarter water catchment plans with environmental groups, we've worked with the Greater London Authority on their grow back greener initiative and we've just launched our shared apprenticeship scheme that will enable us to share skills and talent with our supply chain – to name just a few.

Thank you for your support and collaboration as we take the first steps in our journey to turnaround Thames Water and build a better future for us all. We've got a long way to go, but I'm delighted that we've started and are already seeing glimmers of progress. Open and honest discussions with you are crucial to our success and we look forward to continuing our conversation.

Sarah Bentley
Chief Executive Officer

Fix the basics

After the launch of our plan in March 2021 to turn around our performance, fixing the basics has been our primary focus over the last six months. Over the next few pages, we'll highlight our progress against some of our first priorities, as we move forward with our plan.

Improve performance with a focus on complaints, leakage and pollutions

Customer service

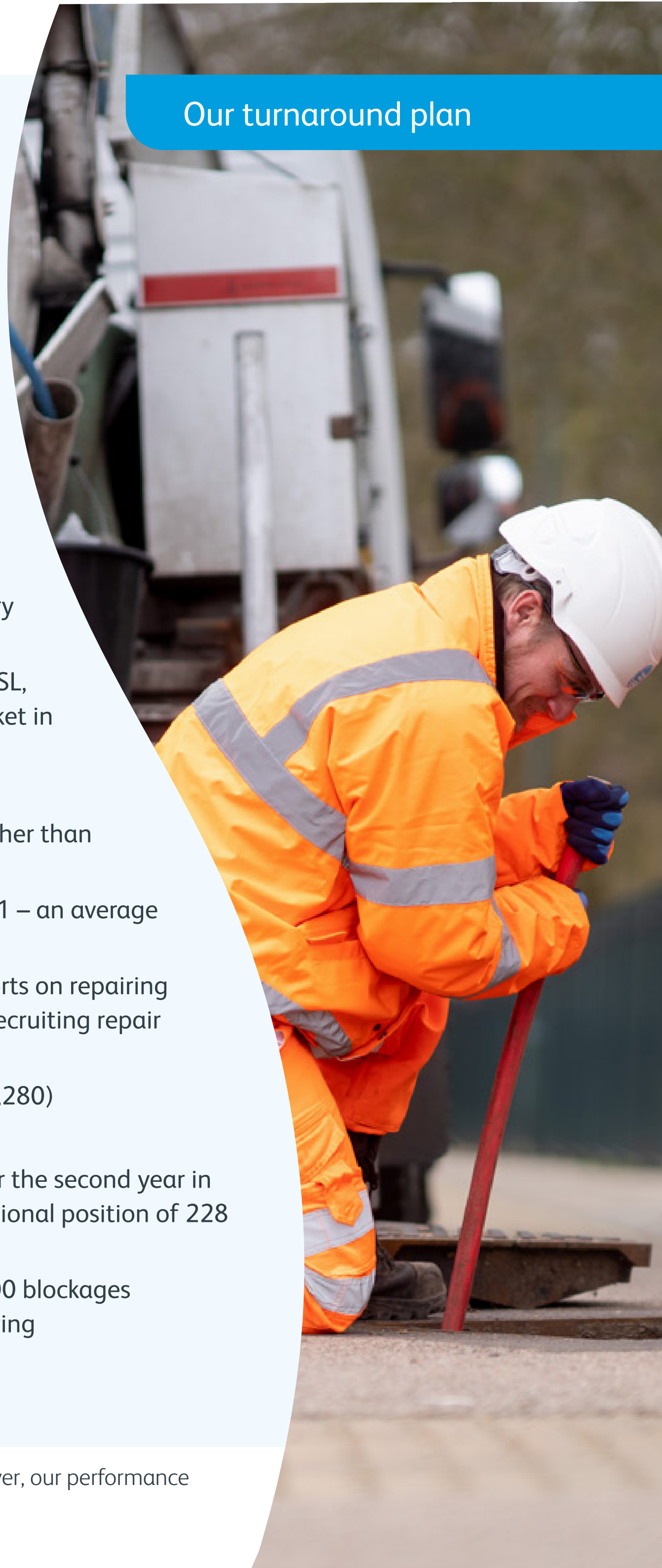
- Still a long way from delivering the service our customers rightly expect and deserve and we're still 17th out of 17 in the C-MeX league table
- Launched a new taskforce to renew our focus, break down silos and join up our approach across Thames Water, so we can make sure we're really putting customers at the heart of what we all do
- Starting to see some promising signs from this renewed focus:
  - Total household complaints have reduced year-on-year by 42 %, despite the flash flooding earlier in the year. This is partly due to our new escalations team, which help resolve issues on first contact, but also due to a new, more accurate approach to how we report telephone complaints*
  - Customer contacts have reduced due to improved 'first time fix' and making things easier. For example, our new bill, launched to over 60 % of customers so far, has meant a 35 % reduction in customer contacts in response to their bill arriving
  - We have increased the use of our online platforms as we make significant improvements to the online customer experience
  - There was a 52 % reduction in the number of customer complaints being referred to CCW between March and October 2021
- Scored 76.23/100 in Q1 on D-Mex - the customer satisfaction measure for developer services (March 2021: 77.56). This puts us 15th out of 17 in the industry
- We moved from 9th to 5th in the ranking for our performance for retailers in the latest report from MOSL, the market operator for the non-household retail market in England

Leakage

- Six-month average leakage level was 577.6 Ml/d – higher than last year (September 2020: 538.7 Ml/d)
- Fixed 28,624 leaks between April and September 2021 – an average of 1,101 each week
- We fixed fewer leaks this year due to focusing our efforts on repairing larger, more complex leaks, and due to difficulties in recruiting repair gangs
- Repaired over 3,000 water mains (September 2020: 3,280)

Pollutions

- We are on track to reduce category 1 – 3 pollutions for the second year in a row. Measured on a calendar year we are at a provisional position of 228 compared to 236 at the same time last year
- Cleaned over 930km of sewers and cleared over 36,500 blockages (September 2020: 35,105) to help keep our pipes flowing



*CCW reporting methodology has been revised, which means that we no longer automatically categorize repeat contacts as a complaint. However, our performance has improved and complaints would still be down on a like for like basis.

Build a stronger leadership team

- Welcomed eight new Executive team members since March 2021, including our new CFO
- Rolling out new 'leader as coach' training to our senior management as we build stronger coaching skills and capability to better support teams

Understand and look after our assets

- Used our 27,000 acoustic loggers to detect 22.78 Ml/d of leakage and over 500,000 smart meters to fix 12.69 Ml/d of leakage since the start of April 2021
- Drained our Queen Elizabeth II reservoir, to carry out inspections and essential maintenance work. This included relining the tunnels to the reservoir, which provides 10 % of London's water
- Completed the construction of our Jeff Farrow trunk main test rig at Kempton. This allows us, along with supply chain innovators, to test new technology in different conditions, without risk to our essential services
- Completed a £20 million project to refurbish and test our desalination plant at Beckton. The plant has been run up to 100Ml/d, which could be used to supply water to London during periods of severe drought

Support customers in vulnerable circumstances

- Increased the number of customers on our Priority Services Register, which helps us provide extra support during emergencies, to over 270,000 (197,000 on 31 March 2021) – that's almost 5 % of all households in our region
- Supporting over 240,000 customers through our social tariff, which gives customers 50 % off their bill (March 2021: 210,000)
- Signed up more than 2,000 new customers to our customer assistance fund, which helps customers with water debt, by matching payments
- Invested over £580,000 in our independent trust fund, which supports customers with debt advice and provides household essential items for customers in need

Raise the bar

Raising the bar will take us to the next level and improve our performance among our peers. This strand of our turnaround plan focuses on transforming critical areas of the business to build new capabilities and different ways of working in areas where we need to really turn the dial, and we're investing in customer service, operations, people, assets and strategic planning. We know we can't do everything to improve the business all at once, so we're embracing innovation and being really ruthless in the way we prioritise what we do.

Here are some of the initiatives we've focused on in the last six months as we lay the groundwork to raise the bar.

Transform customer service

- As well as reducing complaints as part of 'fix the basics', we know we need to make a real difference in all areas of customer service and we're overhauling our approach. As part of that we're putting new processes in place, which focus much more on what our customers want and need. We're also making major improvements to our online experience, so a customer query is looked after properly from the moment they contact us, until it's fully resolved

Improve strategic planning

- Moving to eight year planning cycles, rather than yearly plans, led by customer and operational needs to develop our budget. This will also support better preparation for our business plan for the next regulatory period – 2025 to 2030

Drive more efficient operations

- Planning a major overhaul of the management of our water networks, which will see us bring more activity in-house. This will allow the establishment of locally based, multi-skilled teams that can respond to customer and operational issues more effectively
- Replacing our legacy applications to make it easier for us to work collaboratively across the business and improve our service to customers. As part of that we successfully launched our new workforce management system for our waste network in the southern part of our region – our biggest IT enabled transformation programme in the last 10 years. The system allows teams to see a single view of a customer's query, so it can be resolved more efficiently and with all aspects considered at the same time. The project won the Digital Transformation Project of the Year at the UK IT Industry Awards
- Launched two new tools to support proactive detection of problems on our network, one to help detect leaks and the other using sewer depth monitors to identify blockages. The latter detected more than 800 blockages, by the end of September, which we were able to proactively clear before they had an impact on customers

Invest in our assets

- Increased our capital investment spend by 26% since the equivalent period last year, as we get back on track after the impact of insourcing our engineering function from the old alliance model and Covid-19, led by our new Capital Delivery Director, Francis Paonessa
- The extra £300 million of investment approved by our shareholders, to unlock the conditional allowances built into our final determination, will help us begin to address the problems of our aging infrastructure so we can start to create a London water network which is more resilient to the increasing impact of climate change and population growth

Create a great place to work

- Launched a programme to make sure everyone across Thames Water is living our values and behaviours. As part of this we're making sure we're putting customers first and becoming more performance driven and efficient
- Improved our onboarding process for new starters with a brand-new onboarding platform launched in February 2021. Since then, over 200 new hires have engaged with our new 24/7 chatbot to help answer their questions

Shape the future

We have a responsibility to start shaping the future now, which is the third part of our plan. As we've seen, the impact of climate change is intensifying and the decisions we make today will impact what happens for many years to come. It's important we take action now and we've been engaging with stakeholders to develop our vision for 2050, which will help us deliver our Purpose – **to deliver life's essential service, so our customers, communities and the environment can thrive.**

As part of looking to the future we're approaching things in a different way and challenging the status quo, which includes sewage spills into rivers and driving diversity and inclusion. Here are some of the initiatives we've been pursuing over the last six months, as we begin to shape the future.

Look after the environment, including our precious waterways

- Challenged approach to sewage spills to become more progressive and work together with our stakeholders to make much-needed improvements
- Launched our smarter water catchment plans for three river catchments, the Chess, Crane and Evenlode, to improve river quality and ecosystems
- Committed to provide £500,000 to the Greater London Authority's 'Grow Back Greener' fund, which will provide grants to improve green spaces in London
- Welcomed more than 250,000 visitors to Walthamstow Wetlands between April and September 2021

Our commitment to become climate positive

- Launched a new Ventures division, designed to create additional value from our assets and to support energy transition
- Awarded £6.3 million as part of the Ofwat innovation fund to help decarbonise wastewater treatment
- Launched our roadmap to net zero carbon emissions by 2030 in July 2021
- Increased our renewable energy production year-on-year to 242 GWh (September 2020: 218 GWh)
- Reduced our net operational emissions by 8.8 kTCO2e to 129.2 kTCO2e in 2021/22, a fall of 6 % (September 2020: 138 ktCO2e on a restated basis)

Promote a diverse skill set, building a pipeline of talent for Team Thames

- Continued to progress our strategy to increase the diversity of our workforce to better reflect the diversity of our customers
- Welcomed 35 kickstarters during the last six months, as we increase our commitment to 100. 67 % of our first round of kickstarters have already been offered permanent roles or contract extensions
- Launched our apprenticeship programme internally, so existing employees can develop their skills and gain qualifications on the job and we're on our way to tripling the number of apprentices within the business. There were 30 new external apprentices across 18 programmes and 38 apprentices from within the business
- Achieved 'gold' status from the Armed Forces Covenant employer recognition scheme for our ex-military recruitment strategy
- Signed up to the care leaver covenant earlier this year and 58 % of our recent summer interns were care leavers
- Signed up to the Greater London Authority design lab to support the agenda of young black men securing sustainable employment

Our financial review

Alastair Cochran – Chief Financial Officer

I joined Thames Water in September 2021 and I look forward to working with colleagues across the business to deliver our turnaround plan and transform the performance of this iconic and essential business.

It's undoubtedly going to be a challenging plan to deliver. We have to focus on delivering brilliant customer service, investing in resilient systems and assets, and generating public value. It will require us to exercise financial discipline, ruthlessly drive out inefficiency and increase resilience, as well as balance competing priorities. Notwithstanding this, we are committed to living our values and being led by our Purpose – to deliver life's essential service, so our customers, communities and the environment can thrive.

The impact of external factors

It's been a difficult year so far with the Covid-19 pandemic, the impact of climate change, supply chain issues and high energy prices all affecting our business. Our financial performance has consequently been impacted by higher costs, as well as a higher corporation tax rate. Notwithstanding this, we've increased our investment year-on-year, supported by higher operating cash flow. We've managed this unprecedented time in a way that has ensured the smooth running of our services and a focus on delivering what our customers needed most.

The July flooding across our region and other extreme weather events we witnessed in the first half of this year are a stark reminder of the increasing threat of climate change. They have also highlighted the importance of understanding the impact of climate change on our business, including how it affects our operational and financial performance. Consequently, we're stepping up our approach to reporting against the Taskforce for Climate Related Financial Disclosures.

Supportive shareholders

Our shareholders recognise the importance of taking a long-term view, which aligns with the needs of being an essential service provider. Our shareholders have approved an extra £300 million contribution towards future investment into the business, to unlock the conditional allowances built into our final determination and speed up improvements to our water network in London. This will represent additional spend by the company above revenues it is allowed to collect from customers. Furthermore, they've unanimously supported our decision not to pay them a dividend for the last four years. The only dividend payments made have been to service the debt obligations of our ultimate holding company, Kemble Water Holdings Limited, including £37 million paid on 4 October for solely this purpose.

We are keeping our dividend policy under review, recognising the importance of being able to attract capital over the long term to support the critical investment we need to make in our systems and assets for the benefit of our customers.

Financial performance

Six months ended	30 September 2021			30 September 2020		
	Underlying	BTL[1]	Total	Underlying	BTL[1]	Total
Revenue (£m)	1,062.3	42.8	1,105.1	996.0	35.9	1,031.9
Operating expenses (£m)	(875.9)	(0.1)	(876.0)	(840.6)	–	(840.6)
Operating profit (£m)[2]	226.5	42.7	269.2	187.0	35.9	222.9
EBITDA	547.9	42.7	590.6	498.6	35.9	534.5
Net finance expense (£m)	(156.9)	–	(156.9)	(113.6)	–	(113.6)
Net losses on financial instruments (£m)	(455.6)	–	(455.6)	(355.8)	–	(355.8)
(Loss)/Profit before tax (£m)	(386.0)	42.7	(343.3)	(282.4)	35.9	(246.5)
(Loss)/Profit after tax (£m)	(615.8)	34.6	(581.2)	(229.5)	29.1	(200.4)
Capital expenditure including intangibles (£m)	627.2	–	627.2	498.8	n/a	498.8
Operating cash flow (£m)	524.7	3.0	527.7	413.5	10.9	424.4
Net debt (statutory) (£m)	12,639.8	–	12,639.8	12,275.2	–	12,275.2
Dividends paid to immediate parent company (£m)[3]	–	–	–	–	–	–
Distributions paid to external shareholders (£m)	–	–	–	–	–	–
Gearing (%)[4]	82.4	–	–	83.6	–	–
Credit Rating[5]	–	–	Baa2 stable / BBB+ negative outlook	–	–	Baa2 stable / BBB+ negative outlook

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. The Thames Tideway Tunnel will divert millions of tonnes of sewage from the River Thames when it goes into operation later this decade. Further details can be found within our accounting policies pages 29-32.

1 Refer to page 30 for information about the Bazalgette Tunnel Limited ("BTL") arrangement
2 Operating profit includes revenue and other operating income (disclosed in note 2), offset by operating expenses
3 £37.1 million was paid out in October 2021 to service debt obligations and costs of other companies within the wider Kemble Water Group
4 Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 41
5 Representing the consolidated Corporate Family Rating assigned by Moody's / S&P Class A debt of the securitisation group

Revenue

Our revenue primarily relates to the essential water and wastewater services we provide to our customers. Our economic regulator, Ofwat, determines the amounts we charge in our bills every five years through a price review process, which is driven by the costs we expect to incur to invest in and operate our business over that five-year regulatory period. Our current regulatory period covers 1 April 2020 to 31 March 2025 ("AMP7").

Our total revenue for the six-month period ended 30 September 2021 increased by £73 million to £1,105 million (30 September 2020: £1,032 million). The increase is driven by a higher allowed revenue set by our regulator Ofwat, a recovery of revenue in the non-household market as Covid-19 restrictions ease and continued resilience in the household revenue, where usage has remained high despite an easing of UK Government Covid-19 restrictions requiring many of our customers to work from home.

Bad debt

Bad debt arises predominantly from those who choose not to pay their bill, despite being financially able to, as opposed to those who cannot pay. For the latter, we offer a range of support for people in financially vulnerable circumstances.

During the six-month period to 30 September 2021, we have seen an increase in our overall bad debt cost of £1 million to £35 million (30 September 2020: £34 million). This is primarily driven by the continued impact of Covid-19 on our cash collections, offset by the benefits from our debt transformation project.

The current period charge is split between a deduction of revenue of £23 million (30 September 2020: £24 million), and operating expenses of £12 million (30 September 2020: £10 million). Our total bad debt charge equates to 3 % (30 September 2020: 3 %) of total gross revenue. We are working hard to reduce bad debt and have implemented a number of initiatives to reduce the overall charge as a percentage of gross revenue.

EBITDA

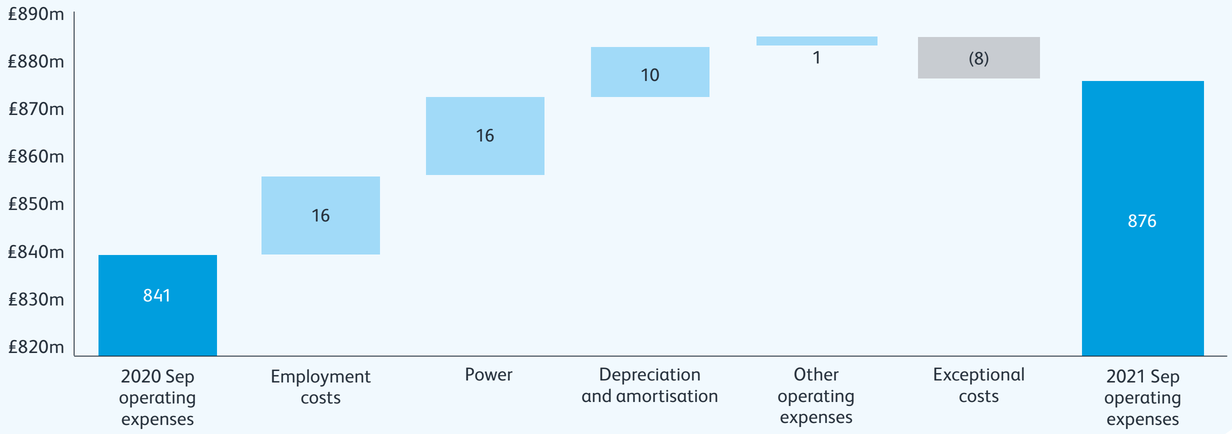
Our EBITDA for the six-month period ended 30 September 2021 was £591 million, an increase of £56 million compared to the prior six-month period. This is driven by increases of £73 million in revenue and £9 million in other operating income; offset by a £25 million increase in net operating expenses (excluding depreciation and amortisation expenses).

The increase in operating expenses is primarily driven by:

- a £16 million increase in our employment costs, as we invested to improve our service to customers and provide pay rises for non-manager grades
- a £16 million increase in our power costs driven by the extreme power price inflation that has impacted industries globally as well as our customers, and
- a £1 million increase in other operating expense, relating to higher insurance costs and research and development expenditure.

These increases are offset by a £8 million decrease in exceptional costs relating to a restructuring of the business that occurred in previous periods and did not reoccur. No exceptional costs were recognised in the current period.

A summary of the movement in our operating expenses



Underlying operating profit, excluding amounts related to BTL but including exceptional items, for the six-month period increased by £40 million to £227 million (30 September 2020: £187 million). The amounts excluded from the underlying operating profit relate to the £7 million increase in BTL revenue.

Loss before tax

Our total loss before tax is £343 million in the first six months of the current financial year, an increase of £96 million compared to the prior period (30 September 2020: £247 million loss before tax). The loss arose principally from the non-cash £100 million increase in our net losses on financial instruments, which consists of the following:

- an additional £39 million net fair value loss on swaps, which reflects higher RPI expectations, and
- a £61 million increase in net exchange losses on foreign currency borrowings.

These swaps hedge interest rate risk, inflation risk and foreign exchange risk against our borrowings allowing us to better manage our overall financing risk in the face of volatile financial markets.

There has been an increase in our net finance expense of £43 million mainly reflecting a £21 million increase due to the impact of the restructured interest rate profile of three index-linked swaps, £61 million of higher accretion on borrowings, offset by £27 million of higher capitalised borrowing costs and £11 million in higher fee income on swaps. The remaining movement in our loss before tax is driven by increased operating expenses explained above, partially offset by increases in revenue and other operating income.

Tax

We have recognised a tax charge of £238 million, comprising a current tax charge of £10 million and deferred tax charge of £228 million. The deferred tax charge includes the impact of the increase in the corporation tax rate to 25%, which was enacted in the period and resulted in a one-off tax expense in the period of £302 million. As we incurred an overall loss in the first six months of the year, we've also recognised a tax credit of £64 million, comprising a current tax charge of £10 million and deferred tax credit of £74 million.

We incurred a current tax charge in the first six months of the year because we're utilising tax losses arising in our parent company for which we make payment. The deferred tax credit in the first six months of the year has arisen primarily as a result of accounting losses on derivatives, which are not deductible for tax purposes until the cash flows materialise.

It is our continued aim to be clear and transparent with our approach to tax. Our tax strategy is available on our website, and we've included more tax information in Our Finances Explained.

Loss after Tax

After adjusting our loss before tax for the £238 million tax charge noted above, our loss after tax is £581 million for the first six months of the current financial year, an increase of £381 million compared to the prior period (30 September 2020: £200 million loss).

Capital expenditure

During the first half of the year, we invested a total of £627 million (30 September 2020: £499 million) in our assets of which £61 million related to capitalised borrowing costs. The significant increase in capital delivery relative to the prior year comparative period is principally due to the reduced impact of Covid-19 on our supply chain and greater mobilisation of our AMP7 programme. Excluding capitalised borrowing costs, key projects within the above capital expenditure include:

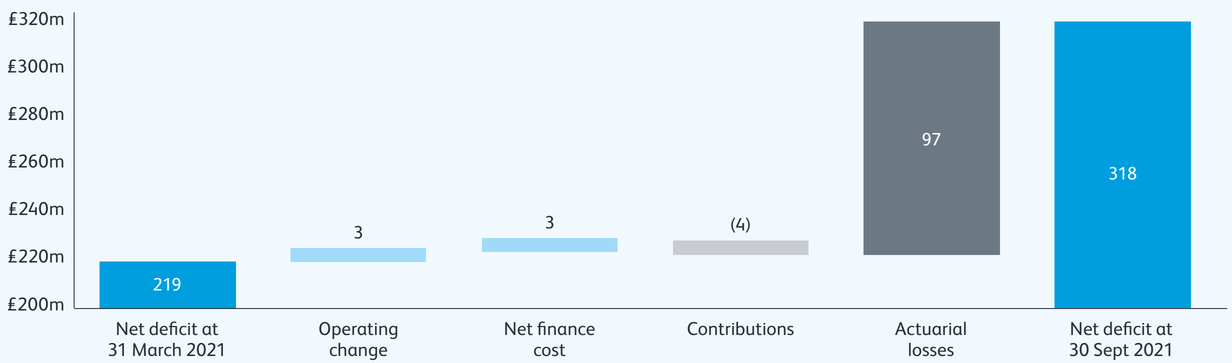
- £88 million investment in our Water Network to reduce leakage and improve our trunk main network;
- £29 million on our water metering programme;
- £16 million on upgrading our major sewage treatment works at Beckton;
- £14 million on Water mains replacement and rehabilitation in London and the Thames Valley; and
- £12 million connecting our waste network to the Thames Tideway Tunnel

Pensions

We operate three pension schemes for our employees. One is our defined contribution scheme, which we contributed £13 million (30 September 2020: £7 million) to during the six-month period, and we have two independently administered defined benefit schemes, both of which are closed to new employees. These two schemes are the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"). TWPS was closed to future accrual as of 31 March 2021.

In the financial year 2019/20, we completed the triennial valuation dated 31 March 2019 for our two defined benefit pension schemes. Our defined benefit schemes' accounting valuation has been updated to 30 September 2021 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net pension deficit for the two schemes as at 30 September 2021 was £318 million (31 March 2021: £219 million). The increase in deficit was due to changes in actuarial assumptions occurring across all industries, which includes an increase in RPI and CPI

A summary of the movement in the Defined Pension Scheme



inflation expectations for both schemes, which has resulted in an actuarial loss.

We have been taking measures to reduce the overall deficit by making regular contributions and deficit repair payments and, as part of the last triennial valuation dated 31 March 2019, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027. In the prior year, there was an exceptional £70 million payment relating to the deficit repayment plan, which covered the remaining deficit payments agreed during AMP7. No further deficit repayment is due this financial year.

Credit ratings

Under the terms of our licence, we are required to maintain investment grade credit ratings, as assigned by external rating agencies. Maintaining investment grade ratings 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.

In July 2021, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating ("CFR") for TWUL continuing as Baa2 with a stable outlook (30 September 2020: Baa2 with stable outlook), and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (30 September 2020: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (30 September 2020: Ba1 with stable outlook).

In January 2021, S&P reaffirmed our securitisation group companies' credit rating of BBB+ and BBB- (30 September 2020: BBB+ and BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, with negative outlook (30 September 2020: negative outlook).

Financing our investment

As we are investing heavily in the business, we continue to focus on the importance of ongoing investor engagement to support our strategy of diversifying our sources of funding and maintaining a balanced debt maturity profile.

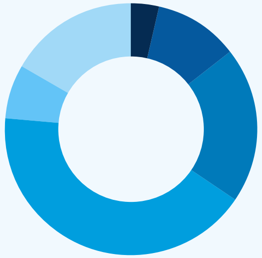
In November 2020 we extended the maturity of £1.44 billion of the £1.65 billion Revolving Credit Facility ("RCF") by one year from 2024 to 2025. In October 2021 the maturity of the remaining £0.21 billion RCF was extended from 2024 to 2025.

Since 31 March 2021, the Company has further strengthened its financing position through its financing subsidiary, Thames Water Utilities Finance plc (TWUF):

- in June/July 2021 we entered into a £200 million Class B Term Loan facility maturing in June 2026, which was drawn in September 2021.
- in September 2021 we entered into a £100 million Class B Term Loan facility maturing in September 2028, which was undrawn at 30 September 2021.

As a result, at 30 September 2021, the TWUL Group had £1,240 million of cash, short term investments and undrawn bank facilities available to it. The interest rate on our main RCF is linked to our sustainability performance and as a result we have saved £66k in interest costs. The financial gains will be put towards our charitable fund for water and health or environmental causes. TWUL Group also has £550 million of undrawn liquidity facilities which can only be drawn in limited circumstances. The facility is renewed in August every year.

Overall debt mix excluding the impact of swaps at 30 September 2021



Since 31 March 2021, the following amounts have been drawn down under bank facilities:

- £400 million (net of repayments) of the RCF
- £75 million Class B RCF in September 2021
- £200 million Class B Term Loan in September 2021

Since 31 March 2021, the following debt has been repaid:

- £225 million Class A bond, in April 2021
- £300 million Class B term loan, in June 2021
- £295 million (accreted notional) Class A Index-linked loan, in July 2021

As part of our ongoing work on financial resilience, we have considered the continued impact of Covid-19, higher power prices and adverse weather on the Group's ongoing financial performance with a particular focus on operating cashflows. As detailed in the Going Concern statement, in a severe but plausible downside scenario we remain compliant with relevant financial covenants and show significant liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

Financial instruments

Our borrowings, revenue and totex ("total expenditure") are exposed to fluctuations in the external market such as changes in interest rates, inflation and foreign exchange rates. We manage these exposures by entering derivative contracts to hedge against future changes in these external rates.

We only use derivatives for risk management and both the debt and derivative contracts are generally held until maturity, so there is no cash impact due to market value changes.

We have approximately £10 billion of derivative financial instruments (face value). A total net loss on financial instruments of £456 million was recognised in the income statement during the six-month period ended 30 September 2021 (30 September 2020: £356 million net loss on financial instruments). The loss has arisen primarily due to higher inflation and interest rate forecasts as well as the depreciation of GBP against USD, EUR, JPY and CAD as compared to 31 March 2021.

The Group has established a project to oversee the GBP LIBOR transition plan to SONIA, as we cannot rely on GBP LIBOR being published after the end of 2021. The area of greatest change is the amendment to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps, both for external and internal contracts, some of which have already been amended, and we plan to complete the amendments to the remaining contracts prior to the end of 2021.

Gearing

As we continue to invest in the business, significantly beyond the Final Determination ("FD") allowances, our statutory net debt (as defined on page 41) increased by £306 million to £12,640 million (31 March 2021: £12,334 million). During the remainder of AMP7, we expect approximately £380 million of cash injections to be made into TWUL to repay debt, funded by incremental holding company debt.

The increase in net debt was accompanied by an increase in the Regulatory Capital Value ("RCV"), as published by Ofwat, of £687 million to £15,712 million (31 March 2021: £15,025 million), meaning that overall gearing (on a covenant basis), as at 30 September 2021, was 82% (31 March 2021: 83%), below the covenant maximum of 95%. The decrease in gearing reflects a number of factors including the end of AMP6 adjustment to RCV (applied on 1 April 2020), the inflation assumptions used in the FD, and lower inflation than would have been expected prior to Covid-19.

Condensed consolidated financial statements

Statement of Directors' responsibilities in respect of the interim report and condensed consolidated financial statements

The Directors confirm that the interim report and condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 1 December 2021 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water Utilities Limited

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Thames Water Utilities Limited's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Report 2021/22 of Thames Water Utilities Limited for the 6 month period ended 30 September 2021 (the "period").

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

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated income statement and condensed consolidated statement of other comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended;
- the accounting policies; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Report 2021/22 of Thames Water Utilities Limited have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Report 2021/22, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Report 2021/22 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and the terms of its licence under the Water Industry Act 1991 which requires the company to report as if it had issued equity share capital listed on the London Stock Exchange.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report 2021/22 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for the purpose of complying with the terms of its licence under the Water Industry Act 1991. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

We have read the other information contained in the Interim Report 2021/22 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
1 December 2021

Condensed consolidated income statement

For the six-month period ended 30 September

	Note	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
Revenue	2	1,062.3	42.8	1,105.1	996.0	35.9	1,031.9
Operating expenses excluding impairment losses on financial and contract assets[1]	4	(863.9)	-	(863.9)	(829.5)	-	(829.5)
Impairment losses on financial and contract assets	4	(12.0)	(0.1)	(12.1)	(11.1)	-	(11.1)
Total operating expenses		**(875.9)**	**(0.1)**	**(876.0)**	**(840.6)**	**-**	**(840.6)**
Other operating income	3	40.1	-	40.1	31.6	-	31.6
Operating profit		**226.5**	**42.7**	**269.2**	**187.0**	**35.9**	**222.9**
Finance income	5	66.1	-	66.1	88.5	-	88.5
Finance expense	5	(223.0)	-	(223.0)	(202.1)	-	(202.1)
Net losses on financial instruments	5	(455.6)	-	(455.6)	(355.8)	-	(355.8)
(Loss)/profit on ordinary activities before taxation		**(386.0)**	**42.7**	**(343.3)**	**(282.4)**	**35.9**	**(246.5)**
Tax (charge)/credit on (loss)/profit on ordinary activities	6	(229.8)	(8.1)	(237.9)	52.9	(6.8)	46.1
(Loss)/profit for the period		**(615.8)**	**34.6**	**(581.2)**	**(229.5)**	**29.1**	**(200.4)**

[1] Underlying operating expenses for the six months ended 30 September 2020 includes £8.2 million of costs that are considered to be exceptional. No exceptional costs were recognised for the six months ended 30 September 2021. A summary of exceptional costs is included within note 4.

The Group 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 29 to 32.

The accounting policies included within this interim report and consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report and Sustainability Report 2020/21.

Condensed consolidated statement of other comprehensive income

For the six-month period ended 30 September

	Note	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
(Loss)/profit for the period		**(615.8)**	**34.6**	**(581.2)**	**(229.5)**	**29.1**	**(200.4)**
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial loss on pension schemes	14	(97.1)	-	(97.1)	(353.7)	-	(353.7)
Deferred tax credit on net actuarial loss including impact of tax rate change in current period	13	60.3	-	60.3	81.0	-	81.0
May be reclassified to the income statement:							
Cash flow hedges transferred to income statement	12	18.3	-	18.3	18.8	-	18.8
Deferred tax charge on cash flow hedge gains less impact of tax rate change in current period	13	(0.1)	-	(0.1)	(3.5)	-	(3.5)
Other comprehensive expense for the period		**(18.6)**	**-**	**(18.6)**	**(257.4)**	**-**	**(257.4)**
Total comprehensive (expense)/income for the period		**(634.4)**	**34.6**	**(599.8)**	**(486.9)**	**29.1**	**(457.8)**

The accounting policies included within this interim report and consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report and Sustainability Report 2020/21.

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 29 to 32.

Condensed consolidated statement of financial position

As at

		30 September 2021			31 March 2021		
		Underlying	BTL	Total	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m
Non-current assets							
Intangible assets		281.7	-	281.7	276.3	-	276.3
Property, plant and equipment[1]	8	16,604.7	-	16,604.7	16,302.3	-	16,302.3
Investment property[1]		50.0	-	50.0	50.0	-	50.0
Right-of-use assets		49.4	-	49.4	41.6	-	41.6
Derivative financial assets	12	137.3	-	137.3	151.1	-	151.1
Intercompany loans receivable		1,693.4	-	1,693.4	1,693.4	-	1,693.4
Prepayments	9	-	270.7	270.7	-	228.9	228.9
Insurance and other receivables	9	49.1	-	49.1	50.7	-	50.7
Pension asset	14	23.5	-	23.5	57.9	-	57.9
		18,889.1	270.7	19,159.8	18,623.3	228.9	18,852.2
Current assets							
Inventories		13.9	-	13.9	14.9	-	14.9
Intercompany loans receivable		7.7	-	7.7	3.7	-	3.7
Contract assets	9	264.0	8.5	272.5	239.5	5.8	245.3
Trade receivables	9	641.7	24.7	666.4	298.1	12.0	310.1
Prepayments	9	69.9	-	69.9	38.4	-	38.4
Other receivables	9	28.3	1.3	29.6	30.3	0.8	31.1
Derivative financial assets	12	29.3	-	29.3	12.3	-	12.3
Cash and cash equivalents		100.8	6.6	107.4	490.9	3.6	494.5
		1,155.6	41.1	1,196.7	1,128.1	22.2	1,150.3
Current liabilities							
Contract liabilities	10	(498.4)	(16.7)	(515.1)	(121.9)	(2.1)	(124.0)
Trade and other payables		(572.9)	(28.9)	(601.8)	(602.7)	(31.4)	(634.1)
Borrowings	11	(1,195.4)	-	(1,195.4)	(1,124.9)	-	(1,124.9)
Lease liabilities		(6.6)	-	(6.6)	(7.5)	-	(7.5)
Derivative financial liabilities	12	(87.5)	-	(87.5)	-	-	-
		(2,360.8)	(45.6)	(2,406.4)	(1,857.0)	(33.5)	(1,890.5)
Net current (liabilities)		(1,205.2)	(4.5)	(1,209.7)	(728.9)	(11.3)	(740.2)
Non-current liabilities							
Contract liabilities	10	(797.2)	-	(797.2)	(757.3)	-	(757.3)
Borrowings	11	(11,485.3)	-	(11,485.3)	(11,643.3)	-	(11,643.3)
Lease liabilities		(59.9)	-	(59.9)	(52.9)	-	(52.9)
Derivative financial liabilities	12	(1,783.5)	-	(1,783.5)	(1,469.9)	-	(1,469.9)
Deferred tax	13	(1,140.9)	-	(1,140.9)	(973.2)	-	(973.2)
Provisions for liabilities and charges		(147.5)	-	(147.5)	(143.7)	-	(143.7)
Pension deficit	14	(341.0)	-	(341.0)	(277.1)	-	(277.1)
		(15,755.3)	-	(15,755.3)	(15,317.4)	-	(15,317.4)
Net assets		1,928.6	266.2	2,194.8	2,577.0	217.6	2,794.6
Equity							
Called up share capital		29.0	-	29.0	29.0	-	29.0
Share premium		100.0	-	100.0	100.0	-	100.0
Cash flow hedge reserve	12	(41.5)	-	(41.5)	(59.7)	-	(59.7)
Revaluation reserve		832.4	-	832.4	903.1	-	903.1
Retained earnings		1,008.7	266.2	1,274.9	1,604.6	217.6	1,822.2
Total equity		1,928.6	266.2	2,194.8	2,577.0	217.6	2,794.6

[1]Assets of £50.0 million which meet the definition of Investment Properties under IAS 40 have been reclassified from Property, Plant and Equipment and disclosed separately in the statement of financial position as at 30 September 2021, with the prior period comparative at 31 March 2021 also reclassified. Please refer to Note 8 Property, Plant and Equipment for further information.

Condensed consolidated statement of financial position (continued)

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 29 to 32.

The accounting policies included within this interim report and consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report and Sustainability Report 2020/21.

The condensed interim consolidated financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 1 December 2021 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Condensed consolidated statement of changes in equity

For the six month period ended

	Note	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	**Total equity £m**
1 April 2020		29.0	100.0	(90.1)	934.3	2,174.3	3,147.5
Loss for the period		-	-	-	-	(200.4)	**(200.4)**
Cash flow hedge transferred to the income statement		-	-	18.8	-	-	**18.8**
Deferred tax charge on cash flow hedge gain	13	-	-	(3.5)	-	-	**(3.5)**
Net actuarial loss on pension scheme		-	-	-	-	(353.7)	**(353.7)**
Deferred tax credit on net actuarial loss	13	-	-	-	-	81.0	**81.0**
Total comprehensive income		**-**	**-**	**15.3**	**-**	**(473.1)**	**(457.8)**
Transfer of depreciation[1]		-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer[1]		-	-	-	3.6	(3.6)	**-**
30 September 2020		29.0	100.0	(74.8)	918.7	1,716.8	2,689.7
Loss for the period		-	-	-	-	1.9	**1.9**
Cash flow hedge transferred to the income statement		-	-	18.7	-	-	**18.7**
Deferred tax charge on cash flow hedge gain	13	-	-	(3.6)	-	-	**(3.6)**
Net actuarial loss on pension scheme		-	-	-	-	158.7	**158.7**
Deferred tax credit on net actuarial loss	13	-	-	-	-	(37.9)	**(37.9)**
Total comprehensive income		**-**	**-**	**15.1**	**-**	**122.7**	**137.8**
Transfer of depreciation[1]		-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer[1]		-	-	-	3.6	(3.6)	**-**
Dividends paid	7	-	-	-	-	(32.9)	**(32.9)**
31 March 2021		29.0	100.0	(59.7)	903.1	1,822.2	2,794.6
Loss for the period		-	-	-	-	(581.2)	**(581.2)**
Cash flow hedge transfer to the income statement	12	-	-	18.3	-	-	**18.3**
Deferred tax charge on cash flow hedge less impact of tax rate change	13	-	-	(0.1)	-	-	**(0.1)**
Net actuarial loss on pension scheme	14	-	-	-	-	(97.1)	**(97.1)**
Deferred tax credit on net actuarial loss including impact of deferred tax rate change	13	-	-	-	-	60.3	**60.3**
Total comprehensive income		**-**	**-**	**18.2**	**-**	**(618.0)**	**(599.8)**
Transfer of depreciation[1]		-	-	-	(5.1)	5.1	-
Deferred tax on depreciation transfer including impact of deferred tax rate change[1]		-	-	-	(65.6)	65.6	-
30 September 2021		29.0	100.0	(41.5)	832.4	1,274.9	2,194.8

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

The accounting policies included within this interim report and consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report and Sustainability Report 2020/21.

Condensed consolidated statement of cash flows

For the six month period ended 30 September

	2021			2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Operating activities:						
(Loss)/gain for period	(615.8)	34.6	(581.2)	(229.5)	29.1	(200.4)
Less finance income	(66.1)	-	(66.1)	(88.5)	-	(88.5)
Add finance expense excluding interest on lease liabilities	221.4	-	221.4	200.4	-	200.4
Add interest expense on lease liabilities	1.6	-	1.6	1.7	-	1.7
Add net loss on financial instruments	455.6	-	455.6	355.8	-	355.8
Add/(less) taxation on (loss)/profit on ordinary activities	229.8	8.1	237.9	(52.9)	6.8	(46.1)
Operating profit	**226.5**	**42.7**	**269.2**	**187.0**	**35.9**	**222.9**
Depreciation on property, plant and equipment	292.5	-	292.5	279.7	-	279.7
Amortisation of intangible assets	26.9	-	26.9	26.3	-	26.3
Depreciation of right of use assets	2.0	-	2.0	5.6	-	5.6
Add loss on sale of property, plant and equipment	(0.2)	-	(0.2)	0.3	-	0.3
Difference in pension charge and cash contribution[1]	(1.0)	-	(1.0)	(23.2)	-	(23.2)
Decrease/(increase) in inventory	1.0	-	1.0	(1.1)	-	(1.1)
Increase in trade and other receivables	(371.5)	(55.0)	(426.5)	(419.4)	(48.2)	(467.6)
(Increase)/decrease in contract assets	(24.5)	(2.7)	(27.2)	10.5	0.5	11.0
Decrease in trade and other payables	(47.2)	3.4	(43.8)	(60.6)	12.1	(48.5)
Increase in contract liabilities	416.4	14.6	431.0	408.6	10.6	419.2
Increase/(decrease) in provisions	3.8	-	3.8	(0.2)	-	(0.2)
Net cash generated by operating activities	**524.7**	**3.0**	**527.7**	**413.5**	**10.9**	**424.4**
Investing activities:						
Proceeds from/(increase in) short term investments	-	-	-	300.0	-	300.0
Purchase of property, plant and equipment	(594.9)	-	(594.9)	(484.3)	-	(484.3)
Purchase of intangible assets	(32.3)	-	(32.3)	(20.3)	-	(20.3)
Proceeds from sale of property, plant and equipment	0.6	-	0.6	-	-	-
Interest received	40.4	-	40.4	66.3	-	66.3
Repayment of loans by parent company	-	-	-	58.8	-	58.8
Net cash used in investing activities	**(586.2)**	**-**	**(586.2)**	**(79.5)**	**-**	**(79.5)**
Financing activities:						
New loans raised[2]	1,616.6	-	1,616.6	750.2	-	750.2
Repayment of borrowings[2]	(1,772.7)	-	(1,772.7)	(1,123.0)	-	(1,123.0)
Repayment of lease principal	(5.3)	-	(5.3)	(6.6)	-	(6.6)
Derivative accretion settlement[3]	-	-	-	(15.3)	-	(15.3)
Interest paid	(174.0)	-	(174.0)	(203.6)	-	(203.6)
Fees paid	6.8	-	6.8	(4.9)	-	(4.9)
Net cash used in financing activities	**(328.6)**	**-**	**(328.6)**	**(603.2)**	**-**	**(603.2)**
Net decrease in cash and cash equivalents	(390.1)	3.0	(387.1)	(269.2)	10.9	(258.3)
Net cash and cash equivalents at beginning of period	490.9	3.6	494.5	755.8	2.6	758.4
Net cash and cash equivalents at end of period	**100.8**	**6.6**	**107.4**	**486.6**	**13.5**	**500.1**

[1] Net cash generated by operating activities for the period to 30 September 2021 excludes pension deficit repayments for TWPS as in the year ended 31 March 2021 an exceptional payment of £69.7m was made to cover the repayments for the remainder of AMP 7.
[2] Refer to the Note 11 Borrowings on page 41 for more information.
[3] Derivative accretion settlement of £nil (2020: £15.3 million) relates to index-linked swaps where accretion is payable periodically.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to arrangement with BTL and therefore our underlying amounts are disclosed separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 30.

The accounting policies included within this interim report and consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report and Sustainability Report 2020/21.

Accounting policies

General information
Thames Water Utilities Limited ("the Company") is a private limited company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The consolidated condensed financial statements have been reviewed, not audited.

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").

The Group includes the Company and its sole subsidiary Thames Water Utilities Finance Plc ("TWUF").

Statement of compliance with International Financial Reporting Standards
On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 April 2021. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

These consolidated interim condensed financial statements of the Group have been prepared on the basis of the policies set out in the March 2021 Annual Report in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Sustainability Report for the year ended 31 March 2021 which were prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The auditors' report on those financial statements was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or Directors' remuneration report not agreeing to records and returns), or section 498(3) (failure to obtain necessary information and explanations).

The Annual Report for the year ended 31 March 2022 will be prepared under International Financial Reporting Standards ("IFRS") as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK's exit from the EU on 31 January 2020 and cessation of the transition period on 31 December 2020.

Principal risks and uncertainties
Following review, our principal risks, as disclosed in the Thames Water Annual Report and Sustainability Report 2020/21, remain largely unchanged. However, the risk landscape remains challenging due to the longer-term impacts of Covid-19, our withdrawal from the EU and frequent flooding of the wastewater network due to the impact of climate change. As a result of the recent flash flooding we are working with other organisations responsible for drainage and continuing to invest in our infrastructure to increase our capacity and to make the network more resilient.

Pressure remains on our financial position due to challenges in cash and debt collection. In the wake of Covid-19 financial support measures being removed we are supporting customers that face financial hardship and are unable to pay their water bill.

In addition, we continue to experience disruption within our supply chain, inflation and shortages in labour markets, and increasing costs of raw materials, in particular chemicals (a sector-wide issue that is being monitored at a national level via the National Chemical Specialist Group), and power prices. The lack of availability of drivers and construction workers from the continent and the increase in demand from other sectors, means that competition for scarce resource has increased causing a supply and demand issue and resulting in increased rates of pay and potential delays to our capital programme.

Basis of preparation
The condensed interim consolidated financial statements for the six months ended 30 September 2021, set out on pages 23 to 28, 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.

Accounting policies (continued)

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

The Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 30 September 2021, such liquidity consists of £107.4 million of cash and cash equivalents, access to £1.72 billion of revolving credit facilities of which £1.03 billion was undrawn, £100m undrawn Class B facility and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). Furthermore during the pandemic, the Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the Group is subject to financial covenants, assessed based on interest cover and gearing ratios. With significant headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints and Brexit, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse events related to climate change. To mitigate the impact on operational cashflows, mitigants involving active working capital management and the release of contingencies embedded with the Business Plan have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and shows significant liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

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

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.

Refer to the 'General information' section above for information on the Group.

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.

Change in tax rate
For Interim reporting, the Group uses a forecast effective tax rate for the full year to 31 March 2022, applied to the profits earned in the six months to 30 September 2021. A change in UK tax rate was substantially enacted during the period, which affects deferred tax on temporary differences which are expected to unwind after 1 April 2023. The Group has chosen not to include the impact of remeasuring the closing deferred tax balances within the forecast effective annual tax rate applied to Interim balances and instead has chosen to treat the change in tax rate as a discrete additional item in the 6 month period. Having adopted this accounting policy, the Group has therefore debited the entire impact of the change in UK tax rate on deferred tax balances (£302.1 million) to the Income Statement for the Interim period, as well as a credit to reserves of £39.7 million.

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 also gives rise to reporting profit which is taxable. This non-appointed revenue, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. 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 Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.

Accounting policies (continued)

Accounting policies and financial reporting changes

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year except for the following.

IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as the London Interbank Offer Rate (''LIBOR'') and other interbank offered rates (''IBORs'') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes in some of the various jurisdictions affected, although the UK FCA has announced the timetable for the cessation of all LIBORs.

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

We cannot rely on GBP LIBOR being published after the end of 2021 and the industry-led Working Group on Sterling Risk-Free Reference Rates is supporting the transition from GBP LIBOR to SONIA (Sterling Overnight Index Average). There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

Industry working groups have published documentation regarding methodologies for calculating adjustments between GBP LIBOR and SONIA. The Group has established a project to oversee the GBP LIBOR transition plan. This transition project includes changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The areas of greatest change are amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps, both for external and intercompany contracts, some of which have already been amended, and the Group plans to implement amendments to the remaining contracts prior to the end of 2021.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 30 September 2021, the Group had no designated hedge relationships and hedge accounting was not applied.

Refer to the IBOR reform section included in Note 12 Fair value of financial Instruments on page 46 for details of all of the financial instruments that the Group holds at 30 September 2021 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

As at 30 September 2021, for the undrawn £550.0 million liquidity facilities, LIBOR has been transitioned to SONIA on an economically equivalent basis. No gain or loss was recognised on transition as the Phase 2 reliefs were met. Other modifications have been considered in respect of the IFRS 9 extinguishment and modification requirements. These did not result in a gain or loss.

Accounting policies (continued)

Future standards and amendments

IAS 12 – Income Taxes

Amendments have been published by the IASB, to clarify how companies account for deferred tax on leases and decommissioning obligations. This is not effective until 2023. We are considering the implications and scope of these amendments.

IFRIC Agenda Decision for IAS 38 – Software-as-a-Service

For financial reporting periods ending after 30 June 2021, the International Financial Reporting Interpretations Committee (IFRIC) released an Agenda Decision that impacts the accounting treatment of Software-as-a-Service ("SaaS") arrangements under IAS 38. Under this decision, the IFRIC concluded that entering into a standard SaaS contract was a service contract and not a lease of the software code or an intangible asset of the software code. The impact of this is that costs that were previously capitalised in respect of this should now be expensed. Whilst this is not a separate legislative instrument, the Agenda Decision is effectively considered mandatory when complying with IFRS.

We are currently assessing the extent of our capitalised expenditure that relates to the above decision and the impact on our financial statements. The outcome of this assessment will be applied in the year-end accounts 31 March 2022. The amount that is potentially in scope of this is approximately £15.1 million for the six month period 30 September 2021 and approximately £228.0 million in total across financial years.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim 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. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Annual Report and Sustainability Report 2020/21 for the year ended 31 March 2021.

Seasonality and cyclic nature of operations

Fluctuations in the billing cycle across the year impact balances reported in our Statement of Financial Position, see Note 9 Trade and other receivables and Note 10 Contract liabilities for further information.

Notes to the condensed 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 'One Thames' all operational functions are included in a single business unit, enabling an end-to-end view of customer journeys and integrated resource management.

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. There is now a far smaller number of non-household customers, being retailers rather than the end user and we have one customer that accounts for more than 10% of our total revenue.

Revenue is further disaggregated into the different products and services, as detailed in note 2.

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.

Segmental performance

A segmental analysis of the management revenue and EBIT figures has been presented with a reconciliation to statutory revenue and profit before tax below:

For the six month period ended 30 September	2021 £m	2020 £m
Management revenue	1,085.4	1,019.6
Net operating expenses before depreciation and amortisation	(576.4)	(534.7)
Depreciation of property, plant and equipment	(288.1)	(276.1)
Amortisation of intangible assets	(25.9)	(25.3)
Other operating income	4.4	0.6
Management Earnings before Interest and Tax (EBIT)	**199.4**	**184.1**

Revenue – Management to statutory reconciliation

The business segment's revenue is reconciled to the Group's statutory revenue below:

For the six month period ended 30 September	2021 £m	2020 £m
Management revenue	1,085.4	1,019.6
Household BTL revenue	36.3	31.7
Non-household BTL revenue	6.7	4.4
Statutory reclassification of bad debt from operating expenditure[1]	(23.3)	(23.8)
Total statutory revenue	**1,105.1**	**1,031.9**

[1] This relates to amounts billed that are not probable of being recovered and therefore excluded from statutory revenue in line with the requirements of IFRS 15 revenue. In the current year, £23.1 million relates to management revenue (30 September 2020: £23.6 million) and £0.2 million relates to BTL revenue (30 September 2020: £0.2 million).

Notes to the condensed consolidated financial statements (continued)

1. Segmental analysis (continued)

The business segment's EBIT is reconciled to the Group's statutory operating profit and loss before tax below:

For the six month period ended 30 September	2021 £m	2020 £m
Management EBIT	**199.4**	**184.1**
IFRS 16 adjustment[1]	3.1	1.2
Statutory recognition of other operating income[2]	25.6	25.9
Statutory reclassification of pension costs	1.0	(5.1)
Statutory depreciation and write off adjustments[3]	(5.1)	(4.7)
Household BTL revenue[4]	36.3	31.7
Non-household BTL revenue[4]	6.7	4.4
Other statutory adjustments[5]	2.2	(14.6)
Total statutory operating profit before finance income/expenses	**269.2**	**222.9**
Finance income	66.1	88.5
Finance expense	(223.0)	(202.1)
Net loss on financial instruments	(455.6)	(355.8)
Total statutory loss before tax	**(343.3)**	**(246.5)**

[1] The management numbers do not recognise any balances associated with IFRS 16, and all leases are recognised in the management numbers as an expense when incurred.
[2] Requisitions and diversion charges, service connection charges, amortisation of deferred income recognised on adoption of assets at nil cost and the release from deferred income of infrastructure charges are recognised in other operating income for statutory purposes (as disclosed in note 2) but are offset against capital expenditure for management purposes. Elements of other income are also excluded for management purposes.
[3] Depreciation of adopted fair value assets, borrowing costs and write-offs recognised for statutory purposes only.
[4] The portion of BTL revenue related to our household and non-household customers. This excludes a bad debt charge of £0.2 million (30 September 2020: £0.2 million) recognised within revenue in the Income Statement.
[5] These amounts relate to insurance, provisions and other statutory only adjustments not included in management numbers.

The EBITDA, a key performance indicator, is reconciled to the Group's statutory operating profit before finance income/expenses below:

For the six month period ended 30 September	2021 £m	2020 £m
Total statutory operating profit before finance income/expenses	**269.2**	**222.9**
Depreciation of property, plant and equipment	292.5	279.7
Depreciation of right-of-use assets	2.0	5.6
Amortisation of intangible assets	26.9	26.3
EBITDA	**590.6**	**534.5**

2. Revenue

For the six month period ended 30 September	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Gross revenue	1,085.4	43.0	1,128.4	1,019.6	36.1	1,055.7
Charge for bad and doubtful debts	(23.1)	(0.2)	(23.3)	(23.6)	(0.2)	(23.8)
Total	**1,062.3**	**42.8**	**1,105.1**	**996.0**	**35.9**	**1,031.9**

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. The primary reason for the increase in BTL revenue is driven by the phasing of construction works.

Notes to the condensed consolidated financial statements (continued)

2. Revenue (continued)

We have presented a further disaggregation of our revenue below:

Gross revenue for the six month period ended 30 September	2021 £m	2020 £m
Household market:		
Water services	350.5	356.7
Wastewater services	472.5	439.0
Retail services	76.3	70.8
Total gross revenue from household market	899.3	866.5
Non-*household market:*		
Water services	86.5	66.8
Wastewater services	78.1	66.4
Retail services	0.6	-
Total gross revenue from non-household market	165.2	133.2
Gross revenue from principal services[1]	1,064.5	999.7
Other appointed revenue[2]	8.3	10.2
Total appointed revenue	1,072.8	1,009.9
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel) [3]	12.6	9.7
Total gross underlying revenue	1,085.4	1,019.6
Amounts billed for the Thames Tideway Tunnel	43.0	36.1
Total gross revenue	1,128.4	1,055.7

All revenue is derived from activities based in the UK.

[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).

3. 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:

For the six month period ended 30 September	2021 £m	2020 £m
Power income[1]	6.3	4.8
Requisitions and diversions charges	11.0	12.9
Service connections charges	9.3	7.8
Amortisation of deferred income recognised on adoption of assets at nil cost	2.0	1.8
Release from deferred income – infrastructure charges	2.7	2.6
Rental income	4.2	0.9
Profit/(loss) on sale of property, plant and equipment	0.2	(0.3)
Other income[2]	4.4	1.1
Total	40.1	31.6

[1] Power income comprises income from the sale of internally generated electricity.
[2] Other income includes £3.9 million relating to excess payments received from customers in the past and recognised in the consolidated income statement during the current period. In the prior six-month period, £3.8 million of excess payments were recognised in impairment losses on financial and contract assets within operating expenses. See note 4 'Operating expenses' for further detail.

Notes to the condensed consolidated financial statements (continued)

4. Operating expenses

For the six month period ended 30 September	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
Wages and salaries	164.0	-	164.0	144.3	-	144.3
Social security costs	17.4	-	17.4	16.4	-	16.4
Pension costs – defined benefit schemes	2.7	-	2.7	13.1	-	13.1
Pension costs – defined contribution schemes	13.3	-	13.3	7.1	-	7.1
Apprenticeship levy	0.8	-	0.8	0.7	-	0.7
Total employee costs	198.2	-	198.2	181.6	-	181.6
Power	78.8	-	78.8	63.0	-	63.0
Raw materials and consumables	26.3	-	26.3	29.2	-	29.2
Rates	60.5	-	60.5	60.7	-	60.7
Research and development expenditure	2.6	-	2.6	1.9	-	1.9
Insurance	24.6	-	24.6	23.3	-	23.3
Legal and professional fees	11.8	-	11.8	12.0	-	12.0
Other operating costs[1]	250.4	-	250.4	249.8	-	249.8
Own work capitalised	(110.7)	-	(110.7)	(111.8)	-	(111.8)
Net operating expenses before depreciation and amortisation	542.5	-	542.5	509.7	-	509.7
Depreciation of property, plant and equipment	292.5	-	292.5	279.7	-	279.7
Depreciation of right-of-use assets	2.0	-	2.0	5.6	-	5.6
Amortisation of intangible assets	26.9	-	26.9	26.3	-	26.3
Net operating expenses excluding exceptional items	863.9	-	863.9	821.3	-	821.3
Exceptional costs[2]:						
Company reorganisation - severance	-	-	-	0.2	-	0.2
Associated programme management costs	-	-	-	8.0	-	8.0
Operating expenses excluding impairment losses on financial and contract assets	863.9	-	863.9	829.5	-	829.5
Impairment losses on financial and contract assets[3]	12.0	0.1	12.1	11.1	-	11.1
Total operating expenses	875.9	0.1	876.0	840.6	-	840.6

[1] Other operating costs primarily relate to costs for contracted services and repairs and maintenance of assets, including associated labour costs, which are not shown within employee costs above and do not qualify as capital expenditure under IAS 16: *Property, plant and equipment.*
[2] Costs relate to transformation expenditure incurred in the prior six-month period as a result of the significant restructuring of the business that commenced in 2019 and continued into 2020. These costs are considered to be exceptional in nature with significant expenditure incurred that is not in the ordinary course of business. The restructure of the business involved significant changes in the way that the Company operates and therefore this transformation expenditure is deemed exceptional by nature. The tax impact of exceptional items in the six-month period 30 September 2020 was an increase in the tax credit in the income statement of £1.6 million. No exceptional costs were recognised for the 6 month period ended 30 September 2021.
[3] Impairment loss for the prior six-month period is net of £3.8 million relating to excess payments received from customers in the past and recognised during the six-month period. In the current six-month period, £3.9 million is recognised in other income.

Notes to the condensed consolidated financial statements (continued)

5. Finance income and expense and net losses on financial instruments

During the six months ended 30 September 2021, the Group recognised finance income of £66.1 million (Six months ended 30 September 2020: £88.5 million) relating mainly to interest on swaps, intercompany loans and fees on swaps.

The Group also recognised finance expenses of £223.0 million (Six months ended 30 September 2020: £202.1 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and leases.

For the six month period ended 30 September	2021	2020
	£m	£m
Finance income[1]	66.1	88.5
Finance expense	(223.0)	(202.1)
Net finance expense	(156.9)	(113.6)

[1] Included within finance income is £11.0 million (30 September 2020: £nil) relating to fees received on the novation or restructure of index-linked swaps that were undertaken during the period.

Net losses on financial instruments

The reconciliation to net gains(losses) on financial instruments has been provided below:

For the six month period ended 30 September	2021	2020
	£m	£m
Net exchange (losses)/gains on foreign currency borrowings	(28.9)	32.1
Net losses arising on swaps where hedge accounting is not applied[1]	(408.4)	(369.1)
Loss on cash flow hedge transferred from equity[2]	(18.3)	(18.8)
Net losses on financial instruments	(455.6)	(355.8)

[1] Losses arising on swaps where hedge accounting is not applied primarily reflects higher RPI and interest rate expectations.
[2] Refer to note 12 "Fair value of financial instruments" on pages 42 to 46 for more information on the loss on cash flow hedge transferred from equity.

6. Taxation

For the six month period ended 30 September	2021			2020		
	Underlying	BTL	Total	Underlyin g	BTL	Total
	£m	£m	£m	£m	£m	£m
Current tax:						
Amounts payable in respect of group relief	1.9	8.1	10.0	(2.2)	6.8	4.6
Deferred tax:						
Origination and reversal of timing differences	(73.8)	-	(73.8)	(50.7)	-	(50.7)
Adjustment in respect of corporation tax rate changes in current period	302.1	-	302.1	-	-	-
Adjustment in respect of prior periods	(0.4)	-	(0.4)	-	-	-
	227.9	-	227.9			
Tax charge / (credit) on (loss)/profit on ordinary activities	229.8	8.1	237.9	(52.9)	6.8	(46.1)

The corporation tax charge is based upon the standard rate of corporation tax in the UK of 19% (2020: 19%). The interim corporation tax charge for the six month period ended 30 September 2021 is based on the forecast effective tax rate for the full year to 31 March 2022 applied to the profits earned in the six months to 30 September 2021. The effect of the corporation tax rate change to 25% (see below) on timing differences as at 30 September 2021 which are expected to unwind after 1 April 2023 has then been added.

The tax charge for the six month period ended 30 September 2021 is higher (2020: credit is lower) than the standard rate of corporation tax in the UK. The differences are explained below:

Notes to the condensed consolidated financial statements (continued)

6. Taxation (continued)

For the six month period ended 30 September	2021			2020		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
(Loss)/profit on ordinary activities before taxation	(386.0)	42.7	(343.3)	(282.4)	35.9	(246.5)
Current tax (credit)/charge at 19% (2020: 19%)	(73.3)	8.1	(65.2)	(53.6)	6.8	(46.8)
Effects of:						
Disallowable expenditure	2.1	-	2.1	2.0	-	2.0
Non-taxable income – other including property disposals	(0.7)	-	(0.7)	(1.3)	-	(1.3)
Tax as adjusted for recurring items	(71.9)	8.1	(63.8)	(52.9)	6.8	(46.1)
Impact of tax rate change on temporary differences impacting income statement	302.1	-	302.1	-	-	-
Adjustments to tax charge in respect of previous periods – deferred tax	(0.4)	-	(0.4)	-	-	-
Total tax charge / (credit)	229.8	8.1	237.9	(52.9)	6.8	(46.1)

The Group intends to utilise tax losses available in its immediate parent Thames Water Utilities Holdings Limited for the year ended 31 March 2022. As a result, the Group intends to reduce its claims for tax relief on its capital expenditure in this period. The Group expects to pay £10.0m to its parent company for the tax losses relating to the six months to 30 September 2021; tax losses are paid for at the standard rate of corporation tax.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. The rate increase to 25% was substantively enacted on 24 May 2021. Therefore, its effects on deferred tax are included in these financial statements in respect of timing differences as at 30 September 2021 which are expected to unwind after 1 April 2023, except for the deferred tax liability on the pension surplus which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The overall effect of the change for the Group is to increase the net deferred tax liability by £262.4 million, comprising an increase of £366.9 million in the liability for accelerated depreciation, less increases in the assets for pensions (£20.5 million), derivatives (£80.6 million) and other timing differences (£3.4 million). The tax expense for the period has increased by £302.1 million and the credit to reserves has increased by £39.7 million. As noted above, the tax rate change has increased the Group's deferred tax liability and could increase future current tax charges.

7. Dividends

During the six months ended 30 September 2021, the Company paid no dividends (year ended 31 March 2021: £32.9 million; six months ended 30 September 2020: £nil) to its immediate parent Thames Water Utilities Holdings Limited.

Dividends paid during previous periods were ultimately used to fund interest obligations and activities of other group companies within the Kemble Water Holdings Group and was distributed as follows:

	Six months ended 30 September 2021	Year ended 31 March 2021	Six months ended 30 September 2020
	£m	£m	£m
Distribution to external shareholders:			
External dividend distributions	-	-	-
	-	-	-
Distributions not distributed to external shareholders:			
Kemble Water Finance Limited debt service costs	-	31.5	-
Distribution to Thames Water Limited	-	1.4	-
	-	32.9	-
Total	-	32.9	-

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £37.1 million (31 March 2021: £nil). Dividends were paid post period end, in October 2021 to service debt obligations and group related costs incurred by other companies within the wider Kemble Water Group.

Dividends paid to Kemble Water Finance Limited ("KWF") in the prior year were used to enable the company to continue to meet its debt service obligations for external debt and external debt of a subsidiary of KWF, Thames Water (Kemble) Finance Plc, which have been on lent to KWF via intercompany loans debt. Dividends paid to Thames Water Limited in the prior year were used to fund activities of the company. External shareholders above is referring to shareholders of Kemble Water Holdings Limited ("Kemble").

Notes to the condensed consolidated financial statements (continued)

8. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	Total £m
Cost:					
At 1 April 2020[1]	3,610.0	8,057.0	7,823.1	2,853.4	22,343.5
Additions	-	0.2	28.6	1,021.4	1,050.2
Transfers between categories	125.1	482.9	548.1	(1,156.1)	-
Disposals	-	(184.5)	-	-	(184.5)
At 31 March 2021[1]	3,735.1	8,355.6	8,399.8	2,718.7	23,209.2
Additions	-	0.3	24.3	570.3	594.9
Transfers between categories	111.1	317.6	419.4	(848.1)	-
Disposals	-	(1.1)	-	-	(1.1)
At 30 September 2021	3,846.2	8,672.4	8,843.5	2,440.9	23,803.0
Depreciation:					
At 1 April 2020	(1,041.4)	(4,723.2)	(766.1)	-	(6,530.7)
Depreciation charge	(56.8)	(365.2)	(137.3)	-	(559.3)
Disposals	-	183.1	-	-	183.1
At 31 March 2021	(1,098.2)	(4,905.3)	(903.4)	-	(6,906.9)
Depreciation charge	(30.7)	(190.3)	(71.5)	-	(292.5)
Disposals	-	1.1	-	-	1.1
At 30 September 2021	(1,128.9)	(5,094.5)	(974.9)	-	(7,198.3)
Net book value at 31 March 2021	2,636.9	3,450.3	7,496.4	2,718.7	16,302.3
Net book value at 30 September 2021	2,717.3	3,577.9	7,868.6	2,440.9	16,604.7

[1]Assets of £50.0 million which meet the definition of Investment Properties under IAS 40 have been reclassified from Property, Plant and Equipment and disclosed separately in the statement of financial position.

As at 30 September 2021, Land and Buildings within the Property, plant and equipment note included purchases made in relation to the Thames Tideway Tunnel project; an element of which will not form part of the asset to be depreciated when the asset is brought into use. 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 the required works have been completed.

One of these land and buildings relate to a building that in substance was acquired to facilitate the access requirements for the Thames Tideway Tunnel project; however, this building is being offered to external parties under short term leases and, therefore, the property meets the definition of an Investment Property. As such it should be presented as investment property and the Company has chosen to account for it under the cost method of IAS 40 with a carrying value of £50.0 million.

In the current six-month period to 30 September 2021, to facilitate greater transparency, the building aforementioned, with carrying value of £50.0 million, have been appropriately reclassified to Investment Properties effective as at 1 April 2020. This has resulted in no change to the previously reported Net or Non-current assets values, with the previously reported cost and Net Book Value of land and buildings at 31 March 2021 as disclosed within Property, Plant and Equipment of £2,686.9 million being reduced to £2,636.9 million. In the Annual Report and Sustainability Report 2020/21 it was reported in error that there were assets of value £113.1 million which met the definition of Investment Property under IAS 40, this should have said £50.0 million.

Based on an expectation that this property will be disposed of in the next few years the current fair value and residual value of this property as at 30 September 2021 are assessed by the Company to be materially the same as the carrying value. The rental income earned by the Company in relation to this property in the six-months ended 30 September 2021 is £2.7 million (30 September 2020: £2.9 million).

Further, within Land and Buildings are £45.4 million of land and buildings acquired as part of the construction of Thames Tideway Tunnel under long leaseholds. The buildings acquired were presented within Land and Buildings within our Property, plant and equipment disclosure note as at 31 March 2021. Whilst these leases meet the definition of Right-of-use assets, because these are in substance purchases of leasehold property and to remain consistent with prior periods, these continue to be recognised within Land and Buildings.

Notes to the condensed consolidated financial statements (continued)

9. Trade and other receivables

Non-current

As at	30 September 2021			31 March 2021		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Prepayments	-	270.7	270.7	-	228.9	228.9
Insurance claims receivable	44.2	-	44.2	44.9	-	44.9
Other receivables	4.9	-	4.9	5.8	-	5.8
Insurance and other receivables	49.1	-	49.1	50.7	-	50.7
Total[2]	49.1	270.7	319.8	50.7	228.9	279.6

Current

As at	30 September 2021			31 March 2021		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Gross trade receivables	796.2	28.1	824.3	441.2	15.2	456.4
Less expected credit losses provision	(154.5)	(3.4)	(157.9)	(143.1)	(3.2)	(146.3)
Trade receivables[1]	641.7	24.7	666.4	298.1	12.0	310.1
Prepayments	69.9	-	69.9	38.4	-	38.4
Other receivables	28.3	1.3	29.6	30.3	0.8	31.1
Contract assets	264.0	8.5	272.5	239.5	5.8	245.3
Total	1,003.9	34.5	1,038.4	606.3	18.6	624.9

[1] The TWUL billing cycle means that the timing of bills for unmetered customers results in a large increase in the net trade receivables balance of £356.2 million to £666.3 million (31 March 2021: £310.1 million). This balance will reduce over the second half of the year.
[2] Non-current prepayments at 30 September 2021 of £270.7 million (31 March 2021: £228.9 million) relates 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 Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.

Net contract assets at 30 September 2021 includes £201.2 million (31 March 2021: £176.7 million) of unbilled services provided to metered customers. Included within this amount is £7.6 million of bad debt (31 March 2020: £7.1 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

10. Contract liabilities

The TWUL billing cycle means that the timing of bills for unmetered customers results in a large increase in the deferred income at the interim balance sheet date, being the primary driver for the increase in current contract liabilities of £391.1 million to £515.1 million (31 March 2021: £124.0 million). This balance will reduce over the second half of the year. Additionally, within this balance there is a decrease in receipts in advance from customers for water and wastewater charges of £53.8 million to £21.6 million (31 March 2021: £75.4 million).

Non-current contract liabilities have increased by £39.9 million to £797.2 million (31 March 2021: £757.3 million). The main driver of this is further new service connections made in the 6 month period which has therefore resulted in an increase in deferred income for nil cost "adopted" assets.

Notes to the condensed consolidated financial statements (continued)

11. Borrowings

As at	30 September 2021 £m	31 March 2021 £m
Secured bank loans and private placements	3,921.9	3,504.2
Bonds	8,630.4	9,087.4
Amounts owed to Group undertakings	5.5	5.5
	12,557.8	12,597.1
Interest payable on borrowings	122.9	171.1
Total	12,680.7	12,768.2
Disclosed within non-current liabilities	11,485.3	11,643.3
Disclosed within current liabilities	1,195.4	1,124.9
Total	12,680.7	12,768.2

During the six months ended 30 September 2021, the Group issued £1,619.3 million debt (£1,616.6 million net of fees) and repaid £1,772.7 million debt.

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, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiary TWUF, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

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

As at	30 September 2021 £m	31 March 2021 £m
Secured bank loans and private placements	(3,921.9)	(3,504.2)
Bonds	(8,630.4)	(9,087.4)
Lease liability	(66.5)	(60.4)
Amounts owed to Group undertakings	(5.5)	(5.5)
Interest payable on borrowings	(122.9)	(171.1)
	(12,747.2)	(12,828.6)
Cash and cash equivalents	107.4	494.5
Net debt (statutory basis)	(12,639.8)	(12,334.1)
Reconciliation to net debt (covenant basis):		
Interest payable on borrowings	122.9	171.1
Amounts owed to Group undertakings	5.5	5.5
Unamortised debt issuance costs and discount	(72.6)	(72.9)
Relevant derivative financial liabilities (Accretion and FX)	(396.9)	(293.3)
Unamortised IFRS 9 adjustment	24.1	24.5
Cash relevant for covenant	7.0	2.1
Net debt (covenant basis)	(12,949.8)	(12,497.1)
Equity attributable to owners of the Group	2,194.8	2,794.6

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 and cash to be added for covenants (which is based on cash and investments whereas accounting definition adjusts for other items). Amounts owed to group undertakings include loans from immediate parent Thames Water Utilities Holdings Limited £5.2 million (31 March 2021: £5.2 million) and from the parent of the immediate parent Thames Water Limited £0.3 million (31 March 2021: £0.3 million).

Notes to the condensed consolidated financial statements (continued)

12. Fair value of 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	30 September 2021 £m	31 March 2021 £m
Fair value through profit and loss:		
Cross currency swaps	90.4	63.5
Interest rate swaps	5.8	16.2
Index-linked swaps	70.4	83.7
Cash and cash equivalents – money market funds	105.7	492.1
	272.3	655.5
Amortised cost:		
Intercompany loans receivable	1,701.1	1,697.1
Insurance and other receivables	78.7	81.8
Trade receivables	666.4	310.1
Cash and cash equivalents – cash at bank and in hand	1.7	2.4
	2,447.9	2,091.4
Total	2,720.2	2,746.9

Financial liabilities:

As at	30 September 2021 £m	31 March 2021 £m
Fair value through profit and loss:		
Cross currency swaps	(94.1)	(113.6)
Interest rate swaps	(142.9)	(166.6)
Index-linked swaps	(1,634.0)	(1,189.7)
	(1,871.0)	(1,469.9)
Amortised cost:		
Trade and other payables (excluding other taxation and social security)	(593.0)	(625.8)
Borrowings	(12,680.7)	(12,768.2)
Lease liabilities	(66.5)	(60.4)
	(13,340.2)	(13,454.4)
Total	(15,211.2)	(14,924.3)

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 1-3 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 two – 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 one. The fair values of interest rate and index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level two. The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2021:

Notes to the condensed consolidated financial statements (continued)

12. Fair value of financial instruments (continued)

Fair value measurements (continued)

As at	Level 2[1] 30 September 2021 £m	31 March 2021 £m
Financial assets – derivative financial instruments		
Cross currency swaps	90.4	63.5
Interest rate swaps	5.8	16.2
Index-linked swaps	70.4	83.7
	166.6	163.4
Financial liabilities – derivative financial instruments		
Cross currency swaps	(94.1)	(113.6)
Interest rate swaps	(142.9)	(166.6)
Index-linked swaps	(1,634.0)	(1,189.7)
	(1,871.0)	(1,469.9)
Net total	(1,704.4)	(1,306.5)

[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. The future cash flows are estimated based on observable forward interest rates and inflation rates and discounted at a rate that reflects the credit risk of the Group and counterparties, currency cash flows are then translated at spot rate.

During the year, £18.3 million (30 September 2020: £18.8 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 27. The amount recycled consisted of a £18.3 million loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and for which the related debt has been issued.

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 the income statement. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 30 September 2021, £34.3 million (31 March 2021: £35.3 million) remained capitalised within derivative financial liabilities and £1.0 million had been recognised in the income statement within net losses on financial instruments (30 September 2020: £1.0 million).

Notes to the condensed consolidated financial statements (continued)

12. Fair value of financial instruments (continued)

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:

As at	30 September 2021 Book value £m	30 September 2021 Fair value £m	31 March 2021 Book value £m	31 March 2021 Fair value £m
Non-current:				
Intercompany loans receivable	1,693.4	1,693.4	1,693.4	1,693.4
Derivative financial instruments				
Cross currency swaps	75.7	75.7	51.2	51.2
Interest rate swaps	5.8	5.8	16.2	16.2
Index-linked swaps	55.8	55.8	83.7	83.7
Insurance and other receivables	49.1	49.1	50.7	50.7
	1,879.8	1,879.8	1,895.2	1,895.2
Current:				
Cash and cash equivalents	107.4	107.4	494.5	494.5
Intercompany loans receivable[1]	7.7	7.7	3.7	3.7
Trade receivables	666.4	666.4	310.1	310.1
Other receivables	29.6	29.6	31.1	31.1
Derivative financial instruments				
Cross currency swaps	14.7	14.7	12.3	12.3
Index-linked swaps	14.6	14.6	-	-
	840.4	840.4	851.7	851.7
Total	2,720.2	2,720.2	2,746.9	2,746.9

[1] Intercompany loans receivable includes a floating rate loan and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

Notes to the condensed consolidated financial statements (continued)

12. Fair value of financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts (continued)

Financial liabilities:

As at	30 September 2021 Book value £m	30 September 2021 Fair value £m	31 March 2021 Book value £m	31 March 2021 Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	(2,958.8)	(3,351.6)	(3,072.0)	(3,433.5)
Bonds	(8,521.0)	(12,402.0)	(8,565.8)	(11,679.9)
Amounts owed to Group undertakings	(5.5)	(5.5)	(5.5)	(5.5)
Derivative financial instruments				
Cross currency swaps	(90.8)	(90.8)	(113.6)	(113.6)
Interest rate swaps	(142.9)	(142.9)	(166.6)	(166.6)
Index-linked swaps	(1,549.8)	(1,549.8)	(1,189.7)	(1,189.7)
	(13,268.8)	(17,542.6)	(13,113.2)	(16,588.8)
Current				
Borrowings				
Secured bank loans and private placements	(963.1)	(966.6)	(432.2)	(438.6)
Bonds	(109.4)	(114.1)	(521.6)	(507.7)
Interest payable	(122.9)	(122.9)	(171.1)	(171.1)
Derivative financial instruments				
Cross currency swaps	(3.3)	(3.3)	-	-
Index linked swaps	(84.2)	(84.2)	-	-
Trade and other payables (excluding other taxation and social security)	(593.0)	(593.0)	(625.8)	(625.8)
	(1,875.9)	(1,884.1)	(1,750.7)	(1,743.2)
Total	(15,144.7)	(19,426.7)	(14,863.9)	(18,332.0)

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.

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 Group's credit spread. Amounts owed by group undertakings includes a floating rate loan and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

Notes to the condensed consolidated financial statements (continued)

12. Fair value of financial instruments (continued)

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 30 September 2021 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 30 September 2021		Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2021	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Cross currency swaps	-	(3.3)	-	(3.3)
Interest rate swaps	5.8	(142.9)	5.8	(142.9)
Index-linked swaps[1]	-	(863.7)	-	(863.7)
Amortised cost				
Intercompany loans receivable	1,693.4	-	1,693.4	-
Borrowings[2]	-	(2,095.5)	-	(2,095.5)
Total assets and liabilities exposed to GBP LIBOR	1,699.2	(3,105.4)	1,699.2	(3,105.4)

[1] Includes £139.8 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, but have LIBOR references in the documentation.
[2] Included in the £2,095.5 million of borrowings in the table above are £1,222.2 million external debt (including £400.0 million drawn out of the £1,432.1 million Class A revolving credit facility, the remaining £1,031.1 million undrawn is not included), a £5.2 million loan from immediate parent Thames Water Utilities Holdings Limited and a £0.3 million loan from the immediate parent of Thames Water Utilities Holdings Limited, Thames Water Limited, where the interest rate is directly linked to LIBOR. The remaining £867.8 million relates to external debt where the interest rate is not directly linked to LIBOR, but which has LIBOR references in the documentation.

As at 30 September 2021, for the undrawn £550.0 million liquidity facilities, Libor has been transitioned to SONIA on an economically equivalent basis. No gain or loss was recognised on transition as the Phase 2 reliefs were met. Other modifications have been considered in respect of the IFRS9 extinguishment and modification requirements. These did not result in a gain or loss.

During October and November 2021, the Group's £1.7 billion Revolving Credit Facilities and £189.2 million loans transitioned from a LIBOR based interest rate to SONIA.

Notes to the condensed consolidated financial statements (continued)

13. Deferred tax liability

An analysis of movements in the deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	Total £m
At 1 April 2020	**(1,198.1)**	**6.7**	**114.2**	**14.1**	**(1,063.1)**
(Charge)/credit to income	(27.3)	(17.4)	89.9	8.7	53.9
Credit/(charge) to other comprehensive income	-	43.1	(7.1)	-	36.0
At 31 March 2021	**(1,225.4)**	**32.4**	**197.0**	**22.8**	**(973.2)**
(Charge)/credit to income	(350.7)	(15.7)	139.0	(0.5)	(227.9)
Credit/(charge) to other comprehensive income	-	60.3	(0.1)	-	60.2
At 30 September 2021	**(1,576.1)**	**77.0**	**335.9**	**22.3**	**(1,140.9)**

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:

	30 September 2021 £m	31 March 2021 £m
Deferred tax asset	435.2	252.2
Deferred tax liability	(1,576.1)	(1,225.4)
Total	**(1,140.9)**	**(973.2)**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. The rate increase to 25% was substantively enacted on 24 May 2021. Therefore, its effects on deferred tax are included in these financial statements in respect of timing differences as at 30 September 2021 which are expected to unwind after 1 April 2023, except for the deferred tax liability on the pension surplus which continues to be provided at 35%. The overall effect of the change for the Group is to increase the net deferred tax liability by £262.4 million, comprising an increase of £366.9 million in the liability for accelerated depreciation, less increases in the assets for pensions (£20.5m), derivatives (£80.6 million) and other timing differences (£3.4 million). The tax expense for the period has increased by £302.1 million and the credit to reserves has increased by £39.7 million.

Notes to the condensed consolidated financial statements (continued)

14. Retirement benefit obligations

Background

The Group operates two defined benefit pension schemes and one defined contribution pension scheme.

	What are they?	How do they impact the financial statements?
Defined Contribution Scheme This scheme was set up in April 2011 and was managed through Standard Life. From October 2020, this is now managed through Aon MasterTrust. This scheme is open to all employees of the Company that are not members of the defined benefit pension schemes.	In a defined contribution pension scheme, the benefits are linked to: • contributions paid; • the performance of the individual's chosen investments; and • the form of benefits.	A charge of £13.2 million (30 September 2020: £7.1 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 no outstanding contributions as at 30 September 2021 (31 March 2021: £nil) recognised in the statement of financial position. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes 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 now are 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 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 £4.9 million (30 September 2020: £14.0 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; • past service cost representing the increase in the defined benefit liability arising from GMP equalisation; • administrative expenses for the pension schemes; and • the net interest expense on pension scheme assets and liabilities An actuarial loss of £97.1 million (30 September 2020: loss of £353.7 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 of the scheme members 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 £23.5 million (31 March 2021: £57.9 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £341.0 million (31 March 2021 £277.1 million) is recognised in the statement of financial position for the TWPS scheme. As at 30 September 2021, the net pension deficit is £317.5 million (31 March 2021: £219.2 million). 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.

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 six month period ended 30 September 2020, these related payments amounted to £0.1 million. None were paid in six month period to 30 September 2021.

Notes to the condensed consolidated financial statements (continued)

14. Retirement benefit obligations (continued)

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 to ensure the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the trustees by David Gardiner of Aon, the actuary of the schemes. This 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).

This 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 2021 to 30 September 2021. The 2019 funding valuation has been updated to an accounting valuation as at 30 September 2021 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.

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 30 September 2021.
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 actual mortality experience of members within the schemes, which remains unchanged from 31 March 2021. 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:

	30 September 2021		31 March 2021	
	TWPS	TWMIPS	TWPS	TWMIPS
Rate of price inflation – RPI	3.40%	3.55%	3.25%	3.30%
Rate of price inflation – CPI	3.00%	2.95%	2.85%	2.70%
Discount rate	2.05%	1.95%	2.10%	2.00%

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.

	30 September 2021		31 March 2021	
	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	27.6	26.8	27.6	26.8
Female	29.7	29.0	29.7	29.0
Life expectancy from age 60 currently aged 40:				
Male	28.3	27.9	28.3	27.9
Female	30.8	30.2	30.8	30.2

Notes to the condensed consolidated financial statements (continued)

14. Retirement benefit obligations (continued)

Actuarial risk factors

The schemes are exposed to actuarial risks including investment 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 Group'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.

Actuarial risk factors (continued)

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below:

	30 September 2021		31 March 2021	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Changes in assumptions resulting in a decrease in liabilities				
Change in discount rate (+ 1% p.a.)	(380.0)	(90.0)	(360.0)	(90.0)
Change in rate of inflation (- 1% p.a.)	(260.0)	(65.0)	(250.0)	(65.0)
Change in life expectancy (+ 1 year)	80.0	40.0	80.0	40.0

15. Capital commitments

As at	30 September 2021 £m	31 March 2021 £m
Property, plant and equipment	480.2	404.9
Intangible assets	19.9	10.0
Total contracted for but not provided	500.1	414.9

The Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments has increased in the six month period to 30 September 2021 due to entering the second year of a new AMP and delays in the previous year to commencement of capital works driven by Covid-19.

16. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group is currently defending five sets of court proceedings commenced by different groups of Property Search Companies ("PSCs") seeking refunds of fees paid for property search data, including CON29DW searches, from 1 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, at a lower cost than that charged. The position is replicated across all other Water & Sewerage Companies in England and Wales. We are defending these claims, as are all the other water and sewage companies in England and Wales. However, the claims are 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.

The Group is subject to ongoing information requests from Ofwat and the Environment Agency, affecting all Water and Sewerage Companies in England and Wales. The information requests were received on 18 November 2021 and relate to the company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The outcome of these enquiries and the existence of any possible future financial obligations, or other consequences, is unable to be determined at this time.

Notes to the condensed consolidated financial statements (continued)

16. Contingent liabilities (continued)

As at 31 March 2021, there were ongoing commercial negotiations arising in the ordinary course of business in respect of closing out AMP6 contracts. At the time of signing the 31 March 2021 financial statements the Directors considered an outflow of economic benefit possible, however, they could not be reliably estimated. The outflow of economic benefit as at 30 September 2021 is now considered probable and able to be reliably estimated, therefore a provision has been included within provisions for liabilities and charges for these present obligations.

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 a contingent liability.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

17. Related party transactions

Transactions

	30 September 2021		30 September 2020	
	Services provided by the Group £'000	Services provided to the Group £'000	Services provided by the Group £'000	Services provided to the Group £'000
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	197	-	441	-
Immediate parent				
Thames Water Utilities Holdings Limited	9,993	3,926	9,406	4,722
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	745	-	668	-
Thames Water Pension Trustees Limited	-	737	-	2,000
Thames Water Commercial Services Limited	-	-	10	-
Thames Water Property Services Limited	83	115	82	82
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	-	8	-	18
Total	11,018	4,786	10,607	6,822

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Notes to the condensed consolidated financial statements (continued)

17. 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:

	30 September 2021		31 March 2021	
	Amounts owed to the Group £'000	Amounts owed by the Group £'000	Amounts owed to the Group £'000	Amounts owed by the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	5	-	5	-
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	1,014	-	1,014	-
Thames Water Limited	362	-	12	-
Immediate parent				
Thames Water Utilities Holdings Limited	1,693,422	29,805	1,693,422	13,685
Other entities within the Kemble Water Holdings group				
Thames Water Commercial Services Limited	-	-	-	5
Total	1,694,803	29,805	1,694,453	13,690

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No material provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Key management personnel

Key management personnel comprise the members of the Board and of the Executive Committee during the year.

The remuneration of the Directors for the six month period ended 30 September 2021, and comparative period 30 September 2020, is included in the table below:

	30 September 2021 £'000	30 September 2020 £'000
Fees	308	501
Salary	1,624	1,190
Pension and pension allowance	156	120
Bonus[1]	2,098	2,557
Other benefits[2]	754	289
Total	4,940	4,657

[1] For the six month period to 30 September 2021, and the comparative period, a bonus for key management personnel was accrued based on 50% of expected year end outcome. The final bonus for the year is to be determined at year end.
[2] Other benefits includes medical benefits, car allowances, relocation costs and other incentives. Increase is driven by long-term incentive plans implemented in current period.

Information regarding transactions with post-employment benefit plans is included in 'Retirement benefit obligations'.

18. Post Balance Sheet Events

On 4 October 2021, a dividend of £37.1 million was paid by TWUL. £35.1 million was used to settle debt service costs within Kemble Water Finance Limited and £2.0 million was used for group related costs by Thames Water Limited. Consistent with the period to September 2021,no dividends have been paid to external shareholders of Kemble Water Holdings Limited since 30 September 2021.

During October and November 2021, £1.7 billion Revolving Credit Facilities and £189.2 million loans transitioned from a LIBOR based interest rate to SONIA. In addition, a further net £316.9 million Class A Revolving Credit Facilities were drawn and a total of £289.3 million Class B Revolving Credit Facilities were repaid.

From 18 November 2021, the Group has been subject to ongoing information requests from Ofwat and the Environment Agency, affecting all Water and Sewerage Companies in England and Wales. These requests relate to the company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. A contingent liability has therefore been disclosed in Note 16.

Thames Water

14988 11/12