Thames Water Annual Report and Sustainability Report 2021/22

Fixing the basics

Resetting our direction

In March 2021, we launched our eight-year turnaround plan and, with one year complete, we've made progress. I've always been clear it won't be quick or easy, however, I'm pleased with what we've achieved in the first year in a challenging and changing environment. We all want to see significant improvements quickly, but we are determined to make the needed changes in a sustainable way to make a real, positive difference for our customers today and into the future.

In 2021/22, the first year of our turnaround plan, we delivered some important milestones – launching a new plan and putting the foundations in place, bringing in a new Executive team, reconnecting with our values and laying foundations to improve our performance and become more efficient. We've also just announced extra support from our shareholders to accelerate our turnaround.

We've faced significant external challenges in the last year, however we're seeing early signs of progress in key performance metrics, with complaints, leakage, pollutions and supply interruptions all down year-on-year. Thank you to colleagues across Team Thames, who have worked so hard to drive these improvements.

Our customers, communities and the environment are at the heart of our plan and we are fully committed to delivering it, to create a better future.

We will continue to be open and engage with you about how things are going. I love hearing your views and getting feedback on how we're doing – we need honest feedback to be able to improve – and I can't wait to meet even more of you in the coming year.

Thank you for your support and for being part of our journey.

The Strategic Report was approved by the Board of Directors on 5 July and signed on its behalf by

Sarah Bentley

Sarah Bentley
Chief Executive Officer

→ **Read more about our turnaround plan on page 2**
→ **See our turnaround plan in action on pages 14 – 39**

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Introduction to our reports

Our drive to become more sustainable runs through everything we do, so this is our combined Annual Report and Sustainability Report. You can also find the Sustainability Report, together with our ESG performance tables, as a separate standalone document on our website.

We also produce an Annual Performance Report. This is a regulatory report that gives more detailed information about how we've performed against our 52 performance commitments. Our KPIs, some of which are performance commitments, are covered in this report on pages 17 – 21.

The external documents and websites we refer to in some parts of this report are for extra information only and do not form part of our Annual Report and Sustainability Report.

Governance report

Financial statements

Year one of the turnaround plan – an overview

Good progress laying important foundations for turnaround plan

Key changes made in year one of eight-year turnaround plan, with a reset in many areas to allow us to get closer to customer needs and tackle the challenges ahead

- Almost all-new Executive team in place, with strong skill set and turnaround plan experience
- Reorganisation of operations to drive regional focus for London as well as the Thames Valley and Home Counties, so we can better respond to the local needs of customers and communities
- Announcements to in-source the management of repairs and maintenance for our water network, with transition on track for the end of October 2022, and for all customer voice contact teams to be based in the UK by the end of 2023
- Launched brand-new work management system to replace legacy systems, enabling teams to plan more efficiently and track job progress in real time

Promising trends in some key customer and water metrics as we start to fix the basics, with increasing investment required to drive real step change

- Met over 60% of performance commitments that have a target for this year
- Improving trends in 8 of 14 KPIs
- Significant reduction in total complaints, but further to go on C-MeX as we remain 17th out of 17 companies
- 39% reduction in supply interruptions in two years
- 7% reduction in pollution incidents
- Met leakage target for the third year in a row, preventing 438 Ml/d of water being leaked

Focus on being Purpose-led to drive delivery

- Reconnecting with the right values and behaviours to be able to deliver the plan and support our Purpose, with roll out of new programme across Team Thames

Taking action on river health in line with progressive stance and with focus on collaboration

- Commitment to reduce the annual duration of sewage discharges into rivers by 50% across our region by 2030, and in sensitive catchments, such as chalk streams, by 80%
- £38 million invested in upgrading our sewage treatment works at Beckton
- Live spills alerts from 468 permitted locations on track for the end of 2022
- Working with partners on pilot project in the Oxford area has seen Port Meadow become only the second UK river to be given designated bathing water status

Increasing challenges from external environment

- Increasing pressure from climate change with major flash flooding having a severe impact on customers and affecting waste metrics, including sewer flooding
- Spikes in energy prices and inflation, and increased regulatory focus on pollutions impact loss after tax Cost of living crisis intensifying and affecting more customers

Making a difference so our customers, communities and the environment can thrive

Support for customers

- £46 million of support for customers on social tariffs
- 35% more households helped through customer assistance fund
- Over £580,000 donated to our Independent Trust Fund

Innovating to get to net zero by 2030

- First direct gas-to-grid project from Deephams sewage treatment works set to produce six million cubic metres of biomethane each year, enough to heat the equivalent of 3,500 homes
- Trialled our first electric vehicles

Steps forward on journey to become a more diverse and inclusive organisation

- Executive team now 45% women and 18% BAME
- Recognition as one of Stonewall's Top 100 Employers for LGBTQ+ commitments in the workplace and 'gold' status from the Armed Forces Covenant employer recognition scheme for our ex-military recruitment strategy

Macroeconomic factors affect position, but on track with underlying financial performance

- Underlying revenue up 3% to £2.1 billion, driven by growth in allowed tariffs and a partial recovery in non-household consumption as UK Government Covid-19 restrictions eased
- Underlying EBITDA unchanged at £1.0 billion, benefitting from revenue growth and cost discipline
- Reported loss after tax of £973 million driven by a non-cash loss on financial instruments and a one-off deferred tax charge due to the increase in corporation tax rate to 25%
- Strong growth in operating cash flow benefitting from improved cash collection rates, and decreases in working capital and pension contributions
- Invested a record £1.3 billion in our network, a 22% increase in investment in networks as we ramp up capital delivery programme to increase resilience
- No dividends paid to external shareholders for fifth year running

Success of turnaround plan relies on continued, strong shareholder support and positive regulator collaboration

- Shareholders continue to take a long-term view with investment in turnaround plan
- The Board and shareholders of Thames Water have approved a revised £11.5 billion business plan for the current regulatory period ending 31 March 2025, a £2 billion increase in expenditure, compared to the £9.6 billion agreed in our final determination for 1 April 2020 to 31 March 2025
- Shareholders have committed £500 million in new equity in 2022/23 to support delivery of revised plan; working with shareholders on plans to provide a further £1.0 billion of equity funding over the remainder of the current regulatory period
- £300 million of investment approved by our shareholders to unlock the capital allowances built into our final determination
- No dividends to ultimate shareholders for fifth year in a row – the only dividends relate to interest and other group related costs

Our key performance indicators

Customer

C-MeX
(customer measure of experience)
17th / 68.86
Direction of trend: ↘
(2020/21: 17th / 72.91)

Total household complaints[1,2]
105,155
Direction of trend: ↘
(2020/21: 186,969)

Per capita consumption
(litres per person per day, based on a rolling year-three average)
147.5
Direction of trend: ↘
(2020/21: 148.3)

People

Employee engagement
69%
Direction of trend: ↘
(2020/21: 75%)

Lost time injuries frequency rate[1]
(number per 100,000 hours worked)
0.15
Direction of trend: ↗
(2020/21: 0.08)

Operational

Water quality
(compliance risk index)
2.59
Direction of trend: ↗
(2020/21: 2.42)

Acceptability of water to customers
(number of contacts per 1,000 people)
0.49
Direction of trend: ↘
(2020/21: 0.54)

Leakage
(million litres of water a day, based on a rolling three-year average)
605.6
Direction of trend: ↘
(2020/21: 639.0 restated)

Pollutions incidents (cat 1-3)
(number per 10,000km of sewers)
24.87
Direction of trend: ↘
(2020/21: 26.67)

Clearance of blockages
(number of sewer blockages)
74,569
Direction of trend: ↘
(2020/21: 76,223)

Internal sewer flooding[1]
(number per 10,000 sewer connections)
3.46
Direction of trend: ↗
(2020/21: 2.31)

Water supply interruptions[1]
(hours, minutes, seconds per property)
11m03s
Direction of trend: ↘
(2020/21: 13m39s)

Treatment works compliance
98.96%
Direction of trend: ↘
(2020/21: 99.74%)

Sewage spills[3]
14,713
Direction of trend: ↘
(2020: 18,443)

Financial

Total revenue
£2.2 billion
(2020/21: £2.1 billion)

Investment in assets
£1.3 billion
(2020/21: £1.1 billion)

Total EBITDA[4]
£1.1 billion
(2020/21: £1.1 billion)

Total (loss) after tax
£(973) million
(2020/21: £(199) million)

Credit ratings
Moody's Corporate family rating
Baa2 Stable
(2020/21: Baa2 Stable)

Standard & Poor's Class A Rating
BBB+ Watch Negative
(2020/21: BBB+/neg)

Dividends to service debt obligations and other group costs
£37.1 million
(2020/21: £32.9 million)

Dividends to external shareholders:
£0
(2020/21: £0)

Understanding our dividends

We are part of a group of companies, owned ultimately by shareholders. Our shareholders are mainly pension funds, with the two largest representing key worker pension funds in Canada and the UK, OMERS and USS. You can find out more about our group structure and our investors on page 77.

Traditionally, our dividends are used for two main purposes – one to allow other companies within the wider Kemble Water Group to pay interest on their external debt, and the other to allow a dividend to be paid to our ultimate shareholders.

For the last five years we've not paid a dividend to our ultimate shareholders. In general, they've been limited to help to meet the interest payments, as well as some minor group related costs

It's important that we are able to restore dividends to our ultimate shareholders in the future, and our plan is to do this in a way that is supported by the broader performance and resilience of the business. No dividend is paid without the Board assessing the payment against our dividend policy, which can be found on page 120.

Direction of trend key
↗ ↘ Improvement on previous year
= No change on previous year
↘ ↗ Deterioration on previous year

1 Link to remuneration – annual management bonus
2 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 updated our KPI at the half year to reflect that. We've included the total complaints number for last year; however, given there was also a change in methodology for calculating total complaints in January 2021, 2020/21 versus 2021/22 is not a like for like comparison
3 Given our commitments to reduce spills, and our approach to being open and transparent, we've updated our list of KPIs to include this measure for 2021/22. This number is as reported to the Environment Agency for 2021
4 As the Group's significant capital investment is considered within another key performance metric, "investment in assets", it is appropriate to have an additional KPI which excludes the amounts relating to depreciation and amortisation, therefore EBITDA is now used as a KPI by management

Leading with Purpose

Our Purpose is to deliver life's essential service, so our customers, communities and the environment can thrive

Doing things in the right way is just as important as what we do. And, right across the business, from the Board to the frontline, we're focused on being Purpose-led.

→ **You can find more about Board engagement to support our Purpose on page 78.**

Strategy

To be truly Purpose-led, we need to turn around our performance and get Thames Water in the right position for the future, so our customers, communities and the environment can thrive. We've launched an eight-year turnaround plan. As we embed our plan and focus on what we need to deliver on our journey to 2029, we've also been developing our strategic roadmap.

While our previous strategic ambitions are still crucially important themes – to deliver brilliant customer engagement, to invest in resilient assets and systems and to generate public value – we're revisiting our strategy. It will help ensure that what we do really aligns with why we do it – our Purpose – and will bring together our ambitions under our turnaround plan, our longer-term water and drainage plans (our Water Resources Management Plan and Drainage and Wastewater Management Plan), and our Vision for 2050.

Over the last year, we've been fully focused on embedding the themes of our turnaround plan, and making sure all our activity delivers against one of each of those themes – to fix the basics, raise the bar and shape the future. That's why we've structured this year's Annual Report and Sustainability Report around the three pillars of our turnaround plan.

→ **You can find out more about how we're delivering against each pillar on pages 14 – 39**

Values and behaviours

Our values were developed in 2014 by Team Thames, and in 2020 we relaunched these values with a set of refreshed behaviours to really bring them to life. As part of our turnaround plan, we've rolled out a new programme to reconnect Team Thames with our values and behaviours, so we can deliver our Purpose and create a great place to work.

→ **See how we're embedding our values and behaviours to support our Purpose on page 36**

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

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

Be respectful and value everyone
We challenge prejudice, discrimination, and unacceptable behaviours wherever we see them

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

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

Be proud, be blue
We always work together as Team Thames to do the best possible job for our customers

Sustainability and ESG metrics

Being Purpose-led goes hand in hand with being more sustainable and delivering on Environment, Social and Governance (ESG) metrics. Our Purpose directly focuses on ESG outcomes with its reference to enabling customers, communities and the environment to thrive.

We have a longstanding approach to sustainability and over the last few years we've been evolving to respond to the changing impacts on our business and the needs of our customers, communities and the environment. We'll keep doing that as we move forward to shape a brilliant future for our region.

→ **You can read our Sustainability Report on pages 27 – 39**

Vision 2050

The water industry operates in five-year regulatory cycles, but we all know customers are going to need water forever, and that our environment needs us to behave in a responsible way.

The nature of our business means we need to make decisions today that will benefit generations for many years to come. That's why we've been working to define our Vision for 2050, so we can make sure our Purpose rings true, now and in the future.

We've been talking to lots of different stakeholders about our Vision and aspirations for the future, which we've focused on five themes – customer, water resources, waste and rivers, energy transition and community impact. You'll hear more about our Vision as we move through 2022/23.

Our Chairman's statement

Ian Marchant
Chairman

"It's a really strong plan and will ultimately enable us to deliver our Purpose. However there's a huge amount to do, which will require time, unrelenting focus and sustained investment."

It's been a positive first year of the turnaround plan, with progress made despite a really challenging external environment. Some of the challenges, including the increase in energy and chemical prices, were unknown at this time last year, and they've had a significant impact on our business.

That said, we're pleased with the progress the new, highly experienced Executive team, and wider team at Thames, has made. Some significant milestones have been met as the business goes through a reset and builds foundations on which to deliver the eight-year plan. We all want to see Thames Water transformed overnight into a leading utility, but it's crucial that, this time, things are done once and well. It's a really strong plan and will ultimately enable us to deliver our Purpose. However there's a huge amount to do, which will require time, unrelenting focus and sustained investment.

Our performance is not where we want it to be, however we're broadly on track with where we expected to be at the end of year one of the turnaround. While we're only at the start of a long journey, with stronger foundations in place, and a new way of operating at Thames, we have confidence in the team to deliver the plan.

We wholeheartedly support Sarah and the team's progressive stance on river health, being clear that all untreated sewage discharges into rivers are unacceptable. We're aligned with their approach to being open and honest about the challenges we face and the action we're taking to make a difference. It's going to be a long journey, and, as a Board, we've already taken two deep dives on rivers during the year, to help us understand the scale of the issues and discuss our plans to reduce spills and manage risks around flow compliance.

The health and safety of Team Thames and our customers is our number one priority and the Board has spent a lot of time understanding our performance to make sure colleagues go home safe and well after every day at work.

Supportive shareholders

We have supportive shareholders who recognise the need for our turnaround plan and the long-term nature of it. In June 2022, we announced an ambitious business plan for the remaining years of this regulatory period which provides a firm foundation for the turnaround plan and allows us to meet our regulatory obligations and improve service to our customers. The revised business plan sets out a £11.5 billion programme of expenditure to improve operating performance, a £2 billion increase compared to the £9.6 billion Final Determination for 2020 to 2025.

Developed by the newly appointed executive team, the updated business plan has the full backing of our shareholders and was unanimously approved by Kemble Water Holdings Limited on 29 June 2022. To support the delivery of the business plan and Thames' turnaround, our shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, £500 million in equity, available in March 2023. The Executive team will then work with shareholders on plans to provide a further £1.0 billion of equity funding, subject to certain conditions, driving Thames Water's turnaround over the remainder of the current regulatory period. Their continued support of the Thames Water business is much appreciated by the Board and management.

They have also not received a dividend for the fifth consecutive year, underlining their commitment to our long-term financial resilience. Our newest shareholders, including OMERS, which represents a key worker pension fund in Canada, and USS, representing the principal pension scheme for Universities and higher education institutions in the UK, have not yet received a dividend since acquiring their shares. The only dividend paid during 2021/22, in October 2021, was used solely to service group debt obligations and minor working capital. Further details can be found on page 46.

New leadership

We've supported the appointment of new members of the Executive team, who, together, bring a strong skillset and wealth of experience. During the year, Alastair Cochran joined as our new Chief Financial Officer and an Executive Director on the Board, replacing Brandon Rennet, who stepped down in September. Alastair joined us from Petrofac, where he was Chief Financial Officer, and he has previously held leadership roles at BG Group. You can find his biography, as well as those of the rest of the Executive team on pages 78 – 84.

In addition, we've seen two further changes to the Board in the last year, with Non-Executive Director, Paul Donovan, and Non-Executive Director, Greg Pestrak, stepping down.

Risk management

With new and heightening external pressures, we've spent a lot of time during the year focusing on our risk management. Although we operate a rolling hedging strategy to minimise the impact of price spikes, our power costs alone have increased by £44 million during the year, and it's a cost we have absorbed. With bill increases being relatively flat, our customers have been shielded from this increased cost.

Climate change has and will continue to intensify, and the way we respond to it is crucial. In July, severe flash flooding affected our customers across London, and since then we've commissioned an independent report into what happened. The review's recommendations will inform the scoping of a surface water management strategy and plan for London being jointly led by ourselves, the Greater London Authority, Transport for London, Environment Agency and London Councils.

In February, Storm Eunice was another test of our resilience, and we responded well. Our robust approach to preparing for the storm meant there was limited impact on our customers and the environment.

Our Chairman's statement continued

Board engagement

With pandemic restrictions easing, we've been able to get out and about on sites to talk to teams on the frontline and get closer to operational challenges. I've personally spent time on sites such as Kemble, where I heard about our new workforce management system, how we're tackling supply interruptions and investment at sewage works to reduce spills. I also visited Crossness sewage treatment works where the team updated me on preparations for the Thames Tideway Tunnel. In addition, I've had monthly catch ups with the Water Resources Management Plan and Drainage and Wastewater Management Plan teams to engage on our plans to protect customers from water scarcity and the increasing impact of climate change.

Ian Pearson, our Workforce Engagement Independent Non-Executive Director, has continued to drive an extensive programme of engagement with teams on the frontline. Full details can be found on page 40.

During the year, our new Customer Challenge Group was formed to act as a voice for customers. It brings together a high calibre group of people who will provide independent challenge as Thames moves forward with the turnaround plan. We're grateful for their commitment and we look forward to working with them in the coming years.

Key focus for the Board

Over the next year, we'll continue to support the Executive team as they deliver the turnaround plan, and we look forward to continued, steady progress as we make a real difference to the business in a sustainable way.

We know it continues to be a challenging time for Team Thames, with the launch of a turnaround plan against the backdrop of a really challenging external environment. On behalf of the whole Board, I wanted to say thank you again to everyone across the business who has shown unrelenting dedication and determination during what we know is a difficult time for colleagues and for our customers.

Ian Marchant
Chairman

"With pandemic restrictions easing, we've been able to get out and about on sites to talk to teams on the frontline and get closer to operational challenges."

Q&A with Sarah Bentley, our CEO

Sarah Bentley
Chief Executive Officer

"We want future generations to look back at this period and know that we 'got things right' this time."

Where are you after year one of the turnaround plan?

As I'm sure the rest of Team Thames will agree, it's been a really busy and challenging first year of the turnaround. We always knew it would be a difficult year, with such a big task ahead, and that was before the unexpected impact of spikes in energy and chemical prices, as well as the extreme climate events including London's flooding. Despite all of that, thanks to the determination and focus of Team Thames, we've made some promising progress. We've secured a huge reduction in our total complaints, a 39% reduction in supply interruptions in the last two years and we've met our leakage target for the third year in a row. However, we're only at the start of a very long journey, and the success of the plan relies on continued ruthless prioritisation to drive performance and significant investment in our infrastructure, as well as working together brilliantly with our customers, communities and stakeholders.

It was just over a year ago that I launched our turnaround plan and, since then, I've recruited an almost completely new Executive team to deliver it. Together, over the last twelve months, we've achieved some really critical milestones to improve our service to customers. Most recently, we announced our revised business plan for 2020 to 2025, increasing our expenditure to £11.5 billion compared to the £9.6 billion in our final determination, supported by new equity. To support the plan our shareholders will subscribe an initial £500 million of new equity this financial year, and we're working with them on plans to provide a further £1.0 billion of equity funding, which will be subject to certain conditions.

Another significant milestone was the launch of a new way of running our operations by restructuring two dedicated teams in London and the Thames Valley and Home Counties, to get closer to what our customers and communities want and need. We're also on track to bring the management of our water network into Thames Water so that we can have more control over the decisions that affect our performance. While it's still very much early days, the new set up will give us the opportunity to be more 'local' in how we look after our customers, so we can really live our Purpose, to deliver life's essential service, so our customers, communities and the environment can thrive.

While we've made a good start, we have a long way to go to make sure we're ready to respond to short-term shocks, as well as longer-term challenges like climate change. Our customers and our performance, particularly our waste metrics, were severely affected by the high rainfall through the year and the devastating flash flooding in July 2021.

We know that eight years sounds like a really long time, but we have a lot of longstanding problems to fix, as well as fixing the basics across the business. So, we are taking time to do things thoroughly, as we want future generations to look back at this period and know that we 'got things right' this time.

What's on your mind as you head into year two?

Fixing the basics is still right at the top of my to-do list. It's going to take time to get back on track and make sure we consistently meet our targets in our key metrics. Only then can we really start speeding up the other areas of our plan. We're already a few months into year two and we're fully focused on building on the strong foundations we put in place during year one.

We're lucky to have incredibly passionate people in Team Thames, who strive to do their best every single day. My role, and that of our other leaders, is to make sure we're serving our customer facing colleagues, so they have the right support and tools to look after our customers brilliantly. As part of fixing the basics, we launched a programme to reconnect everyone across Team Thames with our values and behaviours, to support our Purpose. Living our values is so crucial to the long-term success of Thames, and every day I see and hear stories of how people in Team Thames are doing just that.

One of our values is to 'take care'. After two long years of a pandemic, and being in the early stages of an eight-year plan, looking after our people is one of our most important focuses in the coming year. As part of that we're increasing our focus on improving our health and safety and have put some new processes and initiatives in place. Making sure everyone goes home safe and well is absolutely our biggest priority (see page 36).

Looking after our mental health is just as important as our physical health, which is why I became a mental health first aider, and we're increasing our focus on supporting mental wellbeing too. There's been a lot of change within the business over the last year as we get ready for the future. Building the resilience of our team, and creating an environment where our colleagues feel happy, safe and supported to do their best is absolutely crucial.

"My role, and that of our other leaders, is to make sure we're serving our customer facing colleagues, so they have the right support and tools to look after our customers brilliantly."

Q&A with Sarah Bentley, our CEO, continued

I'm passionate about taking care of our customers. We've been increasing our support for customers finding themselves in vulnerable financial circumstances during the year, as the cost of living increases. As part of that we've set up a new customer 'Extra Care' team, to bring together our support and make sure customers are getting the help they need, and we've provided £46 million in support through discounts to bills.

What's been the biggest challenge?

It's hard to pinpoint just one. It's certainly been a turbulent year of challenge. In the last year alone, as well as the pandemic, our customers have faced some of the worst flooding our region has experienced in recent history, as well as skyrocketing energy prices and crippling increases to the cost of living. It's a really difficult time for many customers and communities, and a challenging time for businesses as inflation soars.

While weather is out of our control, we know that climate change is only going to have a bigger impact on us in the future, and we need to make sure we're ready to tackle it head on. To help reduce the threat of flooding in our region, we're joining forces with others responsible for drainage to come up with bigger and better solutions to protect our customers. I love the idea of creating 'storm roads' like they do in Copenhagen, and maybe we need to look at something similar in London. To really make a difference, we need to think big and bold, and embrace innovative ideas.

"The power of collaboration has led to some brilliant outcomes over the last year."

We already have a lot to do within a really tight budget. With the added external pressures we've been facing over the last year, the budget has become even tighter. That means there have been some really tough choices to make, and we are having to drive efficiency hard. We want to be able to move forward at pace, but we're having to be absolutely ruthless in our prioritisation to make sure we deliver brilliant outcomes for customers and the environment in everything we do but we can't do it all at once.

Where does river health fit into your plans?

Like many of you, I care passionately about the health of rivers. As well as providing a wonderful home for so much wildlife, they provide an escape from the intensity of everyday life. That's why it's so important that we're taking a progressive stance to clean up them up.

When I spoke at the Rivers Trust Spring Conference in March, I made some really important commitments to reduce spills of untreated sewage into rivers. But we know it's not just about making commitments. Actions speak far louder than words. And we're absolutely taking action to protect our beautiful waterways.

On top of the significant investment programme already underway in our waste network and sites, we're also investing an additional £120 million at 41 of our sewage treatment works to reduce the risk of spills, and an additional £20 million as part of programme of improvements at nine of our most polluting works.

After a successful pilot in the Oxford area, we're on track to send live alerts by the end of the year from all 468 permitted locations within an hour of discharges starting and stopping. Port Meadow has also been awarded designated bathing water status. I'm delighted we were able to work so collaboratively with stakeholders in Oxford to secure this elevated status. This won't stop sewage entering rivers, but transparency is really important as we build trust, and we expect you to hold us to account.

And, with the tunnelling now complete, we're just 18 months away from a hugely important milestone in London and the River Thames' history. That's when a massive feat of engineering and the biggest ever spills reduction project will go into operation. The landmark Thames Tideway Tunnel, which runs for 25km under London, will divert millions of tonnes of sewage away from the River Thames. You can find more on page 32 about our work to clean up rivers.

What about water scarcity?

We all know that water is essential for life, and as the population grows, there's going to be a massive gap in what the world has and what we need. Water scarcity is a key concern for our region and beyond, and we need to move it up the agenda, just like we have with carbon. Through our engagement, we know many of you agree, which is why it's one of the themes of our Vision for 2050, and we're calling for a national water target that drives reductions in demand throughout society and across industry.

We all have responsibilities to look after water and reducing leakage continues to be a really important part of our plans. It's also one of our biggest challenges, with so many ageing pipes in our network and their sensitivity to changes in weather, but we've been making progress over the last few years. That said, to be able to really make a difference, we need to replumb the London network. Clearly that's not practical from a cost or disruption point of view, but the new conditional allowances mechanism is a great step forward for our sector. With shareholders matchfunding additional investment it unlocks increased investment in critical infrastructure.

As well as reducing leakage, we're helping protect life's essential ingredient in other ways too. We're running the UK's largest smart metering programme and, as part of that programme, we're supporting our customers to reduce their water use, which helps them save water and money too. We're also seeking new ways of supplying water to our region through our joint plan with five other water companies in the South East as part of the Water Resources South East partnership.

Q&A with Sarah Bentley, our CEO, continued

How important is collaboration?

We can't do anything without it! We know Thames has been seen as an arrogant company in the past and there's absolutely no room for that kind of behaviour in today's Thames. We need to actively listen to what you're telling us, and what's why I love getting out and about on sites with colleagues and stakeholders.

There are some really difficult things to hear, but we need to hear them. That way we can improve and engage with you about what we're doing. And when we have to change priorities, we need to be really clear why. It's the only way to rebuild trust and understanding.

Just last month, some of the senior team went along to meet some stakeholders at a public demonstration about river health. Old Thames may have shied away from something like that, but we don't want to be a 'faceless' organisation. By listening and engaging, we can channel our passion with that of stakeholders to make a positive difference to our region.

Partnership working brings together energy, support and challenge and we need all of those things to be able to deliver more for our customers, communities and the environment. The power of collaboration has led to some brilliant outcomes over the last year, with just one example being the Oxford Rivers Project. We absolutely wouldn't be where we are now on our river health journey without the insight and collaboration of partners and river users in the area.

Our smarter water catchments initiative has collaboration at its heart too, and we're moving forward on three joint plans for the beautiful Rivers Chess, Crane and Evenlode. This pioneering approach to looking after catchments brings together river communities to make more of a difference to river health. It focuses on nature based solutions and partnerships instead of concrete. We know that together we can make bigger and better improvements than we can as individual groups or organisations, focused on our individual pieces of a much larger jigsaw. I'm really excited about what we're going to deliver with our partners in our joint plans and this is just the beginning. This approach could be the future of the way we view and look after catchments.

What are you most excited about?

While we remain absolutely focused on fixing the basics, we also have such a great opportunity to really shape the future, which is why it's one of the pillars of our turnaround plan. I'm passionate about the water industry. It's in my genes, as my great grandfather was a well-borer for the Metropolitan Water over 100 years ago, and, as a mum of five, it's so important to me that we leave a positive legacy for future generations. We have the opportunity to make such a difference by cleaning up rivers, securing future water supplies, creating wonderful natural spaces in disadvantaged communities and providing meaningful careers as an 'employer of the future'.

We know we only have the right to be part of conversations about the future if we focus on fixing the basics now. There's no getting away from us being at the bottom of the league table for customer service and being behind target in other metrics, and it's going to be another challenging year of driving further performance improvement. We're starting to see glimmers of progress and I can't wait to see the continued improvements as we take another step forward in our eight-year turnaround plan.

So, what I'm most excited about is continuing along our turnaround journey and working with you, our stakeholders, and my colleagues across Team Thames, as we shape a brilliant future together.

Sarah Bentley
Chief Executive Officer

> "We don't want to be a faceless organisation. By listening and engaging, we can channel our passion with that of stakeholders to make a positive difference to our region."

Putting Thames Water in context

This year has seen huge and unexpected economic pressures on many businesses – and our customers too. We've had to adapt to the challenges in a way that enables us to continue to supply clean water and treat waste sustainably, at an affordable price. These are some of the key issues that affect us and how we're responding.

Climate change

Overview

Our region of England is already dry – London and the wider South East gets less rainfall each year than Rome, Istanbul and Sydney. Longer, hotter summers will further reduce our water resources.

Climate change will also increase the likelihood of intense rainfall, leading to higher risk of river and surface flooding – such as the flash floods in London in summer 2021. This puts even more pressure on our sewer systems, leading to discharges. Temperature and soil moisture fluctuations also strain our pipes and can result in leaks.

How we're responding

We're increasing our water storage capacity and strengthening the resilience of our networks and infrastructure. This includes investing in sustainable drainage systems (SuDS).

We're also working to reduce leaks and encouraging our customers to use water wisely so the water we have is used efficiently.

Working together with others is an important part of our approach – for example, we're engaging through the Water Resources South East alliance to contribute to a regional plan for resilient water resources in the long term.

We're also doing our bit to mitigate the effects of climate change by reducing our carbon emissions: we're working to get to net zero by 2030, and beyond zero to become climate positive by 2040. And we're supporting the transition to different sources of energy through innovative technological solutions, including converting biogas into biomethane to provide renewable heat. In 2021, we published our Climate Change Adaptation Update Report, which explains how we're understanding and adapting to the effects of climate change.

Links to our strategy and risk management

→ **Shaping the future – our Sustainability Report – page 27**
→ **Taskforce on Climate-Related Financial Disclosures – page 49**
→ **Case study: Supporting energy transition in the UK – page 33**
→ **Case study: Maintaining our QE2 reservoir while keeping London in supply – page 23**
→ **Our environment/operations risks – pages 57 – 60**

Rivers and our natural environment

Overview

It's our responsibility to help protect the wider river ecosystems and natural habitats in our region. There are three million species in the Thames Valley area, including 670,000 protected and notable species. Our patch also contains 21% of the UK's chalk streams.

The public conversation on river health is also, quite rightly, changing. We've been clear that sewage discharges are unacceptable even when they are permitted, and our CEO spoke at the Environmental Audit Committee. We're working together with our stakeholders so that they become no longer necessary.

Separately, the Environment Agency and Ofwat have launched two investigations into potential non-compliance with permits at sewage treatment works. This comes at the same time as a push to require all water companies to meet progressively higher standards to protect the environment.

How we're responding

We've committed to reducing the total annual duration of spills by 50% across our region by 2030. That will include an 80% reduction in sensitive catchments, such as chalk streams.

We're spending £5 million over five years on catchment partnership projects and capacity building. That's in addition to the £9 million we've already committed to spend on our three Smarter Water Catchments plans. The plans can be found on our website.

We're also becoming even more transparent: we commissioned an independent expert review to look into the London flooding in July last year, and we're going to provide live sewage discharge notifications at all our permitted locations by the end of 2022.

Links to our strategy and risk management

→ **Shaping the future – our Sustainability Report – page 27**
→ **Case study: A spotlight on the Oxford Rivers Project as we clean up rivers – page 32**
→ **Case study: Creating wonderful natural spaces – page 34**
→ **Our environment/operations risks – pages 57 – 60**

Putting Thames Water in context continued

Customer affordability and expectations

Overview

Many of our customers have had a very tough couple of years as they deal with the lingering impacts of Covid-19 and rising energy prices and household costs. And it's going to get harder in 2022/23, with inflation forecast to hit 9% and utility bills rising by an average of £700. However, water bills have increased by only 3.4% since last year, in line with our agreed price review.

For most of our customers, their water bill is less than 2% of their household income. But over 500,000 households in the Thames region are in 'water poverty', which means their water bill is 5% or more of their net income.

How we're responding

We support customers in vulnerable circumstances through programmes such as our social tariffs, flexible payment schemes and Customer Assistance Fund. We also provide additional assistance to those who need it through our Priority Services Register, with 5% of households now registered.

Links to our strategy and risk management

→ **Fixing the basics, raising the bar and shaping the future – pages 14 – 39**
→ **Case study: Reducing complaints as we start to fix the basics – page 22**
→ **Case study: Supporting our customers as cost of living soars – page 35**
→ **Our customer risks – pages 56 – 57**

Power and chemical costs

Overview

We use a lot of energy to provide clean, safe drinking water and treat wastewater. It's our biggest cost after people – and this year the prices of wholesale energy, natural gas and chemicals have all increased substantially. Chemical costs are also up more than 20% and power costs increased by more than 30%.

How we're responding

As part of our long-term energy strategy, we plan our energy purchases carefully in advance to lessen the effects of price spikes on our business. We operate a rolling hedging strategy with a five year forward view that helps us to capture the average price. That means that we pre-buy 60-80% of our energy for the following year. In 2021/22, this saved us more than £60 million.

We're also continuing to review our operating decisions so we use less fossil fuels, which we buy, and instead use more biogas that we produce ourselves. In 2021/22, we produced 10 GWh more renewable electricity than 2020/21.

Links to our strategy and risk management

→ **Shaping the future – our Sustainability Report – page 27**
→ **Case study: Supporting energy transition in the UK – page 33**
→ **Case study: Supporting our customers as cost of living soars – page 35**
→ **Our environment/operations risks – pages 57 – 60**

Population growth

Overview

London's population is high and growing – there are already more than 9 million people in London and it's set to grow to 9.9 million by 2040. The wider South East is home to 19 million people. This high population density puts extra pressure on our pipes and treatment works, leading to more leaks and sewage discharges. It also means more customers are affected when things go wrong and it's harder to make repairs in busier areas.

How we're responding

We're increasing our water storage and wastewater asset capacity with projects such as the Thames Tideway Tunnel. We're also investing in sustainable drainage systems (SuDs).

Our annual supply and demand initiatives help to educate customers about using water wisely. We also help our customers to use less water through our water efficiency and metering programme, our Smarter Home Visits and by installing smart meters.

Links to our strategy and risk management

→ **Fixing the basics – pages 15 – 24**
→ **Case study: Major operation to maintain our QE2 reservoir – page 23**
→ **Case study: Supporting our customers as cost of living soars – page 35**
→ **Our environment/operations risks – pages 57 – 60**

People, skills and recruitment

Overview

The pandemic shifted how we live and work. It changed the way we operate, requiring home-working and social distancing on sites. As life has returned to normal, we're continuing to embrace the opportunity to provide more flexible working options.

Recruiting people with the right skill set is challenging. There is a particular shortage of job candidates with technical (STEM) and industry-specific skills, particularly women and those from diverse backgrounds.

How we're responding

We've moved to a hybrid working model for our office-based employees to promote flexible working and create an even more inclusive workplace.

We're continuing to develop our skills strategy to develop a pipeline of skilled future employees, and we've welcomed 100 Kickstarters. As part of our commitment to make sure 5% of our people are in 'earn and learn' roles by 2025, we've got over 160 apprentices on board.

Links to our strategy and risk management

→ **Investing in our people – pages 36 – 39**
→ **Case study: Creating a new world of working – page 39**
→ **Case study: Kickstarting careers – page 38**
→ **Our people/safety risks – pages 60 – 61**

Business model

As the biggest water company in the UK, we look after over 15 million customers in the South East of England

Who we are

We're here to deliver life's essential service, so our customers, communities and the environment can thrive. We supply clean and safe drinking water to 10 million customers every day, and we treat the wastewater of 15 million. We put waste to good use to generate energy to power our operations. And we're continually innovating to maximise the potential of waste to support energy transition in the UK.

Where we operate

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

Inputs

We employ over
7,000
employees

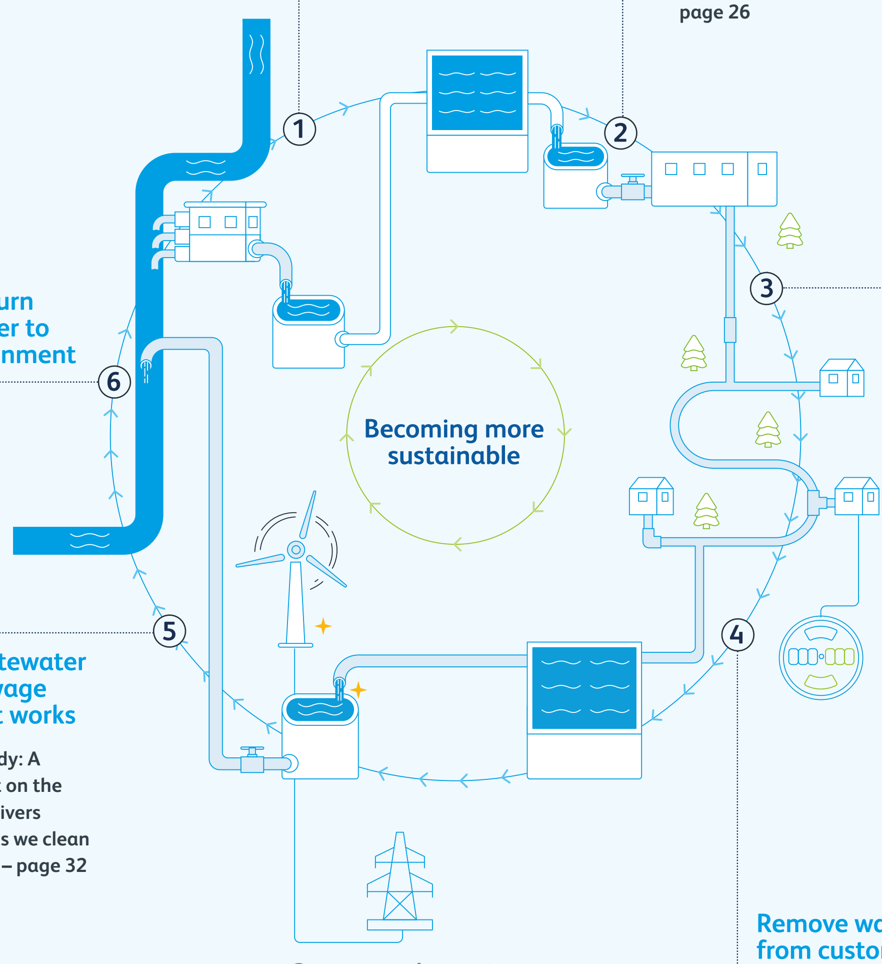
We serve over
15 million
customers across London and the Thames Valley

We supply
2.5 billion
litres of water
and treat
4.6 billion
litres of wastewater every day

We have
97
water treatment works
353
sewage treatment works

We generate
510
gigawatt hours of renewable energy per year

Our water cycle



Abstract from rivers and aquifers

→ Case study: Major operation to maintain our QE2 reservoir – page 23

Clean water at our water treatment works

→ Case study: Becoming a digital utility with award-winning tools – page 26

Deliver water to customers' homes and businesses via our network of pipes

→ Case study: Supporting our customers as cost of living soars – page 35

Install smart meters to give more control over water use

Almost 700,000 smart meters installed to date

Billing customers

→ Case study: Reducing complaints as we start to fix the basics – page 22

Remove wastewater from customers' homes and businesses

→ Case study: Making a difference to local communities – page 24

Generate electricity

We self-generate 24% of our electricity needs.

→ Case study: Supporting energy transition in the UK – page 33

Treat wastewater at our sewage treatment works

→ Case study: A spotlight on the Oxford Rivers Project as we clean up rivers – page 32

Safely return clean water to the environment

Business model continued

How we generate revenue

£

Ofwat is our economic regulator and aims to ensure that the sector delivers efficiently and effectively for current and future customers.

Every five years we go through a price review process, which determines our business plan for the next regulatory period and sets our revenue and bills for the five-year period.

We're currently creating our plan for the next price review – PR24.

Our average combined bill for 2022/23 is £423.

The value we create for our stakeholders

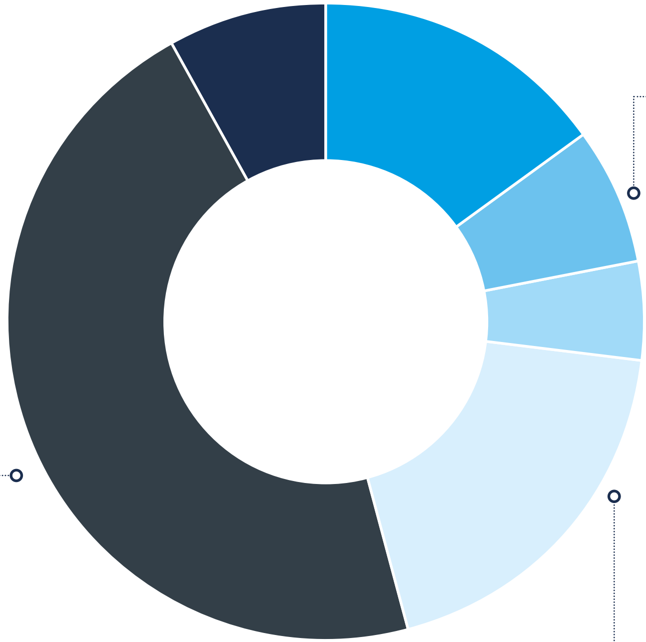
This is how we spend every £1 we receive in revenue[1]

8p

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

46p

Investment in our infrastructure
To increase the long-term resilience of our services, enabling us to respond to the challenging external environment in which we operate



15p

People
To pay our people, including pensions, and other benefits, so we're able to deliver essential services to our customers and protect the environment

7p

Energy to power operations
To keep this cost down, we're increasing the amount of electricity we self-generate and we enter forward contracts to buy energy in the future at a predetermined price per unit

5p

Government
We paid over £88 million in business rates in 2021/22. We're not currently paying corporation tax, mainly due to tax deductions for interest payments on our debt and because we're investing heavily in our infrastructure. We receive tax relief under the Government's capital allowances scheme. We pay employment taxes in relation to our people costs.

19p

Operational expenditure
To operate and maintain our network and improve our customer service

1 The above table is derived from the underlying financial figures included within the cashflow statement.
The net cash flows excludes new loans raised, repayment of borrowings, repayment of lease principal and derivative paydowns.

Delivering our turnaround plan

Launched in March 2021, our turnaround plan has three pillars: to fix the basics, raise the bar and shape the future. In this report you can find out how we've been delivering against each of these pillars in 2021/22.

Fixing the basics

This is about getting back on track with the basics, including delivering against our key performance indicators and making sure we have strong leadership in place to deliver our turnaround plan.

→ **Read more on pages 15 – 24**

Raising the bar

Raising the bar will take our performance to the next level. To do that, we're focusing on transforming key areas of the business to build new capabilities and different ways of working in areas where we need to really turn the dial.

→ **Read more on pages 25 – 26**

Shaping the future

We have the opportunity to leave a positive legacy for future generations. This strand brings together our Vision for 2050, our drainage and water resources plans and our approach to becoming more sustainable.

→ **Read more on 27 – 39**

How we've been fixing the basics

Fixing the basics

After the launch of our plan in March 2021 to turn around our performance, fixing the basics has been our key focus.

By doing that, we can get back on track, rebuild trust and deliver the other areas of our plan. We've made some important progress during the year, however there is still a long way to go.

Here's a snapshot of what we've been doing over the last year to start the journey.

→ The full list of our key performance indicators can be found on page 3.

Turning the dial on key metrics

43% less total complaints

- 33.8% reduction in complaints between January to March 2021 and January to March 2022. Due to the industry's change in methodology in January 2021, removing the automatic categorisation of repeat contacts as complaints, we're using Q4 as a direct comparator, with 31,836 in January to March 2021 compared to 21,086 in January to March 2022
- Retail complaints reduced by over 30%
- Investment in website self service experience, to make it easier for customers

Achieved leakage target for third year in row

- Over 60,000 leaks fixed – almost 1,200 on average each week
- Prevented 438 Ml/d of water from being leaked

7% pollutions reduction

- Proactively cleared over 2,600 blockages using over 4,700 digital monitors, and embracing Artificial Intelligence (AI) to predict blockages before they result in disruption to customers or have an impact on the environment
- Over 1,500 km of sewer pipes cleaned, which is equivalent to the distance from London to Stockholm
- Expanded our infiltration reduction programme in three sensitive river catchments in Thames Valley, reducing the amount of groundwater entering our sewers, which will subsequently help reduce the frequency and volume of storm water discharges from our sewage treatment works

39% reduction in supply interruptions since 2020

- Almost 50km of mains replaced to improve the resilience of our network

Reduced water consumption

to 147.5 litres per person per day through water efficiency measures to help protect water resources, helped by a cooler summer

- Installed almost 150,000 digital smart meters in homes to improve billing accuracy and help customers reduce their consumption
- Over 50% of households are now on a meter

Improved service for businesses

to non-household retailers, now ranking 4th of 9 companies for operational performance standards (2021/22: 97% 2020/21: 94%) and 5th of 9 companies for market performance standards (2021/22: 83% 2020/21: 74%)

Introduced home builder incentives

for builders and property developers to build water efficient homes, and opportunities to achieve industry-leading Water Neutrality status, by off-setting their remaining water demands through supporting water conservations schemes in the local neighbourhood

External challenges affect some metrics and our performance for customers

- We need to become more resilient to shocks:
  - Waste metrics were affected by the extreme flash flooding in London in July 2021
  - We commissioned an independent expert review to look into the London flooding in July 2021 and we expect their report in July 2022

How we've been fixing the basics

Helping more customers in vulnerable circumstances

Over £46 million to support customers through social tariffs

Over 267,000 customers
on our social tariffs, up from just over 210,000 in 2020/21, an increase of 27%. The tariffs reduce bills by up to 50%

19,000 customers
helped through WaterHelp social tariff

5% of households on Priority Services Register
which means we're able to give them the support they need during emergencies. That's more than 280,000 households in our region

5,000+ households helped
by our customer assistance fund to reduce their water debt

Over 26,000 smarter home visits
helping customers save water to reduce their water bills and their energy costs too

Strengthening our leadership

New Executive team
in place, to drive the turnaround plan

72
managers took part in Leader as Coach training to develop leaders who coach as part of their everyday leadership style

155
frontline leaders joined Coaching for Performance training

Reconnecting with values and behaviours

'Living our values'
sessions rolled out to teams across Thames to embed our Purpose, support engagement and create a great place to work

Repair and maintenance to ensure the resilience of our assets

Major maintenance project on QE2 reservoir
to drain and repair tunnels leading to our QE2 reservoir, which serves 10% of London's population, to look after our customers' water supplies

£25 million investment
in major water mains, including our vulnerable Blunsdon to Faringdon main, a critical supply main for Swindon to reduce bursts affecting customers

25 km of sewer pipes
proactively rehabilitated, making our network more resilient and protecting the environment and communities from the impact of sewage spills

Investment started at nine
sewage treatment works, including Witney and Chinnor, which have been most at risk of causing a pollution

Building on the foundations we've put in place, in 2022/23, we plan to:

Reduce complaints by a further 25%

Improve overall operational performance by increasing the number of our performance commitments met

Meet our leakage target for the fourth year in a row and deliver further improvements in other key performance metrics, such as pollutions

Embed values and behaviours in people processes

Reduce lost-time injuries by implementing process safety performance

Drive operational and cost efficiency by simplifying key processes

Prepare a compelling draft PR24 business plan for submission to Ofwat

Increase transparency in our engagement with stakeholders and work in collaboration to deliver improved outcomes for customers, communities and the environment

Partnership working to support vulnerable customers

Last year, we partnered with the London Fire Brigade to help us identify customers that may need extra support through their Home Fire Safety Visits. This partnership has helped us to add almost 4,000 more customers who have medical or mobility concerns or communications needs, onto our Priority Services Register. In 2022/23, we're going to expand this partnership work with other fire brigades, including in Surrey and Wiltshire, allowing us to help even more customers when they need us the most.

We've also partnered with British Gas to help make utility services more affordable for customers. British Gas has offered to help Thames Water customers fix leaks, maintain their plumbing and drains, and unblock sinks and toilets. These services will help customers stop leaks and save water in their own homes – and save money too.

How we've been fixing the basics – our key performance indicators

Key performance indicators

Here's a look at how we're delivering against our key performance indicators, which are the measures we're prioritising as we fix the basics and deliver our turnaround plan. We've included arrows so you can see how our performance compares to last year, which was the first year of the current regulatory period.

Some of our KPIs are also performance commitments. Every five years, we set performance commitments as part of our business planning process with Ofwat. There are 52 for this regulatory period and you can find more information about all of them in our Annual Performance Report. It's available on our website. On pages 17 – 21 you can find more information about the KPIs, which are also performance commitments.

Our new Customer Challenge Group

During the year, our new Customer Challenge Group (CCG) was formed, to improve our engagement with customers and communities.

The CCG is an independent body of customer representatives, regulators and stakeholders that constructively review and challenge us to better listen to our customers and understand their priorities. They also monitor Thames Water on the delivery of our performance commitments.

The 12 members of our CCG have a wide range of experience from a variety of sectors, including charities, local authorities, business and social housing in London and the Thames Valley. Members of the group also have a keen interest in environment and sustainability issues.

Working alongside CCG Chair, Sukhvinder Kaur-Stubbs, the new group is working will all parts of Thames Water as we develop our long-term strategy and our PR24 business plan to make sure they reflect our customers' views.

You can find the CCG's independent report on our performance on their website.

This year, we met 29 of the 47 performance commitments that have a target for this year.

Six performance commitments do not have a target for this year.

Type	Met	Not met	No target	Total
2021/22				
Common	6	7	2[1]	**15**
Bespoke	23	11	3	**37**
Total	29	18	5	**52**
2020/21				
Common	7	6	2	15
Bespoke	21	13	3	37
Total	28	19	5	52

Our performance this year means that we have incurred both penalties and rewards. The amount we incur is also known as outcome delivery incentives (ODI) and depends on how far we've missed or exceeded the target for an individual performance commitment, and specific calculation rules set by Ofwat. Not all performance commitments have an ODI attached to them.

1 C-MeX and D-MeX performance results are an industry ranking and are not subject to ODIs as no individual company targets are set. We received a penalty of £17.2 million for C-MeX and £1.2 million for D-MeX.

ODI penalties in £m

Performance commitment	2021/22	2020/21
Water quality compliance	**1.262**	0.898
Water supply interruptions	**6.956**	10.122
Mains repairs	**–**	1.058
Pollution incidents	**1.433**	2.739
Internal sewer flooding*	**28.831**	10.560
Unregistered household properties	**0.211**	0.211
Empty household properties	**–**	0.308
Clearance of blockages	**6.410**	5.223
Renewable energy produced	**–**	1.370
Environmental measures delivered**	**0.667**	–
Treatment works compliance	**0.123**	–
	45.893	32.487

* The penalty for internal sewer flooding includes the impact of the July 2021 London flooding, which accounts for £20 million of the penalty

** Includes 103 measures submitted to, but not yet approved by, the EA (although we are satisfied that they meet the approval criteria).

ODI rewards in £m

Performance commitment	2021/22	2020/21
Mains repairs	**8.714**	–
Sewer collapses	**0.166**	0.030
Leakage	**–**	2.671
Reducing risk of lead	**0.429**	0.015
Empty business properties	**0.497**	0.549
Renewable energy produced	**0.725**	–
Empty household properties	**0.617**	–
	11.148	3.265

How we've been fixing the basics – our key performance indicators continued

C-MeX – Customer measure of experience

17th of 17 / 68.86

Direction of trend: ↘
(2020/21: 17th of 17 / 72.91)

Penalty: £17.2 million

How we've done

The customer measure of experience (C-MeX) is the primary metric through which the service that the water companies provide their customers is rewarded or penalised. C-MeX consists of two equally weighted customer surveys which are undertaken each month.

We remain 17th (last) in the industry for 2021/22 and therefore we will receive the maximum 12% penalty of our residential retail revenues c.£17.2 million. Feedback shows that we are not consistently providing our customers with the service that they want.

We have set up a C-MeX taskforce, sponsored by our Retail Director, which is accelerating the customer elements of our turnaround plan. Our plan has three parts:

1. Customer experience plan – we have prioritised funding to enable more regular and broader communications with our customers
2. Customer service plan – we have a mixture of transformation, continuous improvement, and performance drives to turn the dial on and better meet our customer's needs
3. Customer obsession – it is clear that we need to do more to 'Live our Values' and put the customer at the heart of all we do, so we will have a strong focus on how to make this real and speed up this shift in how we work.

Total household complaints

105,155

Direction of trend: ↘
(2020/21: 186,969)

How we've done

This is one of our KPIs, however it is not a performance commitment.

Our total complaints fell by 43.8% to 105,155 in 2021/22 compared to 186,969 in 2020/21).

Due to the industry's change in methodology in January 2021, removing the automatic categorisation of repeat contacts as complaints, we're using Q4 as a direct comparator, with 31,836 in Jan to March 2021 to 21,086 in Jan to March 2022, a 33.8% reduction.

The number of telephone complaints we received fell. In Q4 2021/22 we received 10,165 complaints compared to 20,372 for the same quarter in the previous year – representing a 50.1 per cent reduction.

We have increased of the use of our manager call back process to improve our handling of calls from dissatisfied customers. In 2021/22 we completed nearly 18,000 first line manager call backs compared to 1,066 in 2020/21– resolving significantly more issues on the day.

We've reduced the number of calls about billing by over 25% from 2.1 million in 2020/21 to 1.5 million in 2021/22, helped by our increased use of webchat. We're now handling between 8,000 and 10,000 chats per week

We have also made strides in reducing operational customer wait times (both for water and wastewater) within our Operations Contact Centre. Answering calls quicker, helps reduce the number of complaints.

Disappointingly, despite the increased availability of real time contact channels, our written complaints have increased by 1 per cent across the year totalling 40,060 compared to 39,530 in 2020/21. In 2021/22 we focussed on significantly improving our first contact measures (as seen in the telephone complaints reduction) – our improvement plan in 2022/23 focuses more on fixing root causes to avoid written complaints in the first place.

We have made several key improvements in the year:

- Following the success in our customer billing teams last year, we embedded a new realtime escalation team within our Operations Contact Centre and enhanced our manager call back process to help reduce repeat complaints from customers.
- Enhanced the automation of our complaint letter allocation process to reduce, by 25 per cent, the time taken for a case manager to receive new correspondence, which in turn helps us to contact customers sooner.
- Introduced improved insight and analytics which has helped us identify root causes of customer complaints. One recent example is increased insight into the propensity to complain after customers receive their annual bills.
- Implemented a new customer management system in our Wastewater business, and we have seen the benefits of providing a more joined up approach to our customer journeys. We will be moving additional business units onto this system in the 2022/23 reporting year.

We recognise that there is more to do to coordinate and improve the customer experience from first point of contact to attendance and we have started by improving how quickly we arrive at our customers' homes when they have a problem.

Per capita consumption

147.5 litres per person per day

(based on a rolling three-year average)

Direction of trend: ↘
(2020/21: 148.3)

How we've done

This performance commitment measures the average reduction in the water usage of household customers and we have not met our target for the year.

That said, per capita consumption has improved compared to last year, due to less warm weather, as well as the reducing impact of Covid-19 restrictions, with people spending less time at home.

We've also been continuing to roll-out smart meters across our region, which help customers monitor their water use, encouraging them to be more water efficient. During the year, we installed 150,000 digital smart meters, and also carried out 26,000 smarter home visits.

Our three-year rolling average performance is 147.5 Ml/d. This is 1% above the three-year rolling average performance target level, and an underperformance against the 2021/22 target.

In a normal year the biggest influence on this performance commitment is weather, with hotter drier summers leading to increases in demand, particularly in unmeasured households.

How we've been fixing the basics – our key performance indicators continued

Leakage

605.6 mega litres per day
(Based on a rolling three-year average)

Direction of trend: ↘
(2020/21: 639.0 Ml/d restated)

How we've done

This is how much we have reduced leakage using a three-year average from the 2019/20 baseline and we have met our 3-year average leakage performance target of 10.2% reduction against the baseline.

Leakage reduction is an extremely important part of our plan to manage the balance between supply and demand. With that in mind, we have challenging targets to deliver a 20.4% reduction in our base level of leakage (as a 3-year rolling average) by 2024/25 and a goal to reduce leakage by 50% (from 2017/18 levels) by 2050.

This year we have made improvements to our methodology and data accuracy and have restated our historic reported leakage position to maintain consistency and comparability of reporting.

We faced a number of challenges during 2021/22, in part due to colder than average weather at the end of 2020/21 as well as resource challenges due to Covid-19 and market conditions. As a result, we reviewed our initial leakage delivery plan for 2021/22 and created an enhanced plan to deliver additional leakage activity to recover the leakage position over the year.

Overall leakage delivery through the year exceeded our initial plan but fell short of our enhanced leakage delivery plan. We repaired a total of 61,671 leaks during the year with an average of 1,186 leaks a week compared to an uplifted target of 1,414 leaks a week. Visible leak repairs, for the year as a whole, were lower than forecast, aided by the milder weather conditions through the winter months of 2021/22.

During 2021/22 we created a Leakage Reporting and Insight Improvement Programme (LRIIP) which is designed to improve confidence in our data quality and processes, improve resilience, provide greater accuracy and consistency of reporting through assurance, and demonstrate how we will use insight to effectively deliver improved leakage performance.

As part of this, this year we have incorporated some minor improvements to our leakage reporting methodology as we work towards become fully compliant with the Ofwat common guidance.

So that our current performance is reported on a consistent basis, we have applied these improvements to our previously reported performance and have reset the 2019/20 baseline (from 671.8 Ml/d at AR21 to 674.4 Ml/d at AR22). Although this has meant we've had to revise our reported leakage for last year, this remains ahead of our revised target for 2020/21.

As outlined in our LRIIP, data quality and reporting methodology improvements will continue in 2022/23. It is therefore likely that we will recalculate both our baseline and leakage outturn next year as we seek to provide the most accurate and complete view of our leakage performance.

Water quality (compliance risk index)

2.59
Direction of trend: ↗
(2020/21: 2.42)

Penalty: £1.26 million

How we've done

Our water quality performance commitment for this regulatory period focuses on our compliance risk index. It's designed to show the water quality risk arising from compliance failures, rather than our compliance with water quality tests, which was our performance commitment for 2015 to 2020.

We did not achieve our target for 2021/22, with performance significantly impacted by two coliform detections at Swinford (0.54) and Kempton (0.92) water treatment works. Both sites supply very large volumes of water, which influences the CRI score.

It is not always possible to identify the exact cause of single coliform detections, but they are usually due to minor ingress or operational issues. Any mitigating actions identified as part of the investigation into the cause have been put into place. Our CRI performance continues to be monitored at a senior level within the business, with action plans under development to drive improved performance in this area.

Our final performance for this measure will be published in the Drinking Water Inspectorate's Chief Inspector's Report in the summer of 2022.

Acceptability of water to consumers

0.49 contacts per 1,000 people
Direction of trend: ↘
(2020/21: 0.54)

How we've done

We exceeded our target for this measure.

This measure assesses the number of times we're contacted by customers about their water. The contact might be in relation to the taste, odour or cloudiness of their water, or a report of an illness due to our drinking water.

This measure was influenced by a lower number of consumer contacts in 2020 and 2021, during the Covid-19 period, as a result of a reduction in network activities that can lead to localised consumer acceptability issues, such as the appearance of water due to discolouration through disturbance of water supplies.

How we've been fixing the basics – our key performance indicators continued

Water supply interruptions

11:03 mins per property

Direction of trend: ↘

(2020/21: 13:39)

Penalty: £6.956 million

How we've done

The purpose of this performance commitment is to minimise the number and duration of supply interruptions. This measures the average number of minutes our customers don't have water, for interruptions lasting three hours or more.

We have improved our performance this year by 02:36, but still fell short of our target.

Some of the key initiatives we delivered are:

- Greater operational control;
- New large tankers to keep more customers in supply;
- Creation of a Supply Interruptions Specialist Desk 24/7 to respond to problems as they occur and immediately deploy tankers; and
- Network checks and maintenance programs focused on our highest risk trunk mains and network areas

Four significant events during the year led to us missing our target:

- Westside, NW4 (December 2021) (impact 03:01): Two trunk mains bursts affecting an area at the edge of our supply area that caused significant supply interruption. It was a complex repair as the first burst also damaged a neighbouring wastewater pipe. We used a direct refill strategy to limit the impact on our customers
- Netley Mill, GU (February 2022) (impact 01:05): Storm Eunice caused widespread power cuts in this area which affected Netley Mill Water Treatment Works, the boreholes which supply it and some of our monitors. As reservoir supplies ran out this caused interruptions to our customers
- Rosendale Road, SE21 (June 2021) (impact 00:23): A trunk main burst on main feed into one of our reservoirs, causing immediate supply interruption to ~4,500 properties. Pumps feeding the reservoir had to be carefully adjusted before the main could be isolated and repaired
- Earls Path, IG10 (June 2021) (impact 00:20): Burst on direct feed into this part of our network caused immediate supply interruption to ~2,800 customers. Once the burst was isolated an alternative feed was opened to restore supplies

If the impact of the most significant event at Westside was excluded overall outturn would have been 8 minutes and 2 seconds. Underlying performance without these four events was 6 minutes 14 seconds and was just above the target level

Clearance of blockages

74,569 blockages

Direction of trend: ↘

(2020/21: 76,223)

Penalty: £6.41 million

How we've done

This is the number of blockages we've cleared from the network. The fewer blockages there are, the fewer issues we have with the operation of our sewer network, so the aim is for this number to be lower than our target each year.

For Q1, blockages were, on average, 17% higher than target, but we reduced them every month from April to October, when the monthly blockages dropped below target for the first time this year. From November 2021 onwards, blockages were, on average, 3% above the monthly targets.

This improvement in performance through the year was due to the delivery of the planned intervention programmes (sewer cleaning, asset surveys, customer education, network protection), including the introduction of a new interceptor inspection programme, which was trialled in Q2 and rolled out in Q4, with over 3,000 manholes visited and over 600 blockages proactively identified.

Moreover, the development of the Smart Waste Network approach and increase of real-time monitoring and analytics has increased the number of blockages proactively identified from sewer depth monitors from an average of 115 per month in Q1 to an average of 348 per month in Q4. The end of year performance is 74,569 blockage clearances, ending the year 6% above target.

Internal sewer flooding

3.46 per 10,000 connections

Direction of trend: ↗

(2020/21: 2.31)

Penalty: £28.83 million

How we've done

This measures the number of incidents of internal sewer flooding incidents per 10,000 sewer connections.

We haven't met the target this year, with a total of 2,103 flooding incidents compared to a target of 995, however at least 779 incidents (37%) relate to the extreme flash flooding on two days – 12 and 25 July 2021. On 12 July, more than a month's rain fell in one hour. The penalty includes the impact of the July 2021 London flooding, which accounts for £20 million of the penalty.

We've been carrying out work to improve the flow of our sewers, including proactively repairing sewers in areas where there's more deterioration, with 24.2km rehabilitated during the year. Just over 21% of blockages occur in areas of sewers where there are interceptors, which can lead to flooding. We've identified 7,000 interceptors posing the highest risk, which will be investigated and cleared if necessary. We're also working with customers through our 'Bin it, don't block it' campaign to help reduce wet wipes and cooking fat entering our sewers, the leading causes of blockages, and food establishments to stop cooking oil being poured down drains.

How we've been fixing the basics – our key performance indicators continued

Pollution incidents (cat 1-3)

24.87 per 10,000km of sewers

Direction of trend: ↘
(2020: 26.67)

Penalty: £1.43 million

How we've done

This is a calendar year measure and our performance for the year was 24.87 per 10,000 km of sewer, which is the equivalent to 271 incidents. While we missed our target, we reduced pollutions by 7% during the year (2020: 292) So, despite our improved performance, we incurred a penalty.

During the year, our pollution performance associated with treatment operations marginally increased to 66 incidents (2021:59). By contrast, we have seen a reduction of 12% in the number of pollutions associated with network and pumping station assets (205 against 233 in 2021). We had 12 serious pollution incidents in the year, one less than last year.

To reduce the number of future incidents, we have refreshed our Pollutions Incident Reduction Plan, which can be found on our website. It includes:

- Completing routine maintenance, to ensure that more assets available across our estate;
- Providing locally led capital investment to improve the performance and build higher levels of resilience in our assets;
- Increasing our capability to analyse key data to identify proactive interventions that reduce the risk of service interruptions; and
- Using this data to improve our day-to-day visibility of asset performance, reducing our reliance on alarms or reactive remediation.

Treatment works compliance

98.96%

Direction of trend: ↘
(2020/21: 99.74%)

Penalty: £0.12 million

How we've done

This performance commitment measures the number of our treatment works that have experienced a numeric failure of their permit conditions. It helps to ensure that the overall asset health of our above-ground assets is maintained and improved for the benefit of current and future generations.

We missed our target for sewage treatment work compliance during the year, after four failures at:

- Little Marlow sewage treatment works (15 May 2021);
- Fobney water treatment works (19 Jul 2021);
- Mortimer (Stratfield) sewage treatment works (10 Aug 2021); and
- Theydon Bois sewage treatment works (15 Sep 2021)

Senior incident reviews have been conducted for each of these failures and actions were agreed to mitigate the risk of similar occurrences. Each review identified different causes.

Progress on the agreed actions is reviewed monthly by the Operational Leadership team.

Case study: Reducing complaints as we start to fix the basics

Over the last year, we reduced total complaints to less than 106,000, including complaints about billing and charging to less than 43,000, which is a substantial reduction on the previous year. That said, there's a lot more we need to do to make sure we're delivering the service our customers expect and deserve, and we have a long journey ahead of us.

Our key focus for 2021/22 was to provide a better operational service so that fewer customers reach the point where they need to complain. Then, when we do receive complaints, our goal was to improve the way these are handled and escalated.

Over the last year, we've made some important changes to improve our performance. We've:

- Reduced the need for customers to contact us about their bills by rolling out a simpler and more customer friendly bill design. We tested the bill with customers to make sure it was what they needed to help them understand their charges and get the right support. This contributed to us receiving 25% fewer calls about bills
- Used new technology to automatically prioritise customer contacts, so that when we receive complaints we can allocate them to the right team and respond to them more efficiently
- Launched a dedicated escalations team, with managers getting involved more quickly with more challenging queries. Managers made almost 18,000 callbacks to customers in 2021/22 (2020/21: 1,066)
- Introduced a specialist 'Extra Care' team to answer calls from customers in vulnerable circumstances
- Trained our managers to motivate and support their teams to live our values and behaviours (see page 36) and to do their best to help our customers

We've also increased our webchat capability, reduced the time it takes us to resolve complaints, and removed our frontline backlogs. From a peak of 50,000 tasks in progress at the end of 2020/21, our work queues dropped to 5,600 at the end of 2021/22.

While we're improving our handling of complaints, there's so much more we need to do to improve our service and make sure it's always simple and effective. As we raise the bar, we're moving more of our contact centres in-house, with all customer-facing voice teams to be in the UK by the end of 2023. We've also established operations teams focused on London and on the Thames Valley and home counties to help us to be closer to our customers.

Case study: Major operation to maintain our QE2 reservoir while keeping London in supply

Every single day of the year, we're responsible for delivering life's essential service. And that means keeping taps flowing while also making sure our assets are resilient and always working as they should.

Our Queen Elizabeth 2 reservoir was constructed in 1962 and plays a very important role serving the water needs of 10% of London's population. It holds the equivalent of 8,000 Olympic size swimming pools of water and covers an area of almost 1.3km^2.

In 2021/22, we carried out a complex operation to drain the reservoir so the inlet and outlet tunnels could be cleaned and repaired. They were cleared of mussels, silt and other debris before they were relined.

It was a massive undertaking and required meticulous planning and preparation over 12 months to keep water flowing to customers while the project was carried out. Thanks to the brilliant work of all the teams involved, the work was completed ahead of time and under budget, with the reservoir returned to service early. We also received positive feedback from customers and key stakeholders throughout the project.

The reservoir is also home to the UK's largest floating solar panel array, which meant the team had to drain the massive reservoir without disturbing the panels either. The electricity they generate is used to help power the nearby Hampton water treatment works – just one example of how we're using on-site renewables to power our operations.

Case study: Making a difference to local communities

Customers in the East Shefford catchment have had longstanding issues with flooding after heavy rain. Homes have been flooded, roads have been closed and there have been discharges into the River Lambourn.

We've been taking action to make a real difference to the local community.

Better communication

Our first step was to be better at engaging with the community. We engaged with residents in the local villages and with the local flood forum to discuss the problems. This enabled the local community to learn about what we, and others responsible for drainage, were doing to help make things better in their community. We also sent updates to the parish councils and media, and engaged with customers and local authorities at site meetings, so we could be more collaborative in addressing the flooding problems.

The sewer network is not designed to take groundwater, so, when it gets in, it takes up space and can lead to the sewers overflowing. Working together with customers in the area, we found various places where this was happening, and we were able to work with residents to help them fix problems on their pipes.

Improving our assets

As well as engaging with, and supporting, customers and stakeholders in the community, we've been taking steps to make sure our assets are working as they should. We've repaired and replaced sections of sewer pipe and have a temporary sewer filtration unit we can deploy, which pumps out excess sewage from the network and filters it during times of high groundwater and rainfall. This reduces the negative impact of discharges into the River Lambourn. We've also lined sewage pipes so groundwater can't enter our sewers, and sealed a large number of manhole covers in the area, which prevents sewage chambers being flooded with surface water and groundwater before overflowing.

It's going to take time and more investment to protect customers in the area from all flooding, but by engaging with the community we're rebuilding trust and working together to make a bigger difference.

How we're raising the bar

Raising the bar

Here's a snapshot of what we've been doing to 'raise the bar' as part of our turnaround.

Raising the bar will take our performance to the next level, bringing it more in line with our high-performing peers. To do that, we're focusing on transforming key areas of the business to build new capabilities and different ways of working in areas where we need to really turn the dial.

We're investing in customer service, operations, people, assets and strategic planning, and we made headway in 2021/22. We know we can't do everything we want to do, and we need to consider the costs of raising the bar, so we're embracing innovation and being really ruthless in the way we prioritise what we do.

Customer service

- Overhauled our systems for forecasting and planning so we can be better prepared for fluctuations in the number of customers contacting us
- Making it easier for customers to contact us in the way that suits them best, with our new webchat function handling 8,300 chats on average each week in 2021/22. The increased use of webchat reduces the pressure on our call centres
- Working together with our customers to improve the flow of our network, with our 'Bin it, don't block it' campaign encouraging customers to flush only pee, poo and paper down the drains. During the year, our video adverts delivered over 21 million impressions in hotspot areas, and adverts in the Daily Mail and Metro were seen by over 4.5 million people in a two-month period. Our campaign has led to a 16.5% reduction in blockages in hotspot areas compared to the same period in the previous three years

Operations

- Restructured our operations to focus on London and the Home Counties, meaning we can better address the varying needs of the two regions. Our new structure was launched on 1 April 2022
- Insourcing delivery of capital delivery projects has led to us tripling the amount of work we've delivered in house in 2021/22, in investment terms
- Starting transition as we insource the management of our water networks to give us more control
- 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
- Awarded over £6 million as part of Ofwat's innovation fund to help decarbonise wastewater treatment. Awarded a further £1.5 million for projects we're leading on, which will help provide solutions to some of the challenges we face including extreme weather events, such as flooding and not enough rain, and our ageing infrastructure.
- 54 polluted surface outfalls were signed-off as significantly improved by the Environment Agency

Assets

Extra £300 million
of investment approved by our shareholders, to unlock the conditional allowances built into our final determination. It will help us begin to address the problems of our ageing 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

22% increase
in investment spend compared to 2020/21

Over 60km
of water mains, tunnels and sewers repaired or replaced

4,770 sewer depth monitors
installed, helping us understand levels in our sewer network and alerting us to blockages

Almost 27 Ml/d
leakage prevented using smart meters to detect leaks

37% increase
in lead communication pipes replaced this year (15,000), bringing the total to over 25,000 for this regulatory period so far

Successful trials
in Henley-on-Thames and Beckton as we deliver our smart waste programme. The programme will allow us to better understand our network using digital tools such as sewage level alert managers and digital asset management systems.

Strategic planning

Redefining our strategic roadmap to bring together our turnaround plan, Water Resources Management Plan, Drainage and Wastewater Management Plan, and Vision for 2050

People

- Improved health and safety processes focused on situational awareness
- Stonewall's top 100 employer ranking for our LGBTQ+ commitments
- Times top 50 employer for Women in 2021
- Disability Confident Leader

Our plans for 2022/23:

Continue rollout of smart meters by installing at least 100,000 during 2022/23, which will increase customers' control over their water use and help reduce consumption

Insource the management of our water network to increase control over operational work

Embed new regional operating model

Expand our use of smart water and waste tools

Ramp up investment in major projects to increase resilience for customers and environment

Prepare for the final handover of the Thames Tideway Tunnel in 2023, a landmark spills reduction project

Develop new Health and Safety processes plan to raise the bar and make sure colleagues go home safe and well each day

Case study: Becoming a digital utility with award-winning tools

Our ambition is to create exceptional digital experiences for customers by putting them at the heart of everything we do. This means it's about more than digital technologies (big data, artificial intelligence, cloud computing, internet of things); it's about how we work collaboratively with our customers to develop new digital capabilities and embed a digital mindset.

Over the last few years, we've increased our focus on creating solutions that help us become smarter in the way we work and tackle some of our most challenging performance issues including leakage, supply interruptions and blockages.

We've created a suite of customer-centric products as part of our smart water programme, which won Data Science Project of the Year at the British Computer Society (BCS) UK IT Industry Awards. The products enable leaks to be found quicker and customer supply interruptions to be reduced.

For example, our 'Where in the District Metered Area' (DMA) app directs technicians to our leakiest pipes by integrating various sources of information, including live data from acoustic monitors, risk models, and the age, location and material of pipes. This has enabled our operational services team to locate and repair leaks 20% more effectively and minimise the disruption to our customers.

Our Network Digital Twin (NDT) is another one of our flagship digital products. The NDT is a virtual model of our network that enables our engineers to fully understand how our assets are performing across the network. It provides near-real-time visibility across our water and waste networks to detect leaks, excessive demand, and unexpected changes in pressure. The NDT enables us to conduct 'what if?' scenario planning and run simulations. For example, one algorithm enables us to find localised leaks 15% more accurately by highlighting the sections of pipe where a leak is likely to be present.

This means our teams can look ahead, make effective decisions and take proactive preventative action to tackle issues that could affect our customers.

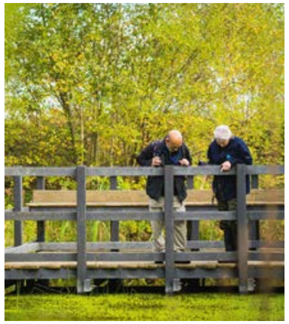
Our Sustainability Report – Shaping the future

Our Sustainability Report is structured by Environmental and Social activity and links to our Governance section. It also gives an update on how we're starting to shape the future as part of our turnaround plan.

Environmental

We rely heavily on a healthy natural environment to be able to deliver life's essential service, and so enabling it to thrive is a key part of our Purpose. We all have a responsibility to look after the beautiful world around us

→ **Read more on pages 30, 32 and 34**



Social

We're focused on making sure we look after and support Team Thames, as well as being a responsible part of the local communities we operate in. We have the opportunity to make a really positive impact on communities

→ **Read more on pages 31, 35 and 38**

Governance

We're committed to the highest levels of governance and being led by our Purpose in everything we do

→ **Read more on pages 72 – 125**

Our turnaround plan – Shaping the future

Shape the future

We have a responsibility to start shaping the future now, which is the third part of our plan.

The impact of climate change is becoming more and more evident and the decisions we make today will impact what happens for many years to come.

It's important we take action now, so the Team Thames of the future can continue to deliver our Purpose and our Vision for 2050.

This strand of the turnaround plan brings together our approach to sustainability and ESG, as well as our Vision for 2050, Water Resources Management Plan and our Drainage and Wastewater Management Plan, to start creating the positive legacy we want to leave for future generations.

With that in mind, we've started some exciting, but long journeys to improve river health, support energy transition, create the workforce of the future and protect the long-term resilience of our water supplies.

What we're doing to shape the future will really help us live our Purpose, so our customers, communities and the environment can thrive.

Putting sustainability at the heart of our decision making isn't new to us. We've been seeking new ways to drive a more sustainable water cycle for many years. We started making our own renewable energy as far back as the 1930s to help reduce our use of fossil fuels, and from there, we've reached many milestones on our sustainability journey. You can find out more in our timeline on page 29.

We've had a longstanding commitment to be more sustainable in all areas of the business, and our sustainability policy, which supports what we do through nine themes, can be found on our website. Sustainability is an important consideration as we strike a balance between service to our customers, our impact on the environment and communities, customer bills and future investment.

There are many different things to consider when it comes to sustainability and ESG. Our world keeps changing and the impacts on our business do too. So, we need to adapt our approach to respond to those challenges and as we move forward with our turnaround plan.

Our Sustainability Report is structured by ESG and, over the next few pages, you'll find a snapshot of what we've been doing over the last year, as well as our current priorities. However, we'll keep adapting and updating you on our journey.

You can also find our ESG statement on our website, which brings together five years of data in an accessible and transparent format to give a balanced view of our performance against ESG measures. By providing these tables, we go beyond statutory requirements and demonstrate a further commitment to transparency.

Every year, to help with our understanding of our ESG performance, we participate in the GRESB benchmarking process.

UN Sustainable Development Goals

We're focusing on four specific goals where we believe we can make a real contribution through our essential service – delivering water and sanitation to 15 million customers across London and the Thames Valley.

However, we fully support the aspiration of all 17 SDGs, and we've included more information on our website about how we are contributing to these goals too.

Supporting the SDGs isn't an additional task for our business – it's part of our activities and business decisions every day.

SDG 6: Clean water and sanitation

SDG 7: Affordable and clean energy

SDG 12: Responsible consumption and production

SDG 13: Climate action

Our Sustainable Financing Framework

Sustainable Financing Framework in 2021. It was set up to support the financing of water and wastewater recycling projects related to the environmentally sustainable management of natural resources and land use, as well as climate adaptation.

It also provides the flexibility to issue bonds for eligible green or social projects, such as sustainable drainage systems, biodiversity enhancement, renewable energy projects and solutions to reduce flooding. You can find more information about what types of projects are eligible on our website.

We used the framework to issue €1,150 million of Green Bonds in January 2022. Over 10% of the debt at the Thames Water operating company level now carries a green label.

Our sustainability journey so far

1930s

Started producing renewable energy from sewage

1967

Our Beckton sewage treatment works was extended, the biggest in Europe, to help improve the poor health of the River Thames

1994

Our ring main was officially opened by Her Majesty the Queen

It carries over 1 billion litres of water a day to c3.5 million Londoners from five of our treatment works

1999

Installed the UK's first thermal hydrolysis plant at our Chertsey sewage treatment works, enabling us to generate even more renewable energy from sludge

2010

Our new desalination plant was ready to start producing clean drinking water, improving the resilience of water supplies in London in times of drought

2011

Installed our first solar panels

2012

Launched WaterSure Plus, our first social tariff

2014

Installed wind turbines at our Beckton and Crossness sites

2015

Installed our first smart meters to give customers more control over their water use and help us find leaks

2016

Our super sewer, the Lee tunnel, went into operation reducing spills into the River Lea

Europe's largest floating solar panel array was installed on our QEII Reservoir. The power it generates is used at nearby Hampton water treatment works

Started buying 100% accredited renewable grid electricity

2017

Opened Walthamstow Wetlands, Europe's largest urban wetland, to the public for the first time in 150 years, creating an oasis of calm in the Capital

Launched our mental health first aid training

2018

Published our first ESG statement to increase transparency

First green bond raised

Launched pioneering smarter water catchments initiative to improve river health and reduce flooding

2021

Completed the assessment of the Natural Capital Stocks across all our landholdings

Partnered with the Chalk Stream Restoration Working Group to launch a new Chalk Stream Restoration Strategy, calling for chalk streams in England to be given enhanced environmental status

Shaping the future and key ESG metrics

Environment

Water resources

What we've achieved in 2021/22

- Water quality compliance of 2.59
- Met our leakage target for the third year in a row
- Installed over 150,000 new smart meters, bringing our total to almost 700,000 and meeting our target for 2025 three years early
- 147.5 litres consumption per person per day
- Achieved 100 on Security of Supply Index, which indicates the reliability of our supply
- Achieved -32.2 on Abstraction Incentive Mechanism, meaning we met our target for the year
- Delivered almost 25,000 smarter home visits to customers and carried out over 3,600 smarter business visits to increase water efficiency
- Drought plan sets out the actions we'd take in the event of a drought to maintain essential supplies of water while also protecting the environment
- Developing our Water Resources Management Plan, which looks at how we will protect water resources to 2100
- Our joint vision with Water Resources South East is to produce a multi-sector regional resilience plan for the South East of England. The resilience plan will go beyond public water supplies and consider the water needs and challenges of other sectors, such as agriculture. And it will have people, the environment and growth at its centre. The plan will inform decisions on the strategic interventions, including infrastructure, demand management and catchment measures that will make the South East more resilient to a wide range of future shocks and stresses so customers, businesses, industry and the natural environment have the water they need to prosper. Importantly, the WRSE plan will link to other regions in the UK so that we contribute to the bigger national picture on resilience and drive greater collaboration and innovation

Targets

- Water quality compliance of 0 (SDG 6)
- Install 700,000 smart meters by 2025 (SDG 6)
- Reduce leakage by 20% by 2025 (SDG 6)
- Reduce per capita consumption to 136.8 l/p/d by 2025 (SDG 12)
- Achieve a security of supply index of 100 every year (SDG 6)
- Cease abstraction from chalk streams by 2050
- Save 2 Ml/d through Smarter Business Visit initiative and 0.34 Ml/d through our Smarter Home Visits programme by 2022/23
- Successfully deliver our Water Resources Management Plan by 2024 (SDG 6)
- Secure future water resources through Water Resources South East collaboration
- Improve our resilience to a 1 in 200-year drought by 2030

Waste and rivers

What we've achieved in 2021/22

- 98.96% treatment works compliance (SDG 6)
- Creating our first Drainage and Wastewater Management Plan (DWMP). This is a long-term plan over 25 years or more and sets out the future challenges for our drainage and wastewater systems and the actions needed to manage them. Our public consultation opened in June and will run until September, and we'll publish our final DWMP in March 2023. It will also support the development of our PR24 business plan for 2025 to 2030 (SDG 6)
- 7% reduction in pollutions (SDG 6)
- 20% reduction in spills
- Inland designated bathing water status for Port Meadow, the second UK river to be given this elevated status
- After the launch of our three smarter water catchment management plans for the River Evenlode, River Crane and River Chess, we've been building a baseline for the current state of these rivers and catchments, and identified potential partnerships to deliver projects
- 100% Sludge management compliance with regulations and codes of practice (SDG 12), as audited by the Biosolids Assurance Scheme classification
- Testing automatic near-real time release notifications to local community groups in Oxfordshire, using information from our Event Duration Monitors (EDMs)

Targets

- Reach 100% treatment works compliance (SDG 6)
- Successfully deliver our Drainage and Wastewater Management Plan (SDG 6)
- Provide live alerts at all of our 468 permitted overflow points by the end of 2022
- We'll reduce the annual duration of sewage discharges into rivers by 50% across the Thames Valley by 2030, and in sensitive catchments by 80%
- Deliver the Thames Tideway Tunnel to improve the health of the River Thames (SDG 6)
- Deliver three smarter water catchment plans by 2025
- Deliver our Surface Water Outfall Programme (SWOP) to identify and resolve incorrectly connected drainage
- Achieve 100% sludge management compliance with regulations and codes of practice (SDG 12)

Shaping the future and key ESG metrics continued

Environment continued

Energy transition

What we've achieved in 2021/22
- 317 GWh renewable energy generated from sewage (SDG 13) (2020/21: 301 GWh)
- Self-generated 24% of our own electricity needs (SDG 13) (2020/21: 23%)
- 269.8 $kTCO_2e$ total net operational GHG emissions – a slight increase from 268.2 $kTCO_2e$ achieved last year
- Increased our renewable heat generation to 179.8 GWh from 158.5 GWh in 2020/21
- Reduced our use of fossil fuels by 5% from 29.9 $kTCO_2e$ in 2020/21 to 28.3 $kTCO_2e$
- Reduced our total electricity use by 16 GWh from 1,265 GWh in 2020/21 to 1,248 GWh in 2021/22
- New biomethane plant at Deephams sewage treatment works, which captures the biogas released during the sewage treatment process, converts it into biomethane, and injects it directly into the local gas network

Targets
- Self-generate 517 GWh of renewable energy by 2025
- Achieve net zero emissions from our operations by 2030 and go beyond by 2040
- Develop renewable energy and renewable fuel opportunities that contribute to energy transition in the UK (SDG 13)

Biodiversity

What we've achieved in 2021/22
- Improved over 310 hectares and created over 200 biodiversity units
- Enhanced 44 sites for biodiversity (2020/21: 41)
- Across our natural estate, the total biodiveristy units in 'favourable' condition has increased from 659 hectares in 2020/21 to over 1223 hectares in 2021/22
- 94% of our SSSI units are now in a healthy state – up from 50% the previous year
- Planted almost 20,000 trees on our sites and with local partners

Targets
- Improve the biodiversity at 253 of our sites by 5% by 2025. These are Sites of Biodiversity Interest and cover almost 4,000 hectares
- Work with other water companies to plant 11 million trees by 2030

Social

Communities

What we've achieved in 2021/22
- Almost £1 million invested in community projects, including £500,000 to 42 projects through our partnership with the GLA Grow Back Greener fund
- Raised over £120,000 for WaterAid and Dementia UK – our employees' charities of choice
- Provided over £90,000 to 29 local community projects
- Reached over 62,000 young people as part of our schools' programme to promote a love of water and STEM skills
- Supported over 2,600 hours of volunteering in our local communities and over 1,600 hours of volunteering on our nature reserves
- Launched Backyard Nature campaign to help encourage children living in poverty to enjoy and protect nature
- Encouraged communities to get out and about on our sites during 'Thames days Out', such as fishing at our Farmoor and Walthamstow fisheries
- Enjoyed over 2 million visitors to Walthamstow Wetlands since 2017

Targets
- Match 2021/22 fundraising for WaterAid and Dementia UK in 2022/23
- Reach 100,000 children through Backyard Nature campaign by 2023
- Encourage more employees to take part in our Time to Give volunteering programme in 2022/23

Case study: A spotlight on the Oxford Rivers Project as we clean up rivers

The conversation on rivers has, quite rightly, been intensifying, and, as we mentioned in last year's report, we're taking a progressive stance. We're clear it's completely unacceptable for any untreated sewage to enter rivers.

In March 2022, our CEO Sarah spoke at the Rivers Trust Spring Conference in line with our approach to engaging openly with people about this incredibly important topic. Attended by so many stakeholders passionate about river health, it was great to be able to hear their views and Sarah made some important commitments. We'll reduce the annual duration of sewage discharges into rivers by 50% across our region by 2030, and in sensitive catchments by 80%.

However, we know actions speak louder than words, and we've been taking action. After a successful trial in the Oxford area, we're on track to provide live alerts from all 468 permitted locations across our region, within an hour of discharges starting and stopping, by the end of 2022.

Building on our trial, we've made some important progress in the Oxford Rivers Project. In early April 2022, it was announced that Wolvercote Mill Stream had become only the second river in the UK to achieve designated bathing water status. Working with Oxford City Council and other stakeholders in the area to get this elevated status, it's another step forward on our journey to improve river health. We're also planning major investment in our sewage treatment works to reduce spills, including at Witney and Chinnor sewage treatment works.

Stopping untreated discharges altogether will take time, collaboration and sustained investment. However each step we take on this journey is a move in the right direction, and we'll continue to engage with you along the way.

Case study: Supporting energy transition in the UK

Wastewater treatment provides a really valuable, renewable fuel, and, by maximising its potential, we have the opportunity to play a really important role in energy transition in the UK. Wastewater isn't really waste – the sludge and water it contains are resources – and we're continually innovating to create value for our customers, communities and the environment.

This year, we opened our brand-new biomethane plant, which captures the biogas released during the sewage treatment process, at Deephams sewage treatment works in North London.

The biogas created at Deephams is being converted into biomethane before being injected directly into the local gas network, providing enough renewable fuel to heat the equivalent of more than 3,500 homes a year.

In March 2022, the £7 million plant successfully sent its first gas to the grid. The new plant will also help improve air quality around the sewage works, as it reduces the need to flare off excess gas.

The Deephams plant has the potential to produce around six million cubic metres of biomethane a year. Once the plant is fully operational it could avoid more than 8,000 tonnes of carbon dioxide equivalent from entering the atmosphere each year. This is the same as taking more than 2,200 diesel cars off the road.

Following completion of our new plant at Deephams, we're looking to roll the technology out at other sewage works across London and the Thames Valley. We've identified the potential to roll out biomethane injection plants at a further 24 sewage treatment works across our patch.

Case study: Creating wonderful natural spaces for wildlife and communities to enjoy

Being able to get closer to nature provides so many benefits to our customers and society. A healthy natural environment is also crucial to help us deliver our essential services. We have a responsibility to protect and enhance the precious wildlife and diverse habitats within our region.

Wetland habitats are critically important for plants and wildlife, for the health, wellbeing and enjoyment of the local communities that surround them, and for tackling the effects of climate change by storing carbon. They're also part of our plan to enhance biodiversity by 5% at 253 of our sites by 2025.

In 2017, we opened Walthamstow Wetlands to the public. One of the largest urban wetland nature reserves in Europe, Walthamstow Wetlands is also an operational reservoir site in North London that provides 3.5 million people with their daily drinking water.

Since its opening, the site has been visited more than two million times as local communities have enjoyed the peaceful green space and educational opportunities. Access to the wetlands became even more important during the Covid-19 pandemic as we kept the site open when other publicly available spaces in London were closed.

This year, as part of our Natural Capital performance commitment, we assessed the natural capital impacts of the habitat improvements and educational opportunities enhancements at Walthamstow Wetlands. We found cultural services and health benefits improved at the wetlands due to the enhanced accessibility of the site and increased educational visits at our dedicated outdoor education spaces.

Walthamstow is also a haven for all types of birds and wildlife. It serves as a byway for migrating, wintering and breeding birds and is home to over 300 species of plants. It's been designated as a site of international importance for wetlands by the Ramsar Convention, a Special Protection Area (SPA) and a Site of Special Scientific Interest (SSSI).

During the year, we have enhanced 44 sites for biodiversity, including:

- Working with local stakeholders and creating 6.3 hectares of new wetland at Aylesbury, Bicester and Cirenceter sewage treatment works
- Planting 19,896 trees across our operational sites
- Developing an innovative re-wilding project in Dorney Boreholes
- Creating a wellbeing nature garden at Reading sewage treatment works.

How we're further enhancing biodiversity at our wetlands and other sites

- Planting native trees and providing active species management
- Installing 'green infrastructure' like green roofs with wildflowers to attract bees
- Creating hectares of new reedbeds to increase breeding bird habitats and fish refuges
- Establishing wildflower turf to create high distinctive grassland for insects and other invertebrates
- Creating new ponds for amphibians and floating islands to attract wading birds

How we're making our wetlands even more accessible

- Public footpaths suitable for wheelchair users
- Dedicated outdoor education spaces and programmes
- Building a sensory garden at Walthamstow with a raised pond for less able-bodied visitors.

Case study: Supporting our customers as cost of living soars

Many of our customers are feeling the pressure as the cost of living goes up, with most utility bills rising by an average of £700 per year. So, it's more important than ever that we continue to help customers keep their water bills as low as possible – and provide extra support when they need it.

Saving water saves energy too, which helps customers keep their energy bills down. Last year, we conducted a study into how water efficiency interventions can lower water bills, particularly for customers on low incomes. It's helping us to better link our strategic plans for efficiency and affordability.

To help customers be more water efficient, our water efficiency programme includes smarter home and business visits , water efficiency incentives and a water efficiency calculator. Our teams give customers personalised advice on how to save water, and install water saving devices to combat wastage issues like leaky loos or dripping taps.

We're also rolling out the industry's largest progressive smart meter programme, with almost 700,000 now installed across our region. Smart meters give customers more control over their water use, as they can see how much they're using. They also enable us to find and fix leaks more quickly.

But our support doesn't end with helping customers to use less water. Many of our customers need a bit of extra support to manage their bills, and this year we've increased the ways in which we can help even more. We've also brought together our bill collection function and our Extra Care team, so when customers are finding it difficult to pay their bills, our teams can work together in a holistic way to find the right support scheme to suit individual customers.

Some of the ways we help our customers

WaterHelp social tariff – provides a 50% discount for low-income households

WaterSure social tariff – caps the bills of customers on a means tested benefit with water-dependent medical conditions or large families

Customer assistance fund – offers payment matching to help customers to clear their water debt faster

Thames Water trust fund – supports free money management advice and debt counselling

Investing in our people

It's been a challenging year, with the launch of our turnaround plan against the backdrop of a difficult external landscape. The dedication of the brilliant people across Team Thames has meant we've been able to continue delivering life's essential service during such an unprecedented time in our history. However, we still have a huge amount to deliver and making sure our people feel safe, supported and engaged is our priority. Only then can we do our best for our customers.

Safety comes first

The health, safety and wellbeing of our people and customers comes before anything else. We've continued to prioritise mental and physical wellbeing as we emerge from Covid-19 restrictions (see page 39).

After an improving performance in 2020/21, with a lost-time injuries frequency rate of 0.08, our frequency increased last year to 0.15. To get back on track, we launched a new 'situational awareness' programme at the end of 2021, to encourage everyone to be more aware of their surroundings and spot potential hazards that could result in an accident. We're also reassessing our health and safety risk management (see more on page 61).

As we raise the bar, to make sure our people always go home safe and well, we're taking our health and safety strategy to the next level. We're reassessing our processes and increasing our focus on asset safety to reduce the likelihood of severe incidents.

The impact of the last two years, where many people have had to juggle work with caring responsibilities and others have felt isolated, is being felt in many companies. In 2021/22, we continued to provide targeted health and wellbeing support, including mental health first aid using our 'Time2Talk' app, as well as counselling and support through our Employee Assistance Programme. All employees receive weekly 'Wellness Wednesday' communications, which provide tips about developing healthy mental and physical habits, news about support groups, and links to our wellbeing resources. As restrictions in the workplace were lifted, we've been supporting those colleagues that have mainly been working from home for the last two years, through return to work initiatives to help ease anxiety and with the support of our 453 mental health first aiders.

	2022	2021
Health and safety lagging indicators		
RIDDOR incidents	**19**	12
Number of lost time injuries (non-notifiable)	**27**	12
Lost time injury frequency rate	**0.15**	0.08
Non-lost time injuries	**116**	139
Near miss ('high potential') incidents	**250**	487
Days lost to work-related illness	**193**	230
Days per FTE of absenteeism due to sickness	**7.43**	5.91
Health and safety leading indicators		
Health and Safety observations	**98,342**	98,690
Senior management site visits	**641**	1,169
Health and Safety inspections	**38,236**	35,233
Health and wellbeing surveillance	**2,665**	4,471
Corrective actions closed	**108,466**	103,855
Health and safety days training	**16,647**	7,892

Fixing the basics

Collaborative and Purpose-led leadership is so important to the delivery of our turnaround plan. It's a challenging plan, so to support our frontline-first approach and ensure we deliver for our customers, our leaders must not only have the right skills and experience but also be positive role models of our values and behaviours.

Over the last year we've welcomed eight new members of the Executive team. Each of them brings a wide range of skills and experience from within and outside the water sector and is committed to our Purpose and making a real difference. Full details of the team can be found on pages 82 – 84.

We've also continued to invest in the leadership community. Over 70 leaders attended the two-day 'Leader as Coach' programme that launched our Leadership Framework and trained them in coaching skills. This launch programme has been followed by one day supervisory sessions, led by an external occupational psychologist, to enable leaders to continue to develop their coaching capabilities. In addition, over 150 first line leaders are attending our 'Coaching for Performance' programme.

Creating a coaching culture is a key part of the turnaround plan. Developing leaders who coach as part of their everyday leadership style is key to ensuring that our colleagues feel empowered, supported and motivated to perform at their best. By encouraging our leadership teams to listen and question more, we're aiming to increase empathy and trust. Coaching also supports our values, such as supporting each other to be the very best we can be by listening, learning and trying new ideas.

In 2014, we involved over 4,000 colleagues to define our values. These values underpin the way we behave towards one another and how we deliver services to our customers, communities and the environment.

We felt that, as we emerged from the last two years, we should re-connect as teams to share the Thames Water story – where we have come from, what we do well, our challenges and what we need to do to turn around our business. In addition, we wanted everyone to really engage with our values, what they mean in everyday life, and how they underpin our Purpose. Launched in January 2022 with our leadership community and rolling out through every team, the sessions bring our values to life through the power of individual story-telling.

A focus on front-line engagement

In February 2022 we invited every employee to respond to our 'Hear for you' annual engagement survey. 5,955 colleagues took part – an 82% response rate – and we received around 3,500 comments that provided rich feedback. Like many organisations, our employee engagement index declined from the 'Covid-19 bounce effect' of 2021 (75% to 69%), when scores had gone up significantly from 2020's score of 64%, as employees recognised our open communication and efforts during the unprecedented pandemic.

One of the key insights from the survey was that while our managers were slightly less engaged (75%) then they were in 2021, our front-line employees are between 5% and 15% less engaged than our managers. Using the feedback from the survey, we are developing our overarching plans to improve engagement, as well as local team action plans to become 'front-line first'.

Creating diverse and inclusive careers

Enabling everyone to feel able to bring their whole selves to work is critical to achieving our Purpose and is underpinned by our values and behaviours. Over the last year, we've continued our journey to drive change and increase the diversity and inclusivity of Team Thames.

In 2021, we entered the charity Stonewall's Top 100 Employers list in recognition of our commitment to the inclusion of the LGBTQ+ community in the workplace. We've moved from a ranking of 189 in 2020 to being in the top 100 in 2022, three years ahead of our target. We received a gold award for meeting criteria relating to our diversity and inclusion policies, values and our Pride Network, which has been highly commended by Stonewall.

Promoting diversity and inclusion is something we all need to support. We were the first water company to be awarded Disability Confident Leader status. We also hold an Armed Forces Covenant Gold Award for actively recruiting former military personnel, and we're a member of Women in Science and Engineering and Women in

Investing in our people continued

Utilities. In 2021, we launched our 'Inclusion Heroes' training Programme – a series of online modules on embracing differences and living our value of 'be respectful and value everyone' in the workplace. We also launched a pilot programme, 'Realising Potential', to support the progression of women within Thames by providing networking, mentoring and sponsorship opportunities, as well as coaching and workshops.

We also have vibrant inclusion networks – each of which has an Executive team and Leadership Community sponsor. In December 2021, we launched our Men's Allies Network (MAN), which has run events covering male suicide and fertility.

Our inclusion networks

- BAME Network
- DisAbility Network
- LGBT+ and Allies Network
- Men's Allies Network
- Multi-faith Network
- Parents and Carers Network
- Women's Network

To ensure diversity and inclusion is factored into senior decision making, we ran a mentoring scheme in 2021, which paired members of our Executive Team and senior managers with diversity and inclusion champions.

We are also active externally. Our CEO, Sarah, is Chair of the Business in the Community's Gender Equality Leadership Team and, in March 2022, launched a new campaign – Who cares? It's designed to help address and rebalance the inequality between men and women when it comes to caring responsibilities and careers. Also, our People Director, Lynne Graham, chairs the Energy and Utility Skills Diversity and Inclusion Strategy Group that brings together over 40 business to share learnings and agree initiatives to make the entire sector more diverse.

We're committed to drive social mobility in the communities we serve. You can find a copy of our skills strategy on our website. As part of that, we've signed up to various pledges in the last year, and we're taking meaningful action. As a signatory of Ban the Box, which opens employment opportunities to people with criminal convictions, we've recruited five employees who are prison leavers. We've also recruited seven Young Black Men under the GLA Mayor's design lab scheme and seven care leavers.

As part of our commitment to make sure 5% of our people are in 'earn and learn' roles by 2025, we've now got 166 apprentices on board – 68 joined the programme from within Thames Water. We've also recently launched a shared apprenticeship scheme with some of our key suppliers, which will give apprentices the opportunity to gain experience with a variety of employers within the water industry. Five suppliers apprentices joined us in April 2022.

We've also welcomed 100 kickstarters under the Government scheme – doubling our original goal for this year. To us, this isn't about giving people a short period of work experience, it's about kickstarting careers. You can find out more on page 38 about the experience of Naman Chandra, who joined the scheme in 2021 and is now in a full-time career at Thames.

"We're building a pipeline of skills from our communities and education sector, ensuring we have a diverse and inclusive workforce that represents the customers we serve and provides good work for all.

We want to contribute to the creation of a fair society and tackle real challenges, such as digital skill shortages and in-work poverty, and ensure our people receive the right investment in skills development to have successful and sustainable careers."

Lynne Graham
People Director

Our gender pay and ethnicity pay gaps

We've secured another reduction in our gender pay gap and a reduction in our mean ethnicity pay gap. Our mean gender bonus gap is -2.4% and our median gender bonus gap is 0%

On 5 April 2022, which is the date we capture the data each year, our results were:

Mean gender pay gap
9.1%
(2021/22: 9.5%)

Mean ethnicity pay gap
9.7%
(2021/22: 9.9%)

Median gender pay gap
15.0%
(20121/22: 15.1%)

Median ethnicity pay gap
10.4%
(2021/22: 9.4%)

Mean gender bonus gap
-2.4%
(2020/21: 38.3%)

Median gender bonus gap
0%
(2019/20: 16.1%)

Leadership female
33%
(2020/21:35%)

Leadership BAME
3%
(2020/21: 9%)

The gender pay gap is the difference in the average earnings between men and women, regardless of the work they do. Similarly, the ethnicity pay gap shows the difference in average earnings of employees of ethnic minority backgrounds, regardless of their jobs.

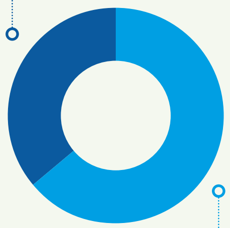
Gender pay differs from equal pay, which looks at pay differences between men and women carrying out the same or comparable work.

Proportion of females (of relevant employees) who received a bonus / incentive payment was 42.0% (2020/21: 85.6%). Proportion of males (of relevant employees) who received a bonus / incentive payment was 41.5%* (2020/21: 87.9%).

Gender diversity across Thames Water as at 5 April 2022

Board

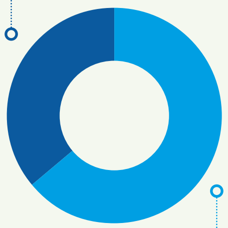
Female
4/11 = 36%
(2020/21: 31%)



Male
7/11 = 64%
(2020/21: 69%)

Executive team

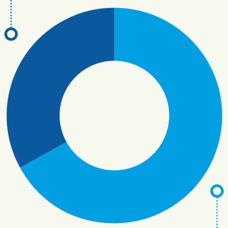
Female
4 = 36%
(2020/21: 33%)



Male
7 = 64%
(2020/21: 67%)

Leadership community
(direct reports of Executive team)

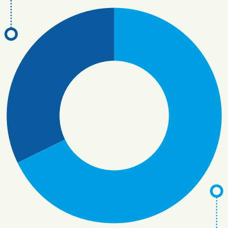
Female
29 = 33%
(2020/21: 27%)



Male
60 = 67%
(2020/21: 73%)

Whole business
(salaried employees)

Female
2,415 = 32%
(2020/21: 33%)



Male
5,036 = 68%
(2020/21: 67%)

Case study: Kickstarting careers

We're giving unemployed young people work opportunities and helping them to begin meaningful careers. One of the ways we're driving this is through the Government's Kickstart scheme, which funds six-month placements for unemployed 16 to 24-year-olds on Universal Credit.

We originally created 50 Kickstart roles across the business to provide work experience, training and mentoring. Following the extremely positive impact of the programme, we quickly doubled our goal – as at 31 March, we had 100 Kickstarters. Thames Water colleagues who are assigned as mentors to each Kickstart placement also benefit from ongoing support and can sign up to a professional development Level 3 mentoring qualification.

Our goal is that at least half of our Kickstarters will secure an apprenticeship or full-time employment after their placement and we're on our way to achieving that. By the end of March 2022, 86% of our Kickstarters had been offered permanent roles after their placements, with 69% now working at Thames Water.

Profile: Naman Chandra
Naman is one of so many young people with a positive attitude and lots of potential who was finding it hard to break into the world of work. Naman successfully obtained a BSc degree in Maths but – like many – Covid-19 made finding a job a real challenge.

Upon joining Thames Water as a Kickstarter in the Bulk Metering team, Naman was responsible for customer contact data analysis. Naman was keen to improve his skills further, so his mentor, Rosie, arranged for him to spend time with our Water Network Data Insights team where Naman was able to pick up new data analytics and programming skills using SQL and Microsoft Power BI.

Following his Kickstart role, Naman successfully joined Thames Water as a Level 4 Data Analyst Apprentice.

Case study: Creating a new world of working

On 4 April 2022, colleagues across Team Thames, who have been mainly working from home for the last two years, moved to our new hybrid ways of working. With such a diverse range of roles across Team Thames, from engineers, wastewater modellers and quantity surveyors, to ecologists, accountants and contact centre agents, our new world of working is certainly not a one-size fits all approach. Whilst the restrictions we faced throughout the last two years were difficult, it did mean that we could take the opportunity to step back and create a future world of work, which really suits the differing needs of our colleagues.

The last two years have shown all of us that there are many benefits to flexible working, as people balance home and work lives. A few years ago we wouldn't have been able to imagine a world where many of us could productively switch between working at home and in the office. But, new technology has improved the connectivity between office and site-based colleagues, and reduced capacity in offices has freed up space for effective collaboration.

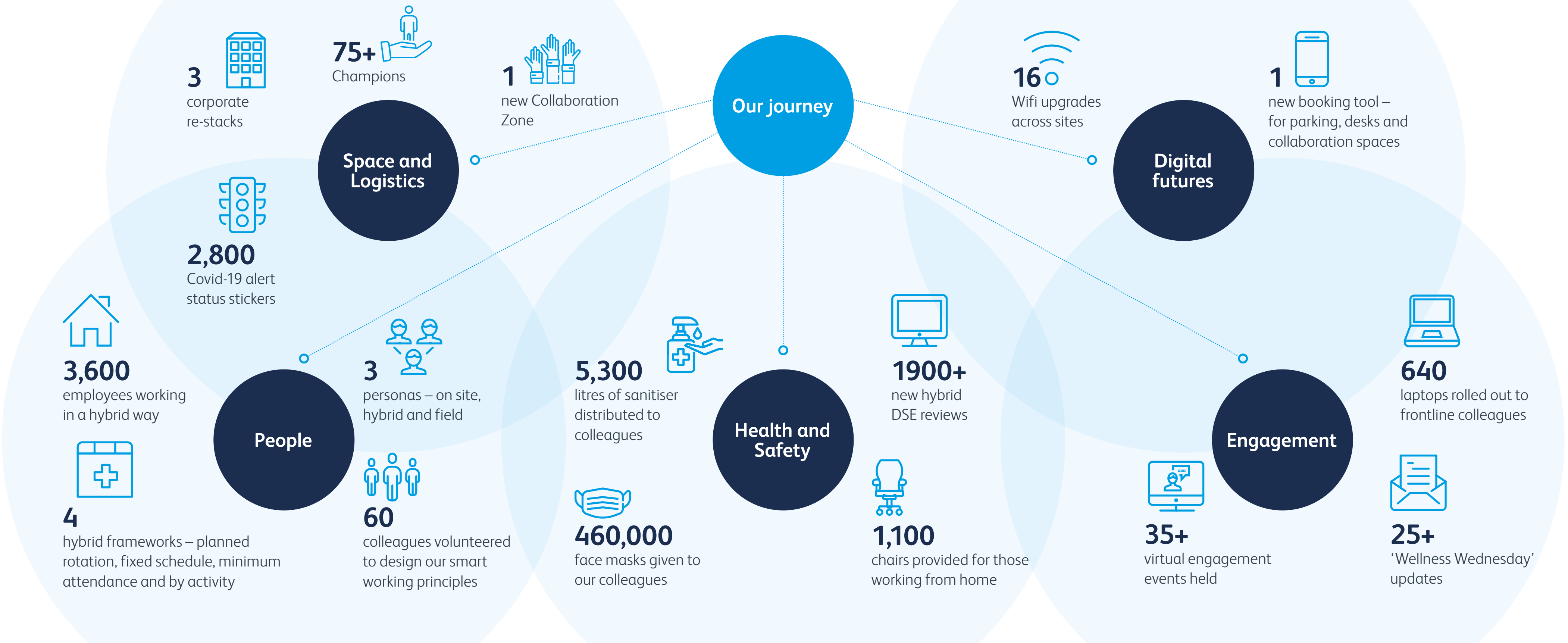
We know that this is a journey, and we'll continue to listen to our teams, learn as we go, and make adjustments to ensure that we're providing the best support for our most important asset – our people.

Stage 1 – Listening to our employees was an incredibly important first step on our journey. We talked to many colleagues from across the business, through surveys, meetings and volunteer groups, to really understand their needs

Stage 2 – The next step was to define different work personas to fit with employees' roles, and therefore their working needs. After collaboration with teams across the business, we created three personas – field, onsite and hybrid

Stage 3 – Once the personas were defined, we started taking action on a wide variety of initiatives to enable our colleagues to work at their best in a new world of work

- Culture: we're driving a 'why not?' rather than a 'why?' approach to encourage flexible working
- Technology: we've rolled out an online booking tool for office desks, meeting rooms and parking, providing colleagues with an easy-to-use, flexible system
- Collaboration: we've created more collaborative spaces in our offices to encourage a more flexible way of working. We've also reduced our overall office footprint, increasing our operational efficiency and saving money, which can be invested elsewhere
- Policies: we've updated our policies to promote and support more flexible working
- Wellbeing: we know it's been an unnerving time for many of our colleagues and promoting a healthy wellbeing has been high on our agenda. As well as rolling out hybrid equipment to enable colleagues to work well at work and at home, we've continued to send out regular emails highlighting the services we offer to support colleagues mental and physical health.



Workforce engagement led by Ian Pearson, one of our Non-Executive Directors

Ian Pearson
Designated Non-Executive Director for Workforce Engagement

"By listening to teams and employees across the business, we can really understand their experiences, concerns and the challenges they are facing."

As a Board, it's been great to be able to spend more time this year meeting teams across Thames face-to-face. In 2021, we adapted to the Covid-19 pandemic by moving our engagement programme online and meeting colleagues virtually. Last year, we were able to combine virtual with face-to-face meetings and get back on sites.

We visited teams across Thames Water's patch, including at Kidlington, Brixton, Bourne End and Hampton water treatment works, as well as Chertsey sewage treatment works. At offices, we also met the customer billing team and financial customer care team among others. By listening to teams and employees across the business, we can really understand their experiences, concerns, and the challenges they're facing.

We also held two bi-annual Engagement Forum meetings with employee champions from all around the business. During our sessions, we discussed a wide range of important topics and I'd like to thank all those participating for their constructive and frank input.

A new way of working

Thames' approach to a future world of work post Covid-19 was high on our engagement agenda, and there was a sense of prolonged uncertainty in many teams. We received mixed feedback on how we've looked after our people: some teams reported that the support from Thames was fantastic, but some operational teams felt that the business could have done more to help them.

A theme that was discussed increasingly through the year was a desire for a return to face-to-face team meetings to support collaboration and make communications about performance and progress easier and more effective. From 4 April, teams who had been working from home moved to a hybrid way of working.

Another common theme was the need to invest in all our sites as teams return to the office, to make sure that they're provided with safe, comfortable places to work, where employees can do their jobs effectively. Teams were pleased with what has been done so far as part of the Future Ways of Working (FWOW) programme – for example, offices at Kemble Court were refurbished during the year, and a number of sites have benefited from improvements in WiFi connectivity. Areas where improvements are needed include access to new tools and equipment, like vans and laptops, and arranging repairs.

Turnaround plan

Teams across Thames have expressed their support for the new Executive team and the increased honesty, transparency and humility that is being shown as they drive forward the turnaround plan. They've said that communication around performance has improved and is much more understandable, but it is still patchy and there's a lot more that can be done.

As a Board, we've been so proud of how everyone has pulled together to deliver the challenging targets. We know it's not an easy road. One of the major issues many teams have raised is resource constraints – both attracting new talent and keeping people in their roles. This can lead to teams being under-resourced for periods, which puts pressure on other colleagues as they try to address backlogs and do their best for our customers. One of the ways this is being addressed is by supporting the strategy to widen the pool of talent by driving the skills and diversity strategy so Thames can both fill its employment needs and benefit communities.

We've also listened to team-specific problems. For example, the billing team was experiencing system errors, and were concerned that they had not received enough initial training or ongoing support to manage the system. We fed back the issues to the billing leadership team, who have incorporated more training into their plans to improve the billing experience – for both customers and for the colleagues supporting them.

What's been done with feedback this year

Other key areas where we engaged with colleagues, received feedback and responded during the year included:

- Relationships with delivery partners: the announcement to insource the work of the Infrastructure Alliance was positively received. A critical part of the people plan is to align insourced colleagues to Thames Water's values and behaviours. The Company will reinforce these through key people processes such as performance management and reward.
- Opportunities for career progression: this has been of particular concern during a year of such instability. In response, the people team has realigned the job grades across the business. Work is ongoing to refine the competency frameworks, particularly in frontline roles.

Overall, we've found that teams at Thames are proud to work in the water industry and of the role Thames Water plays as an organisation. We look forward to another year of constructive engagement.

Stakeholder engagement

It's so important to our turnaround plan to have the trust and buy-in of our stakeholders. A focus for us this year has been to rebuild that trust through being much more transparent and proactive in our communications than we have in the past. We've been listening hard this year to understand the needs, challenges and opportunities of each of our main stakeholder groups and keeping communication open through various channels and forums.

NGOs and community groups

What they expect

- That we really care about the impact of our services on the environment and that we're committed to doing the right thing – particularly around river health and sewage spills
- That we're accessible, communicate proactively, and really listen to their feedback on local projects and initiatives that will affect them
- To work with them in partnership where we have joint goals
- Local employment, skills development and opportunities

How we've engaged

- Meetings to understand their concerns and views on our work in their areas to inform neighbourhood plans
- Open forums to discuss issues such as flooding
- Developed partnerships to deliver projects and programmes, such as smarter water catchments and the Oxford Rivers project
- Schools education programme engaged over 60,000 children
- Over 2,600 hours of employee volunteering
- Welcomed 100 kickstarters as part of our skills strategy to develop local talent

Outcome / how we've delivered

- They're armed with a greater understanding of our community work and improving environmental performance
- Collaboration and partnerships to deliver specific local projects, such as with Windrush Against Sewage Pollution (WASP) to improve the River Windrush
- Volunteering opportunities allow our colleagues to interact directly with communities in our region, helping to increase channels of communication and build trust

Link to strategy

- Partnership working has been a critical component of our work to improve river health and water quality – for example through our pioneering smarter water catchments approach
- Collaboration increases the reach of our water efficiency messages and campaigns such as 'Bin it, don't block it' to prevent blockages
- Proactive engagement gives us additional insight in communities, helping alert us to issues as soon as they happen

→ **Case study: A spotlight on the Oxford Rivers Project as we clean up rivers – page 32**

Customers

What they expect

- Good, responsive, simple customer service
- Reliable water supply
- Clear, proactive communication around work we need to do –planned or emergency
- Support during emergencies or times of extra need
- That we really listen to our customers and understand what they want and need from us

How we've engaged

See our case study on page 22 about how we've improved our service to reduce complaints

- Being more responsive and proactive in our communications during incidents
- Online customer community conducting samples, surveys and opinion research
- Campaigns to explain how customers can help us to reduce blockages (such as 'Bin it Don't Block it') protect pipes (winter preparedness campaign) and use water wisely during the summer months (supply and demand)
- Quarterly meetings with CCW and our CCG
- Being transparent about our performance, challenges and opportunities – such as here in this Annual Report and Sustainability Report, in our Annual Performance Report, and through more regular updates such as our online quarterly leakage report

Outcome / how we've delivered

- Our new Public Information Office has increased our speed in responding during incidents so we've provided more timely and accurate updates
- Bill redesign has contributed to a reduction in customer contacts and complaints
- Our 'Bin it Don't Block it' campaign reached over 4.5 million people and resulted in 16.5% less blockages in hotspot areas

Link to strategy

We need our customers to work with us to turn the dial on big issues such as reducing blockages and water efficiency, and we need to build trust with them.

→ **Fixing the basics – pages 15 – 16**
→ **Case study: Reducing complaints as we start to fix the basics – page 22**

Employees

What they expect

- A safe, healthy, diverse and inclusive workplace
- Transparent communication around performance, issues, challenges and opportunities
- Fair pay and rewards

How we've engaged

- Launched our 'Living our Values' programme to reconnect with employees around our Purpose
- Annual 'Hear for you' employee engagement survey
- 'Speak up' lines, so our employees feel able to raise issues as they arise
- Frontline first communications strategy to ensure that frontline colleagues feel engaged and connected
- Monthly 'All Hands Calls' for each business area
- Internal communications with news updates, performance information and wellbeing resources
- Surveys – for example on our Future Ways of Working programme
- Driving more direct contact between managers and teams – for example, Retail team leaders took part in 'Back to the floor' call listening
- Improved Health and Safety training and communications, such as our 25 'Wellness Wednesday' emails and 'Safety moments' at the start of team meetings

Outcome / how we've delivered

- More frontline staff have been reading email bulletins, for example our Water Production teams opened 8% more emails in February 2022 (71% open rate) compared to the same period in 2021 (63% open rate)
- A 12-week personal resilience and wellbeing campaign, though our weekly Wellness Wednesday channel, had an average open rate of 70% between January and April 2022. We also saw an increase of between 20-30 Gympass memberships per week directly following the communications

Link to strategy

→ **Investing in our people – pages 36 – 39**
→ **Case study: Kickstarting careers – page 38**
→ **Case study: Creating a new world of working – page 39**

Stakeholder engagement continued

Suppliers

What they expect
- Clear and honest two-way communication about opportunities and issues that might affect their business and plans
- A fair approach to procurement
- The opportunity to discuss more innovative ways of doing things
- To understand how we view their performance while being given the chance to feedback on our processes

How we've engaged
- Holding a Supplier Summit, with the opportunity to talk 1-2-1 with suppliers and get direct feedback on their challenges and the things on their mind
- Emails and newsletters
- Discussing best practice at health and safety conferences and category forums
- Reviewing performance at quarterly meetings
- Engaging with the wider supply market through high profile pre-tender market engagement and launch events
- Hosting 'innovation exchanges' to encourage new solutions and partner with organisations representing the supply chain
- Launching a new approach to build more senior level engagement with suppliers and to give more information about our objectives

Outcome / how we've delivered
- Builds a diverse supply community through increased engagement
- Keeps us at the forefront of market trends and allows us to develop our operational approach alongside our supply chain, helping us to deliver our wider strategy
- Provides insight to help mitigate risk, improve resilience and drive added value for customers

Link to strategy
Through engagement, we're able to work together to make improvements to customer service and we can understand the impact of the energy price crisis on our ability to deliver our essential service.

Investors and shareholders

What they expect
- Transparency about our performance, opportunities, risks and challenges
- Return on their investment
- Strong leadership and appropriate risk management

How we've engaged
- Our external shareholders have representatives on our Board, so they can hear directly from the rest of our Board, Executive team and other senior management
- We listen to, engage and update our lenders through 1-2-1 meetings, group calls and presentations and provide information through our annual reports and statements.

Outcome / how we've delivered
- By really understanding our challenges and the improvements we need to make, our external shareholders have supported the decision to not pay dividends in the five years to 2021/22
- Through transparent engagement, our external shareholders are able to balance the needs of their investment with the needs of our customers
- With their experience of other sectors, they can also provide constructive advice and share different viewpoints

Link to strategy
This ongoing engagement is key in aligning our collective views on our longer term Vision to 2050, our turnaround plan, our current priorities, and key issues such as river health and planning for PR24.

Policy makers and elected representatives

What they expect
- A reliable and affordable service – and to do the right thing when things go wrong
- We support our customers during challenging times, such as the energy price rise
- We play an active role in shaping the future direction of the sector
- Demonstrative leadership and ambitious targets that drive better performance across the sector

How we've engaged
- A structured programme of engagement with MPs, councillors and London Assembly Members, including letters, regular meetings and site visits
- Memberships with groups such as London First, the Thames Valley Chamber of Commerce and Business in the Community (BiTC)
- Responses to Select Committee inquiries to ensure our voice is heard in policy debates
- Hosted workshops, such as with the GLA around our plans for PR24
- Participation in technical working groups to provide evidence and explore policy options, such as the Storm Overflows task force
- Representation at Scrutiny sessions held by Local Authorities to give updates on river pollutions, flooding and growth issues.

Outcome / how we've delivered
- Feedback helps us to improve our delivery, inform our plans and understand whether we're meeting stakeholders' expectations in the communities we serve
- We're kept close to policy changes that affect us and our environment
- We contribute directly to the development of policies affecting water and the environment, such as the Strategic Policy Statement, the Plastics (Wet Wipes) Bill, the Storm Overflows targets consultation and the Green Gas Support Scheme
- This year, we particularly improved our positive engagement with MPs on nature reserves, skills development and blockages

Link to strategy
We've used feedback during the year to help us build our plans to recruit new jobs and skills across our region, and as we start the journey to clean up rivers.

Regulators

What they expect
- That we engage in a collaborative and transparent way about our performance, Purpose and long-term plans
- We're upfront about both our successes and the areas where we know we need to improve to deliver better outcomes for our customers, communities and the environment

How we've engaged
- The Board, Executive team and senior management have met with all of our regulators though the year, providing regular updates on how we're performing, the challenges that we face and what we're doing to overcome them (including the delivery of our turnaround plan)
- We've also engaged on a wide range of other issues during the year, including the ongoing investigations into sewage treatment works and river discharges, energy prices, the cost of living crisis, board leadership, governance and transparency and compliance with Russian sanction legislation
- Engagement on PR24 is ramping up as we begin to shape our plans for the next AMP.
- We're cooperating fully with both Ofwat's and the Environment Agency's ongoing investigations into sewage discharges

Outcome / how we've delivered
- We recognise that we've historically had a difficult relationship with some of our regulators and we're focussed on turning that around
- We're rebuilding trust and confidence based on a common understanding of how Thames Water is performing today and what we're doing to deliver our Purpose

Link to strategy
We've worked with our regulators to shape our turnaround plan and our approach to PR24, as well as our response to incidents.

→ **Our key performance indicators – page 3**

Chief Financial Officer's Review

Alastair Cochran
Executive Director/ Chief Financial Officer – Thames Water Utilities Limited

Driving the turnaround

I joined Thames Water as Chief Financial Officer in September 2021 to help drive the turnaround plan and improve performance. In my first six months, I have focused on understanding the challenges we face and defining a plan that will establish the foundation we need to deliver our ambitious turnaround. Throughout these first few months, I have been guided by our Purpose – to deliver life's essential service, so our customers, communities and the environment can thrive.

A key element of this has been the development of a revised £11.5 billion business plan for the current regulatory period, unanimously approved by our shareholders, which is designed to significantly improve Thames Water's operational performance, deliver on its regulatory obligations, increase resilience and deliver better outcomes for its customers, communities and the environment. This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed in the water company's final determination for 1 April 2020 to 31 March 2025 and represents a major milestone in our turnaround journey.

To support delivery of this new business plan, an initial £500 million of new equity will be subscribed by shareholders in March 2023. The Executive team is working with shareholders on plans to provide a further £1.0 billion of equity funding, which will be subject to certain conditions, to drive Thames Water's turnaround over the remainder of the current regulatory period, and establish a solid foundation for Thames Water's long term growth.

The Executive team will continue to reflect the ongoing turnaround in its next business plan for the five-year regulatory period starting in 2025. A focus of that business plan will be to maximise the likelihood that Thames Water receives a PR24 regulatory determination that supports the turnaround. As part of this, Thames Water shareholders acknowledge that further shareholder support may be required to improve financial resilience.

We are fortunate to have shareholders that have consistently supported Thames Water by approving substantial investment in the business over and above regulatory allowances, whilst taking no dividends out of it. For the fifth year in succession, our external shareholders did not receive a dividend as we prioritised the critical investment we need to make in our systems and assets to improve resilience for the benefit of our customers, communities and the environment.

This support has never been so important as we face the external challenges the world has been experiencing in the last few years, with climate change, increasing energy prices and rising inflation all having an impact on our customers and our business. This is reflected in our financial results for the financial year ended 31 March 2022. We've ramped up our capital delivery programme, with a 22% increase in investment to £1.3 billion to achieve our highest annual investment to date. Our revenue, EBITDA and operating cash flow has improved, year-on-year, driven by growth in allowed revenue and a partial recovery in consumption, as customers move back to a pre-pandemic way of life. However, increases in depreciation and amortisation as we increase capital investment, higher interest costs, an increase in deferred tax as a result of the increase in tax rate and an increase in non-cash losses on financial instruments have led us to us report a higher loss this year.

Macroeconomic factors

Well chronicled macroeconomic and geopolitical headwinds had a significant impact in the 2021/22 financial year and continue into the new year. In response, we have mitigations in place to manage increases in the cost of living and energy prices. These include:

- an increase in our bad debt provision as a result of the challenges facing our customers in the future due to increases in cost of living that may impact their ability to pay their water and wastewater bills;
- we have entered further forward contracts for power prices and closely controlled expenditure in other areas in response to an increase in power prices; and,
- maintaining a proactive focus on our liquidity position and covenant headroom.

The company outlook is discussed within the going concern statement of the Director's Report and our Long-Term Viability Statement.

Environment, Social and Governance (ESG)

In line with our approach to become more sustainable in everything we do and as we shape the future, we continue to focus on putting the ESG agenda at the heart of our financial decision making (see page 30). We've had a longstanding approach to supporting customers in financially vulnerable circumstances. We've been increasing that further as the cost of living goes up, with over £46 million of support through our social tariffs in 2021/22 (see page 16). We're also increasing our investment to stop spills as part of our progressive stance to improve river health. We've committed to spend £20 million at our top nine polluting sewage treatment sites. That's on top of the £61 million we've spent so far on our connecting works to the landmark Thames Tideway Tunnel and the construction of the Lee Tunnel which was commissioned in 2016. We're now just 18 months away from the Thames Tideway Tunnel going into operation.

We're also enhancing the way that climate risk is linked to our strategy. In this report, we have included our first disclosures against the Taskforce for Climate-Related Financial Disclosures (TCFD).

In December, we launched our new, Sustainable Financing Framework (SFF) to replace our existing Green Bond Framework (GBF). The new framework will help us raise funds to support our full ESG agenda, making sure our debt is aligned with our environmental and social responsibilities and that we're working together to build a better world for future generations.

Chief Financial Officer's Review continued

Financial performance

Year ended	31 March 2022			31 March 2021		
	Underlying	**BTL[1]**	**Total**	Underlying	BTL[1]	Total
Revenue (£m)	**2,092.0**	**84.9**	**2,176.9**	2,032.9	73.8	2,106.7
Operating expenses (£m)	**(1,843.3)**	**(0.1)**	**(1,843.4)**	(1,739.5)	(0.2)	(1,739.7)
Operating profit (£m)[2]	**344.4**	**84.8**	**429.2**	415.2	73.6	488.8
EBITDA (£m)	**1,029.4**	**84.8**	**1,114.2**	1034.4	73.6	1,108.0
Net finance expense (£m)	**(384.5)**	**–**	**(384.5)**	(208.1)	–	(208.1)
Net (loss) on financial instruments (£m)	**(895.5)**	**–**	**(895.5)**	(522.2)	–	(522.2)
(Loss)/Profit before tax (£m)	**(935.6)**	**84.8**	**(850.8)**	(315.1)	73.6	(241.5)
(Loss)/Profit after tax (£m)	**(1,042.0)**	**68.7**	**(973.3)**	(258.1)	59.6	(198.5)
Capital expenditure including intangibles (£m)	**1,344.0**	**–**	**1,344.0**	1,105.0	–	1,105.0
Operating cash flow (£m)	**1,191.4**	**1.6**	**1,193.0**	931.2	1	932.2
Net debt (statutory) (£m)	**12,935.0**	**–**	**12,935.0**	12,334.1	–	12,334.1
Dividends paid to immediate parent company (£m)	**37.1**	**–**	**37.1**	32.9	–	32.9
Distributions paid to external shareholders (£m)	**–**	**–**	**–**	–	–	–
Gearing (%)[3]	**80.6**	**–**	**–**	83.2	–	–
Credit Rating	**–**	**–**	**Baa2 stable/ BBB+ watch negative**	–	–	Baa2 stable/ BBB+ negative outlook

1 Refer to page 140 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 Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 146.

Environment, Social and Governance (ESG) continued

The issuance of green and/or sustainable bonds support the financing of our projects related to the environmentally sustainable management of natural resources and land use, as well as climate adaptation. We aim to provide transparency, disclosure, integrity, and quality in all of our related reporting. We appointed the internationally accredited verification company DNV to review our framework, as well as a selection of example projects and eligibility criteria.

In January we issued our first green bonds under the SFF, raising €1,150 million (£967 million after conversion to Sterling) across two debt issues, to refinance eligible projects across multiple areas including renewable energy and pollution prevention and control. We will report on the positive ESG-related impacts that our new bonds have contributed towards via our annual Impact Report, which will be published on our website alongside all previous reports.

We also continue to tie in the interest cost on our main £1,646 million Revolving Credit Facility (RCF) to our sustainability performance, via our participation in the annual Infrastructure Global Real Estate Sustainability Benchmark (GRESB) assessment. GRESB is an independent external ESG benchmark that assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Our latest GRESB score is 87 out of 100, which, while slightly lower than last year's 89, still represents an excellent outcome, placing us third for participating water and sewerage companies.

Last year's score triggered a small reduction in the standard margin paid on the RCF. We promised to pass on any financial gains to charitable causes, and as a result they will benefit by over £87,000.

Recent loan issues contain a circular economy adjustment that reduces the interest rate if certain key performance indicators are met.

During the coming year we will continue to align our financing activities with our ESG agenda where we can and anticipate that this may well include further issuances from our SFF.

Financial Performance

Our financial statements include the amounts billed in relation to the construction of the Thames Tideway Tunnel, which are passed to Bazalgette Tunnel Limited ("BTL"), the independent company responsible for the construction of the tunnel. As this money is not retained by us, we exclude it from our underlying results.

Revenue

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 year ended 31 March 2022 increased by £70 million to £2,177 million (31 March 2021: £2,107 million). This increase was driven by higher allowed revenue set by our regulator Ofwat and a recovery of non-household market revenue as UK Government Covid-19 lock-down restrictions were eased. Despite this, Household water usage remained high as many of our customers continued to benefit from flexible working arrangements.

BTL revenue increased by £11 million to £85 million (31 March 2021: £74 million) due to the phasing of construction works.

Chief Financial Officer's Review continued

Bad debt

Bad debt arises predominantly from those customers 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 year ended 31 March 2022, our overall bad debt cost reduced by £20 million to £67 million (31 March 2021: £87 million). This reduction was primarily due to the impact of initiatives implemented to reduce bad debt.

The bad debt charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £57 million (31 March 2021: £50 million), which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £10 million (31 March 2021: £37 million), which is shown as a cost within operating expenses.

Our total bad debt charge equates to 3.0% (31 March 2021: 4.1%) of total gross revenue. We are working hard to reduce bad debt and have implemented several initiatives to reduce the overall charge as a percentage of gross revenue.

EBITDA

EBITDA was £1,114 million for the year ended 31 March 2022, an increase of £6 million compared to the prior year (31 March 2021: £1,108 million). This was driven by the £70 million increase in revenue offset by a £38 million increase in total operating expenses (excluding depreciation and amortisation) and a £26 million decrease in other operating income.

The movement in total operating expenses reflected:

- a £35 million increase in our employment costs as we invested to improve our service to customers and provide pay rises for non-manager grades;
- a £44 million increase in our power costs driven by extreme power price inflation that has impacted industries globally as well as our customers;
- a £24 million decrease in other operating expenses, principally reflecting lower business rates costs and a decrease in our bad debt charge, offset by an increase in environmental and legal provisions; and,
- a £16 million decrease in exceptional costs relating to a restructuring of the business that occurred in previous periods and did not reoccur.

Underlying EBITDA for the year, excluding amounts related to BTL but including exceptional items, decreased by £5 million to £1,029 million (31 March 2021: £1,034 million).

Loss before tax

Our total loss before tax for the year was £851 million, an increase of £609 million compared to the prior year (31 March 2021: £242 million loss before tax) driven by lower operating profit, higher net interest payable and an increase in net losses on financial instruments.

Lower operating profit reflected the increase in operating costs, as well as depreciation and amortisation as we significantly increased our capital investment programme in our network and assets.

The £176 million increase in our net finance expense largely reflected:

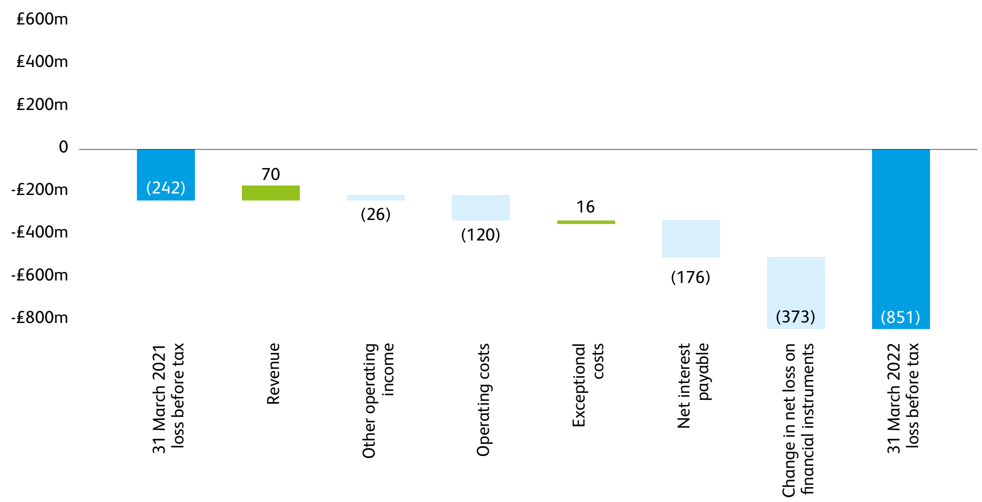
- a £179 million increase in RPI accretion on borrowings;
- a £63 million decrease in net interest income on swaps, mainly due to the impact of the restructured interest rate profile of three index-linked swaps in prior years; and,
- higher capitalisation of borrowing costs (£46 million).

The most significant driver of the reported loss before tax was a £373 million increase in our non-cash net losses on financial instruments, which consisted of:

- a £822 million net loss arising on swaps where hedge accounting is not applied (31 March 2021: £630 million); and,
- a £31 million loss on cash flow hedge transferred from equity (31 March 2021: £38 million).

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. Fluctuations in external market variables such as changes in interest rates, inflation and foreign exchange rates generate changes in the balance sheet value of these financial instruments with the associated accounting gains or losses impacting profits.

A summary of the movement in our Loss Before Tax



Tax

During this financial year, we paid £218 million to HMRC in business rates, national insurance contributions, PAYE and other taxes. Of this, £127 million was incurred directly, mostly through business rates, with the remaining £81 million collected on behalf of our employees. Consistent with prior years, we have not paid any corporation tax reflecting our loss before tax and tax relief for our capital investment programme.

Chief Financial Officer's Review continued

Tax

During this financial year, we paid £218 million to HMRC in business rates, national insurance contributions, PAYE and other taxes. Of this, £127 million was incurred directly, mostly through business rates, with the remaining £81 million collected on behalf of our employees. Consistent with prior years, we have not paid any corporation tax reflecting our loss before tax and tax relief for our capital investment programme.

Despite the loss before tax for the financial year, there was a total tax charge of £123 million comprising a deferred tax charge of £112 million and a current tax charge of £11 million. The deferred tax charge included the impact of the increase in the corporation tax rate from 19% to 25%, which was enacted in the period and resulted in a one-off tax expense of £279 million, offset by a deferred tax credit of £167 million that primarily arose from accounting losses on derivatives which are not deductible for tax purposes until the cash flows materialise. The current tax charge was incurred because the Group pays for the use of tax losses from other group companies.

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 additional tax information in Our Finances Explained publication.

Loss after tax

Our loss after tax for the year ended 31 March 2022 was £973 million, an increase of £774 million compared to the prior period (31 March 2021: £199 million loss).

Operating cash flow

Our operating cash flow for the year ended 31 March 2022 was £1,193 million, an increase of £261 million compared to the prior period (31 March 2022: £932 million), driven by higher revenue, improved cash collection rates and an increase in working capital.

Capital expenditure

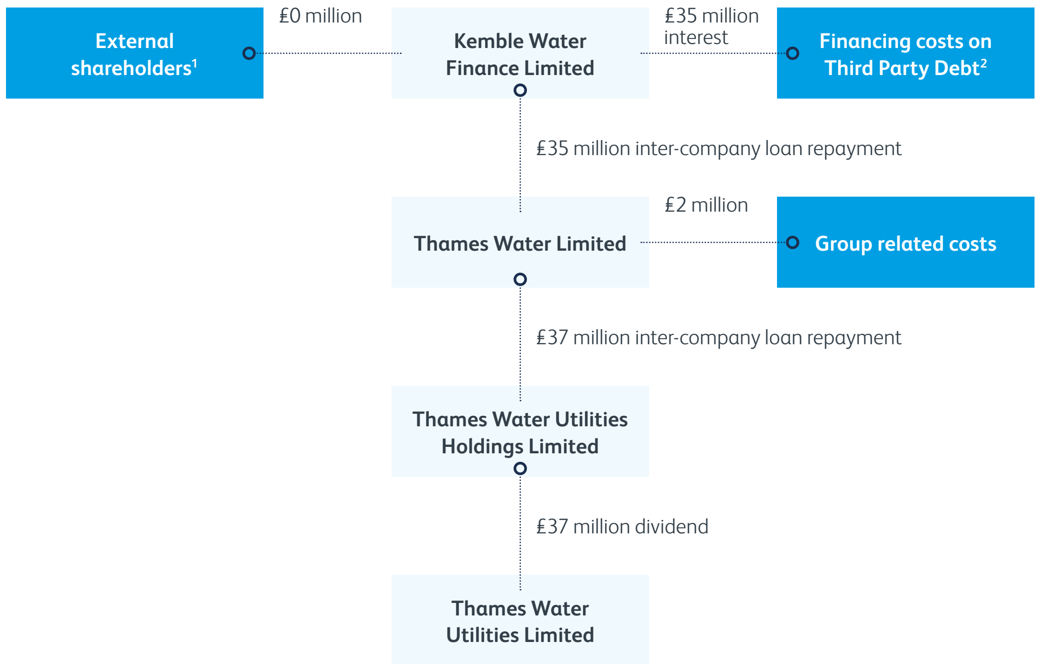
During the year, we invested £1,344 million (31 March 2021: £1,105 million) in our assets, including £115 million related to capitalised borrowing costs. The material year on year increase reflected the planned increase in investment in our infrastructure to increase resilience in our network and help mitigate the dual impacts of climate change and population growth.

The record level of capital expenditure in the financial year included:

- £234 million invested through our in-house Capital Delivery vehicle, including: £32 million on Water distribution mains replacement and rehabilitation in London and the Thames Valley; £25 million on the installation of new Water Trunk mains, including the Faringdon to Blunsdon route; and £19 million on inspection and refurbishment of London's raw water transfer tunnels and Thames Water ring main;
- £201 million invested through our Infrastructure Alliance on our Water Network to reduce leakage and improve our trunk main network;
- £73 million on major projects, including £38 million on upgrading our major sewage treatment works at Beckton;
- £33 million on connecting our network to the Thames Tideway Tunnel, including £20 million on the Beckton Inlet Works;
- £65 million on our Metering Programme.

Dividends

For the fifth year in a row, no dividends were paid to external shareholders of the group, who own shares in our ultimate parent company, Kemble Water Holdings Limited. During the year, we distributed £37 million (31 March 2021: £33 million) to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent company to service debt obligations and group related costs of other companies within the wider Kemble Water Group. In total , Kemble Water Finance Limited ("KWF") paid £67 million of interest, which was funded by distributions from TWUL and cash reserves. A flow chart is presented below that show how our dividends are paid to service debt obligations:



1 Dividends are typically distributed to external shareholders via Thames Water Utilities Limited's ultimate parent holding company Kemble Water Holdings Limited. No dividends were paid to external shareholders during the year.

2 KWF together with its subsidiary Thames Water (Kemble) Finance plc paid a total of £ 67 million financing costs on third party debt.

Chief Financial Officer's Review continued

Pensions

TWUL operates three pension schemes for our employees: a defined contribution scheme; and two independently administered defined benefit schemes, the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"), which are both closed to new employees.

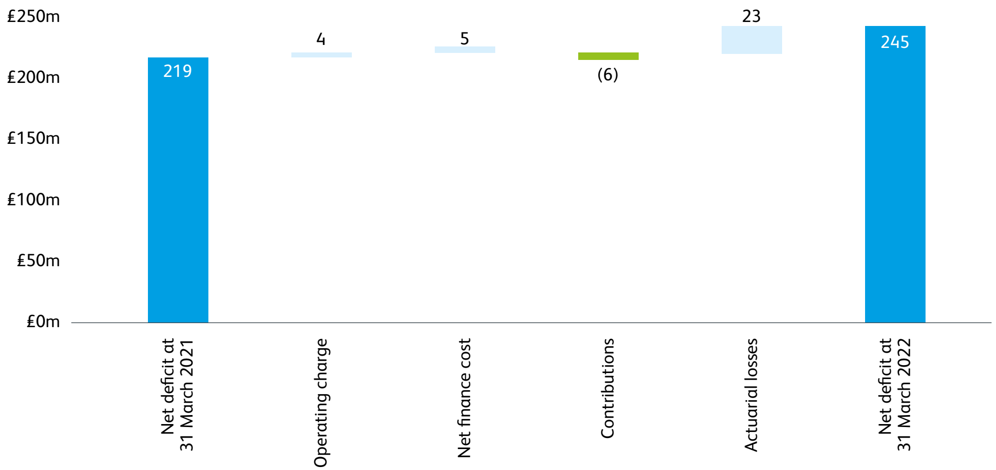
We contributed £27 million (31 March 2021: £15 million) to our defined contribution scheme during the year.

TWPS was closed to future accrual as of 31 March 2021 as a result of the formal consultation process which commenced in October 2017, between the Company, Trade Union and Pension scheme representatives. This was regarded as the best achievable outcome to ensure that we continue to provide a competitive pension benefit that is valued by members at an affordable cost. As compensation to members for this change, an enhanced closure package was agreed for members over age 54 comprising free access to an online retirement modeller tool and an Independent Financial Advisor at a discounted rate. Members of TWPS have been enrolled in our defined contribution pension scheme, The Aon MasterTrust, with enhanced contribution rates until 31 March 2024. From 1 April 2024, contribution rates will be aligned with the rest of the defined contribution pension scheme.

In the 2019 financial year, we completed the triennial valuation dated 31 March 2019 for our two defined benefit pension schemes. The accounting valuation of these two schemes has been updated to 31 March 2022 on our behalf by an independent consulting actuary, Hymans Robertson LLP. The total net accounting pension deficit for the two schemes as at 31 March 2022 was £245 million (31 March 2021: £219 million). The £26 million year-on-year increase was due to changes in actuarial assumptions occurring across all industries, which included an increase in the discount rate for both schemes due to higher corporate bond yields and higher future RPI inflation, 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. 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. This included making an exceptional £70 million payment during the prior year, which covered the remaining deficit payments agreed during AMP7. This payment is included within cash generated from operations in cashflow for the year ended 31 March 2021.

A summary of the movement in the Defined Benefit Pension Scheme



Credit ratings

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

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

In December 2021, S&P placed our BBB+ (2021: BBB+) and BBB- (2021: BBB-) issue ratings of Class A and Class B debt respectively issued by the Company on CreditWatch negative (2021: negative outlook). The negative CreditWatch placement indicates that S&P could lower the issue ratings if strong remedial measures do not enable TWUL Group to maintain certain key credit metrics within defined guidance ranges.

Financing our investments

As we increase investment in our assets, we are focusing on diversifying our sources of funding, pre-funding maturities and maintaining a balanced debt maturity profile. This prudent funding strategy is particularly important in a period of heightened uncertainty caused by macroeconomic factors and the impact of cost of living increases. Based on current forecasts, we have in excess of 18 months of liquidity.

In the year, we secured £1,342 million equivalent in new debt issuance and facilities:

- we entered into a £200 million Class B loan agreement due 2026 in June 2021, which was fully drawn in September 2021;
- we entered into a £100 million Class B loan agreement due 2028 in September 2021, which remains undrawn;
- we entered into a £75 million Class B loan agreement due 2025 in December 2021, which was fully drawn in March 2022; and,
- we issued £967 million equivalent of public debt in January 2022 through a €575 million bond due 2028 and a €575 million bond due 2032.

On 29 June 2022, the Thames Water Utilities Limited Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water Utilities Limited in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. This equity commitment of £500 million has been approved by shareholders' investment committees and is not subject to any performance-related conditions. Such funds, when drawn, are expected to be cascaded from Kemble Water Holdings Limited to Thames Water Utilities Limited via intermediate holding companies.

As at 31 March 2022, the TWUL Group had total liquidity of £1,952 million comprising cash, short term investments and undrawn committed bank facilities. 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.

Chief Financial Officer's Review continued

Since 31 March 2022, the Company has further strengthened its financing position by entering into a £150 million Class B loan facility due April 2029, a £50 million Class B loan facility due August 2025 and a £100 million Class A loan facility due May 2029, all of which are currently undrawn. Since 31 March 2022, £375 million of the Class A revolving credit facility ("RCF") has been drawn and the following debt has been repaid:

- £371 million Class B RCF
- £63 million Class A loan due March 2027
- £12 million of £63 million Class A loan due March 2029
- £50 million Class A loan due May 2022

The following pie chart shows the overall debt mix, excluding the impact of swaps, as at 31 March 2022.

Borrowings carrying value £m

GBP EIB loans	471
United States Private Placements	1,287
GBP index-linked bonds	2,618
GBP fixed rate bonds	5,232
Foreign currency bonds	1,841
GBP other loans	1,688

We also manage our exposure to interest rate, inflation and currency risk on an ongoing basis as part of our funding strategy. During the year:

- we transacted £967 million notional of cross currency swaps to hedge foreign currency debt issuances into GBP;
- we restructured a £100m index linked swap and novated £350m of index linked swaps. We received £11m fees for these transactions.

Some of our interest expense is incurred on borrowings to fund major capital projects. Under IFRS accounting rules we are able to capitalise these interest costs, with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £115 million in the financial year (2021: £70 million), with the increase reflecting an increase in the average net interest rate on our net debt used for the borrowing cost capitalisation calculation.

We also monitor a number of financial covenants within our lending documentation. Our PMICR (see PMICR definition on page 146) was 1.8x at 31 March 2022 (2021: 1.7x), above the minimum covenant requirement of 1.1x.

Gearing

As we continue to invest in the business, significantly beyond the Final Determination ("FD") allowances, our statutory net debt (as defined on page 146) increased by £601 million to £12,935 million (31 March 2021: £12,334 million).

The increase in net debt was accompanied by an increase in the Regulatory Capital Value ("RCV"), as published by Ofwat, of £1,616 million to £16,641 million (31 March 2021: £15,025 million), meaning that overall gearing (on a covenant basis), as at 31 March 2022, was 80.6% (31 March 2021: 83.2%), below the maximum allowed under the covenant of 95.0%. The decrease in gearing reflects a number of factors including the impact of higher inflation on RCV (partly offset by higher accretion on RPI-linked debt and swaps).

Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) recommends going beyond current practices in disclosing climate-related risks and opportunities.

As a water company, climate change is one of the biggest risks to the delivery of our services. Assessing and addressing climate-related risks – and opportunities – is a very important part of how we operate and how we plan for the future.

For many years, we've taken a two-pronged approach to address the impact of climate change, focused on adaptation and mitigation. And we've continued to factor in this approach as we look to shape the future as part of our turnaround plan, and set out our Water Resources Management Plan and Drainage and Wastewater Management Plan. We reduced our use of fossil fuels by 5% in 2021/22, and we're taking steps to better understand the resilience and sensitivity of our water, wastewater and energy systems.

We already report a lot of information about what we're doing, and you can find out more about our response to climate change in our Climate Change Adaptation Report 2015-2020, which is on our website.

This year, we're going one step further as we evolve our reporting – we're outlining our climate-related risks and opportunities and grouping information into the four key areas of governance, strategy, risk management and metrics and targets, in line with TCFD guidance. This is part of our approach to move towards more comprehensive TCFD reporting, which we'll do in 2023.

In this section on TCFD, we refer to a number of documents and plans we've published, which give important context for our approach to tackling climate change. Given how extensively we consider climate change risk, mitigation and adaptation in our planning, we feel it's important to reference these documents and, given their length, it's not possible to include the documents in full in this report.

Climate change is part of our strategic thinking

At Thames Water, thinking about climate change has been part of how we do business for a long time, and we're improving the way climate risk becomes an inherent part of our business strategy.

Here's our two-pronged approach in more detail:

1. Adaptation

We've been using climate scenario analysis for a number of years to understand the different pressures climate change creates – like water resource availability, water demand and flooding potential – and to ensure that we make the best strategic and investment decisions to meet the challenges of an uncertain climate future. This includes managing our resources more effectively and improving the resilience of our infrastructure. You can read more about our planning and scenario analysis on page 51.

While we all know climate change is happening, there's still a lot of uncertainty surrounding it. So, we're adopting an 'adaptive pathways approach', which means that our responses to different types of risk can be changed or accelerated if the effects are greater or the pace of climate change is faster than we'd projected.

> An 'adaptive approach' is a way of making decisions when the future is uncertain. It means that we constantly monitor our progress and adapt our strategy as we learn more about climate change

2. Mitigation

We want to lead a wider change to mitigate the devastating impacts of global warming through energy transition. We are working on our plan to explore the opportunities and challenges in achieving net zero emissions from our operations by 2030, and to become carbon negative by 2040, and we're pioneering innovative ways to generate power from waste.

We're also increasing our use of renewable energy from wind and solar to service our operations and using sludge as a fuel to produce biogas to generate additional energy. In 2021/22 we self-generated 24% of our electricity needs (23% in 2020/21).

Governance

We're ensuring that we have clear accountability for our climate-related risks and opportunities.

TCFD reporting requirement	Where to find our disclosures
Governance	
Disclose the organisation's governance around climate-related risks and opportunities	• The Governance section of our Annual Report and Sustainability Report 2021/22
a) Describe the Board's oversight of climate-related risks and opportunities	
b) Describe management's role in assessing and managing climate-related risks and opportunities	

Our Board has ultimate responsibility for climate-related risks. Our principal risks statement includes risks relating to the physical and transitional risks of climate change (see page 57). These are reviewed each year by the Board, which has significant collective experience in assessing and managing climate change. You can find more information in our Board skills matrix on page 81.

The Board approves our overall governance arrangements, our risk and control framework and our risk appetite as a company. Day-to-day risk management is carried out throughout our business and is overseen by our Executive team. The Board's Audit, Risk and Reporting Committee (ARRC) meets quarterly to review risk updates as well as how risks are being managed, including those related to protecting the environment and meeting the challenges posed by climate change.

Where we're going

In response to the TCFD recommendations, we're enhancing the way climate risk is embedded within our strategic thinking. For example, we're formalising a climate change working group to further develop our governance around climate-related risk, which will be in place by March 2023, with an Executive team sponsor. The group will include management representatives from sustainability, finance, asset, governance and risk management teams. It will work with existing groups such as the ARRC, the Board's Health, Safety and Environment Committee, and our climate change team to ensure resilience in a changing world.

We're also reviewing our governance arrangements to allocate responsibility for sponsoring and owning climate change risks to the business, so that climate change adaptation and mitigation form standing items on our relevant Board and Executive Committees' agendas.

Strategy

We're taking steps to assess the likelihood of climate-related risks and opportunities, and their impact on our future plans.

TCFD reporting requirement	Where to find our disclosures
Strategy	
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	• This Annual Report and Sustainability Report 2021/22 • Annual Performance Report 2021/22 • Water Resources Management Plan 2019 • Drainage and Wastewater Management Plan • Climate Change Adaptation Report (2015 – 2020) • Five-year plan (2020 – 2025) • Drought Plan (2017 – 2022) • Pollution Incident Reduction Plan (2020 – 2025) • Green Bond Impact Report
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	

Task Force on Climate-related Financial Disclosures – continued

We perform a significant amount of modelling to assess the impact of future climate scenarios, looking at key climate-related risks. These relate primarily to water resource availability, water demand and flooding potential. A detailed description of these key risks, the regions that may be impacted, and the strategies in place to manage them are outlined in the Water Resources Management Plan and will be published as part of our Drainage and Wastewater Management Plan next year.

Our existing climate modelling is based on the UK Climate Projections 2009 and 2018 (UKCP09 and UKCP18), which suggest that, in a world of 2°C, the UK will experience, on average, 1 to 2°C higher annual temperatures by the end of the century compared to the baseline period (1981-2000). This warming could be higher in the South East, with average summer temperatures increasing 3 to 4°C relative to the 1981-2000 baseline. For precipitation, changes are less certain, but it's projected that the south of the country will experience wetter winters and drier summers. Alongside these changes in average temperature and precipitation, it's generally agreed that climate change will increase the variability of weather, for example extreme events, such as heat waves, floods and droughts, which are expected to be more intense and frequent. However, the timing and extent of these changes is very uncertain.

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

Where we're going

The UK Met Office Climate Projections (UKCP18) have been updated to make use of the UN's Intergovernmental Panel on Climate Change's (IPPC) relative concentration pathways. It takes into account a greater range of future CO_2 concentrations and factors relating to this that affect our climate. The projections also make use of the latest climate models (CMIP5 and the newest version of the Hadley Model, part of CMIP6). We're now doing our own UKCP18 modelling to increase our understanding of how climate will impact our business.

Our risks and opportunities

We already consider and manage a range of climate-related risks and opportunities. Moving this work forward, we're evolving our understanding of the interconnectivity of climate change risks and opportunities, and how best to manage these in order to fully reflect climate change risk as part of our wider strategy. Our 2021/22 risk assessment – which we'll refer to more fully in our 2022/23 TCFD report – will set out our findings in terms of physical risks, transition risks, and opportunities, as well as how these could impact our business, strategy and financial planning. A sample of these risks are set out here.

Time horizons

Our current climate risk assessment processes look at various timelines, in step with our wider risk management process. These are shown below-

Time horizons considered as part of our climate risk assessment process

Short term	Identifies imminent business risks to which immediate response is required
Medium term	Our allowed revenues and service levels are set on a five-year basis by our regulator, Ofwat. The current five-year Asset Management Period (AMP) runs from April 2020 to March 2025. Our Business Plan covers the current AMP. We also plan outside each regulatory period, enabling us to be ready for the next regulatory review of our plans to support customers
Long term	Our long-term horizon scanning enables scenario modelling for an uncertain future which helps us to identify business needs at an early stage. Our Water Resources Management Plan looks to 2080 and 2100 when considering scenario analysis, and our initial Drought Management Plan looks 30-40 years to the future

Physical risks: risks caused by physical shocks and stressors to natural systems and infrastructure. See Adaptation Report on our website for more detail

Transition risks: risks that arise as a result of economic and regulatory transition toward a low carbon future

Opportunities: uncertainties that could bring additional benefits. Our WRMP and DWMP explicitly take into account climate-related opportunities

Prolonged wet weather could increase risk of flooding and therefore pollution events, leading to increased fines or penalties

Policy and legal: Increased fines or penalties associated with pollution events

Market: Increased customer awareness of climate change and climate associated water risks may increase expectations relating to water management leading to increased cost to respond to those risks

Impact on our financial performance

Hotter, drier summers in a changing climate are likely to require additional investment into infrastructure to meet consumer needs

Develop new products and services: Our sludge recycling programmes are expected to result in increased revenue and reduce our energy costs

Costs: Increased costs of carbon are likely to impact upon our supply chain. Potential need to increase investment to reduce carbon emissions

Reporting: Increased sustainability or climate change reporting requirements could increase operational costs

Reputation and brand value: Our value may increase as companies who manage and mitigate climate change effectively gain investor interest, with the risk of negative impact if not done effectively

Task Force on Climate-related Financial Disclosures – continued

Thinking about climate change is what we do – exploring scenario analysis in more depth

Our key scenario analysis work is captured within the Water Resources Management Plan 19, which underpins long term planning.

Step 1

In line with industry standards, our scenario analysis uses UKCP09 and UKCP18 climate models to assess the impact of varying climate futures on our business needs. We assess the impact of climate change on rainfall and temperature in various emissions scenarios – some examples of the key climate impacts are below. Our key modelling uses UKCP09 probability projections for medium and high emissions scenarios to 2050 and 2080.

The table shows how the climate in the London region could change during the 2080s for three different possible future emission scenarios. It includes a range of probabilities.

Rates of warming and precipitation changes under the UKCP09 scenarios for the London region

Type of change to 2080s	Low emissions scenario			Medium emissions scenario			High emissions scenario		
	Future changes have significant uncertainty – the percentages indicate how likely that change will be at varying probabilities (i.e. 10%, 50% or 90% probability that change will happen)								
	10%	50%	90%	10%	50%	90%	10%	50%	90%
Water temperature (°C)	1.4	2.6	4.0	1.6	3.0	4.7	2.0	3.7	5.7
Summer temperature (°C)	1.4	3.0	5.1	2.0	3.9	6.4	2.6	4.9	8.1
Winter rainfall (% change)	3	16	35	3	19	44	6	26	58
Summer rainfall (% change)	-39	-15	13	-48	-23	7	-56	-29	5

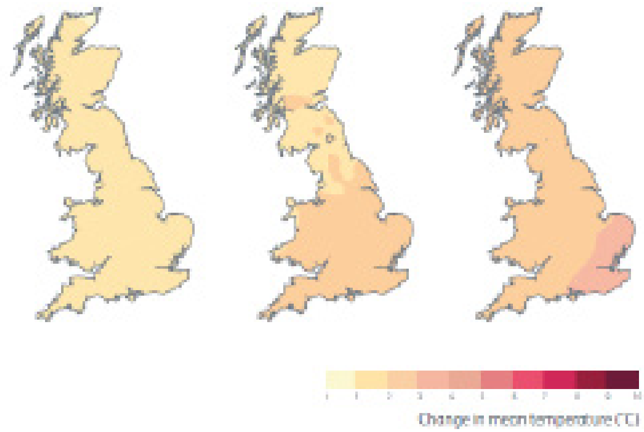
Step 2

Each scenario has 3,000 projections of temperature and precipitation change in 2080. We use a subsample of 20 for in-depth analysis to understand a wide range of climate futures.

2020s
50% probability level: central estimate

2050s
50% probability level: central estimate

2080s
50% probability level: central estimate



(Image credit © UK Climate Projections 2009)

Step 3

The scenarios help us understand the main influences on things like the capability of our supply chain during a drought, as well as the uncertainty around them. When we combine this information with other data, like population growth and changes to regional demand, we can assess whether current supply is enough to meet demand. For example, our modelling scenarios have indicated the South East of England is expected to have hotter, drier summers that will affect water supplies in the London region.

Step 4

Due to the length of term we use in our modelling, as well as the uncertainty in climate change projections and the inconsistency between temperature and precipitation projections, there's a lot of debate around whether these climate scenarios will happen. This means that any emissions scenario could lead to a future that is a little – or a lot – drier. So we look at different scenarios to test the sensitivity of our modelling together with our potential investment plans.

Step 5

Our approach lets us assess whether we would – or should – make different strategic decisions if warming happened at a different rate, a faster rate, or had a bigger impact. This helps us to understand when investment would be needed to improve water supplies and ensure that we're making the most cost-effective investment decisions at that time.

Our strategy means that we always create a supply-demand balance. For example, in 2006, we identified a need for a strategic resource – a freshwater storage facility that could provide additional supply for an increased population if the impacts of climate change resulted in less water availability in the Thames basin. But we weren't certain if our strategy to reduce water use, together with the wide range of variables associated with climate change predictions, would reduce the need for this reservoir. So, we modelled population projections, climate change predictions, increased resilience scenarios and predicted water deficits in our region and across the South East. This modelling predicted that the reservoir would be required by 2037/2038. We'll regularly reassess this prediction using the most up-to-date climate projections.

With adaptive planning we can create an investment plan that's resilient to all future climate pathways and focus our investment on the areas where it's needed most.

Task Force on Climate-related Financial Disclosures – continued

Risk Management

We operate an enterprise risk management ('ERM') framework where we implement risk management across the business. As part of our risk management process, we identify, assess and agree mitigation options for climate-related risks. We disclose these risks in documents such as our Water Resources Management Plan, Drainage and Wastewater Management Plan and Climate Adaption Report.

TCFD reporting requirement	Where to find our disclosures
Risk Management	
Disclose how the organisation identifies, assesses, and manages climate-related risks a) Describe the organisation's processes for identifying and assessing climate-related risks b) Describe the organisation's processes for managing climate-related risks c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	• This Annual Report and Sustainability Report 2021/22 • Water Resources Management Plan 2019 • Drainage and Wastewater Management Plan • Drought Plan (2017 – 2022) • Climate Change Adaptation Report (2015 – 2020)

Various groups across Thames Water examine and take responsibility for managing climate change risks.

- Our climate change working group will co-ordinate our response to climate change risks.
- Our ARRC considers environmental protection and climate change risk as part of their review cycle.
- Our Board has overall responsibility for ensuring that an appropriate risk management framework is in place, and that risk is managed effectively.

In response to the Adaptation Reporting Power process in the Climate Change Act 2008, we voluntarily report on any activities that help us mitigate the current and future risks of climate change to the UK Government's Secretary of State. We submitted an updated report in 2021, which provides an overview of our climate-related risks and how we're working with stakeholders to address those risks.

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

Where we're going

As we evolve our climate change understanding, we're continuing to add risks into our enterprise risk management system as well as building on information already recorded.

Metrics and targets

We're measuring and monitoring our response to climate-related risks and opportunities.

Our well-established approach to climate change mitigation and adaptation means that we've incorporated climate-related metrics and targets into our business plan and our Annual Report and Sustainability Report.

TCFD reporting requirement	Where to find our disclosures
Strategy	
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	• This Annual Report and Sustainability Report 2021/22 • Annual Performance Report 2021/22 • Green Bond Impact Report • Roadmap to Net Zero • Our Scope 1, Scope 2 and Scope 3 carbon emissions and the methodology by which we account for carbon in the Directors Report, Annual Report and Sustainability Report 2021/22

In addition, we make performance commitments and set investment commitments with Defra as part of our 5-year reporting cycles (our commitments for AMP 7 span the period from 2020-2025). Each of our targets is based on the analysis contained in our Water Resources Management Plan, Drainage and Wastewater Management Plan, Drought Plan and Pollution Incident Reduction Plan.

Here are some examples of these metrics and targets and we use them to measure our resilience in a changing future:

Ensure water availability as part of a safe and dependable service

We set targets to ensure we're continually driving down demand for water while ensuring that our infrastructure will be resilient to the impacts of climate change. Our targets include leakage reduction; water supply interruptions; per capita consumption; Security of Supply Index (SoSi); and risk of severe restrictions in a drought. You can read more about our performance in these areas in our Annual Performance Report.

We've also made significant financial commitments for infrastructure investment and we regularly assess our spending against committed capital.

Reduce pressure on water systems

We work with customers to use water and sewers wisely. This helps to reduce pressure on wastewater systems when there's heavy rainfall and will increase water availability as pressure on services goes up in a variable future. We set targets to:

- Reduce overall water use
- Install smart meters, to help us better understand water use
- Carry out smarter home visits and consumer awareness programmes to help people save water

Task Force on Climate-related Financial Disclosures – continued

Reduce the likelihood and impact of flooding and pollution events

We want to reduce our impact on the environment and society, and we set targets to:

- Reduce sewer flooding in homes and businesses
- Reduce sewer blockages
- Reduce the amount of land draining into sewers and invest in additional wastewater sites.

Meet our climate change mitigation targets and improve the natural environment

Mitigating climate change and enhancing biodiversity are two of the key challenges for our world in an uncertain future. We set targets to improve our rivers by reducing pollution events and increasing our ability to self-generate energy.

Our net zero ambition

Our roadmap to net zero is based on four themes:

1. **Reduce:** Design and operate our assets so they emit as few carbon emissions as possible
2. **Decarbonise:** Provide the same capabilities using lower carbon technologies
3. **Create a net negative future:** Grow our export of renewable energy products and buy in renewable energy when we can't decarbonise our supplies
4. **Sequester and offset:** Consider carbon offsets, carbon capture and storage, and carbon sequestration opportunities

We disclose Scope 1, Scope 2 and Scope 3 greenhouse gases using the UK Water Industry Research Accounting Carbon Workbook. Emissions are standardised to global warming potential represented as carbon dioxide equivalents. Our full energy management and operational greenhouse gas emission disclosure is outlined on pages 123 – 124.

Given the nature of our business, we produce a significant amount of information about our approach to climate change. You can find more details about the reports in the table on page 53. They can all be found on our website.

Reports and plans with more information about our approach to climate change

Plan / publication	Period covered	Description
Our business plan	2020 – 2025	Our business plan draws together insights from our modelling, engagement with stakeholders, and our regulatory environment – and sets out our key plans, priorities and targets as a business for the next five years to ensure we're focusing on the most important areas. These clear focus areas will help us to manage and mitigate our climate-related risks.
Climate Adaptation Report	2020 – 2025	Our Climate Change Adaptation Report (which was submitted to Defra in December 2021) describes our climate-related risks and how we've been working with our stakeholders to address those risks.
Drainage and Wastewater Management Plan	2025 – 2030 Out for public consultation 2022	Our first DWMP will focus on the impact of growth, climate change and urban creep on drainage and wastewater effectiveness between 2025 and 2050. This will help us understand pressure points in our existing drainage and wastewater management solutions, identify opportunities for new solutions, and develop plans for a variable future. It takes an in-depth analysis of climate scenarios to look at geographic regions that will be affected by climate change and to highlight key risk areas, particularly around wastewater management and pollution event planning. The plan outlines our strategic response to these risks so we can manage them effectively with an adaptive approach.
Drought Plan	2017 – 2022	Our Drought Plan shows how we will react to a period of unusually low rainfall. It also sets out our plan to protect our business against more severe droughts as weather patterns change. The plan doesn't directly take into account the future impacts of climate change, but it's used to understand how severe drought will impact our water supply, and how the risk can be managed effectively. We are currently developing the next update of this plan.
Green Bond Impact Report (2021/22)	Updated annually	Our Green Bond Impact Report sets out the environmental benefits that our funded Green Bond projects deliver. It outlines the key performance indicators associated with environmental and climate-related projects we're investing in, including energy generated from renewables, carbon and water savings, and effluent discharge prevented.
Our Pollution Incident Reduction Plan	2020 – 2025	By 2025, we've committed to reducing the number of pollution incidents in our area by 30. Our plan investigates the causes of pollution and explores the initiatives we're putting in place to tackle the problem. It also highlights some of the activities we're doing to address pollutions, like increased sewer cleaning, investment in our infrastructure, and public campaigns like 'Bin it – don't block it'. These types of actions will help manage pollution risks in a variable climate future.
Roadmap to net zero	2021 – 2030	Our roadmap to net zero, published in May 2021, sets out our key metrics and targets relating to our carbon reduction commitments.
Water Resources Management Plan	2020 – 2025	Our most recent WRMP plan, which was approved in March 2020, covers the 80-year period from 2020 to 2100. It sets out how we plan to manage our water resources efficiently and develop new supplies of water. In particular, Technical Appendix U outlines in detail the considerations we've made about climate change, and how these have been built in to our risk management processes. Like our Drainage and Wastewater Management Plan, the WRMP requires in-depth climate scenario analysis to assess geographic regions that will be impacted by climate change and to highlight key risk areas, particularly around water availability and water demand. The plan outlines our strategic response to these risks so that we can manage them effectively through an adaptive approach.

Managing our risks

As in life, there are risks to our business that need careful management. We have a robust approach to considering and managing our risks so we can deliver our Purpose and objectives, while also managing our risks to an acceptable level rather than eliminating them completely.

As we turn around Thames Water, we're taking our risk management to a new level. We're re-evaluating our risks as we implement our strategic plan to fix the basics, raise the bar and shape the future, as well as face increasing challenges such as climate change, cyber security, geopolitical tensions, economic divergence and an increase in the cost of living.

Our approach to risk management

Our risk management process is aligned with ISO 31000:2018 (Diagram 1) to make sure we consider all our risks and take appropriate action to manage them.

When new risks are identified, we capture the risk causes, consequences and the mitigating controls we have in place to manage them. Risks are mapped to a risk category (Customer, Environment/Operations, People/Safety, Finance/Legal, Trust/Strategy) and allocated to a principal risk. We operate a 'three lines' approach to provide assurance over the processes, procedures and controls in place to respond to and monitor risk. You can find out more in our Risk and Compliance Statement in our Annual Performance Report.

As part of our risk management process, we look internally and externally to identify emerging risks, which, over time, have the potential to increase in significance and affect performance or the achievement of our strategic objectives, but are difficult to assess at the initial point of identification. We also identify risks that have a very low likelihood but would have a catastrophic impact on the business.

Risks are considered and challenged at least quarterly through business function leadership team risk reviews; the Risk Committee; and the Audit, Risk and Reporting Committee ('ARRC'). You can find more information in our ARRC Report on pages 96 – 99.

Deep dives: This year, in addition to receiving reports on, and reviewing our response plans for, the defined principal risks to our business, the Executive team, ARRC and Board received detailed updates on the following topics:

- Operational technology capability
- Cyber security threats
- Ukraine/Russia conflict
- Long-term impacts of the Covid-19 pandemic including the impact on workforce health and wellbeing
- Financial outlook due to the macroeconomic environment
- Environmental compliance, where regulatory scrutiny has intensified considerably.

Diagram 1: our risk management process

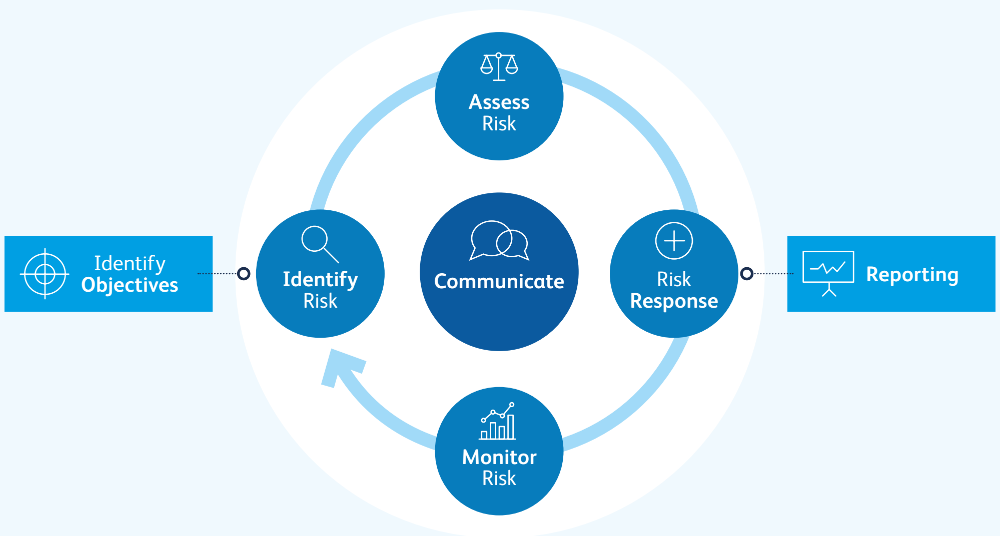


Diagram 2: our risk governance process

Managing our risks continued

Continuous improvement

Continuous improvement is a key principle of our approach to risk management. This year we embarked on a significant Integrated Risk and Assurance Improvement Programme designed to mature the way we manage risk at Thames Water and to drive risk-informed decision making throughout the organisation. We've focused on the following:

Enhancing our risk management framework:
We updated our risk framework, standards and risk assessment criteria to embed improvements in the way we manage risk. We've revised our risk hierarchy to provide a clear line of sight of risk from operational risk management up through to enterprise risk level. This forms part of our ongoing effort to: 1) align our enterprise risk management with our operational risk management activities; 2) improve our visualisation of risk relationships, providing a line of sight on common causes, consequences and incidents to improve cross-functional and strategic management of risks; and 3) more efficiently focus on and, where appropriate, act to reduce risk to acceptable levels.

Re-baselining our risks:
Our Executive undertook an extensive re-baselining exercise to identify and assess our 'material' risks. These risks provide a view of the company's overall exposure and were consolidated into 18 principal risks. This baseline enables us to undertake an enterprise-wide comparison of risks in two dimensions: 1) by impact and likelihood; and 2) by risk exposure and mitigation investment.

Controls and assurance:
Within the year we have reaffirmed the importance of a documented control environment and as such have redesigned our internal control framework. We continue to operate a programme of key controls testing to obtain assurance over aspects of our control environment, as well as maintaining our control self-certification process to obtain ongoing assurance directly from our control operators and frontline colleagues.

Resilience:
We submitted an updated Resilience Action Plan ("RAP") to Ofwat in May 2021 and subsequently built an internal delivery plan, including over 30 deliverables within AMP7, all contributing to improving our resilience as a business. Progress on delivery of the plan is reported monthly and the delivery plan has also been amended to increase focus in areas such as climate change.

In 2022/23, we'll continue to roll-out and embed risk management, control and assurance within the business. We're focusing on:

- **Developing our risk appetite model** as the key link between our company strategy, objectives and stakeholder expectations and the management of our risks. This includes re-defining key risk indicators ('KRIs') – our warning signs on adverse risk trends
- **Refining our process for identifying/capturing and reporting on emerging/ long-term risks** including enhancing our reporting on climate change adaptation and climate-related financial information. You can read more can be found in our Taskforce on Climate-related Financial Disclosures ('TCFD') on page 49.
- **Mapping the interdependencies between our risks and the resilience of our business** and identifying common causes and contagion factors that trigger wider exposures
- **Evolving our control framework and oversight assurance activities**
- **Rolling out more structured and targeted risk management and assurance training** to colleagues across the entire business so that we're all better placed to understand and manage risks and opportunities for our business. The aim is for risk management to become embedded in our culture and part of our everyday activities and decision making.
- **Implementing a new risk management tool** to provide an integrated view of risks across the business and to identify, manage and respond to principal risks more effectively, thereby aiding our decision-making

Our principal risks and uncertainties

Changes to our risk landscape

At Thames Water we face a big strategic challenge: major water and wastewater investments are required in juxtaposition with pressure on household budgets.

Over the course of 2021/22, internal and external factors have influenced this risk agenda:

Pollution, river water quality, and related environmental compliance:
We've faced considerable scrutiny over our ability to demonstrate compliance with environmental permitting regulations regarding wastewater treatment works. This includes the enforcement case opened by Ofwat and investigation by the Environment Agency. We hold the view that it is unacceptable for untreated sewage to enter rivers, even when legally permitted. We've allocated an unprecedented amount of investment directed towards reducing discharges of untreated sewage, which will help safeguard our rivers and streams.

Energy costs:
During the last year, we've experienced a significant rise in our energy costs and energy intensive goods costs.

Inflation:
Inflation has had a multipronged impact on the business, from our ability to collect revenues from customers struggling with the rising cost of living, to the increasing costs of our capital projects.

Supply chain:
Predominantly due to Covid-19 related impacts, we're experiencing ongoing supply chain disruption, evidenced by labour shortages as well as fuel, chemical and raw materials shortages.

Emerging risks

There are a number of emerging risks on the horizon that will be a focus for further analysis in 2022/23:

- Further geopolitical tensions and threats including sanctions and conflict, and exacerbating supply chain pressures, e.g. emerging supply chain issues in China
- Climate action failure – the economic overhang of Covid-19, a worsening macro-economic climate, and predicted increased geo-economic confrontations, limit our financial capital available for climate action and may therefore make our transition to net zero increasingly difficult.

Principal risks and uncertainties

Changes to our principal risks

We've fully reviewed our principal risk model this year and now have 18 principal risks that we are managing. These are categorised across five categories linked to our strategic focus: customer; environment/ operations; people/ safety; finance/ legal; trust and strategy. The directional trend over the year is summarised in the table below and further details on how the risks are being managed can be found below.

Table 1: Principal risks and their trends, by strategic category

	Principal Risk	Risk Trend
Customer	Customer experience	=
	Revenue collection	↑
Environment/ Operations	Biodiversity, climate change and population growth	=
	Digital systems	=
	Physical asset protection	=
	Cyber security/data protection	=
	Asset integrity and resilience	=
	Capital projects	↑
	Supply of wholesome water	=
	Treat wastewater	↑
People/ Safety	Workforce	=
	Physical or mental harm	=
Finance/ Legal	Liquidity	=
	Inflation and interest rates	↑
	Values, standards, legal and regulatory obligations	↑
Trust & Strategy	Public value	=
	Engage stakeholders	=
	Regulatory, legislative or political developments	↑

Risk trend:
↑ Deteriorating = Stable ↓ Improving

→ **The principal risks have been used as the basis for the downside events and scenarios in the Long-term viability statement on page 64.**

Customer

We deliver a poor customer experience

Unable to identify/ support customers in vulnerable circumstances

Trend =

Overall risk is stable. Whilst we have digitised more of our communications to improve channel choice this year and reduced complaints, we are still failing our customers far too often. When you look at any of the measures including C-MeX, D-MeX, customer satisfaction and even the thousands of complaints we are still getting, we are not meeting customer expectations. Since resetting our foundations last year, we've started to see improvements in performance, that in the year ahead will translate into further improvements to customer service now that some of these foundational steps are embedded.

Risk impact

If we are unable to deliver the levels of service expected by our customers we may experience an increase in complaints, perform relatively poorly on C-MeX and D-MeX measures, trigger an Ofwat investigation, be given penalties, and fail to achieve the necessary customer advocacy and support to secure a PR24 plan that enables us to deliver our long-term ambitions.

How we're managing the risk

- Executing a company-wide C-MeX improvement plan that will improve our industry standing, and delivering a data-led Customer Transformation Plan that will reimagine our customer journeys on an end-to-end basis
- Investing in our website and digital channels, including social media, chatbots and email, to improve service and deepen our relationships with third parties to take advantage of their expertise
- Reducing overall customer complaints by removing the back-office backlogs, and transitioning to a more customer-centric approach
- Continuing to increase the number of customers on our Priority Services Register (PSR) and advancing our inclusivity agenda by maintaining our British Standards Institution (BSI) accreditation for our provision of inclusive services
- Increasing meter penetration and the rollout of digital smart meters – an opportunity to transform our interactions with our Household (HH), Non-Household (NHH) customers and Non-Household (NHH) retailers. We have continued to deliver our meter installation programme despite a global semi-conductor supply challenge. By working closely with our suppliers, who have diversified their supply chain and changed their manufacturing processes, we have been able to maintain a steady supply of meters
- Investing in marketing initiatives to improve customer perception
- Changing our operating model to improve the way our customers interact with us – including bringing the majority of voice activity in-house and moving to a 'universal agent' model (enabling colleagues to support customers on billing, water, and waste calls)
- Enhancing our Customer Incident Management Capability and building a 'regional based' operational service model to help us build better relationships with customers and communities based on local needs so that we can make better decisions for local customers.

Principal risks and uncertainties continued

Customer continued

We fail to collect revenues from our customers

Unable to bill or collect sufficient revenues from customers for prolonged periods

Trend ↑

Risk has increased. Inflation has hit the highest point in 30 years, household budgets are facing enormous pressure and Citizens Advice reported the number of people they supported with energy debts in January 2022 hit 8,000+ the highest on record. Rising economic pressures experienced by UK households could pose further risks to cash collection.

Risk impact

If we are unable to bill our Household (HH) customers or Non-Household (NHH) retailers accurately and in a timely fashion, there will be a shortfall in recognised income and a consequential impact on company financial performance.

If we are unable to collect sufficient revenues from HH customers and NHH retailers, there will be a strain on company cash flow and associated covenants. There will also be an increased level of bad debt, resulting in increased operating costs (increased bad debt provisioning costs and increased collection activity).

How we're managing the risk

- Committed investment to deliver service improvements, which will include:
  - End to end process redesign to improve customer service in key areas including billing, moving home, residency checks and payments
  - Building self-service capability for our customers
  - Producing clearer billing information
  - Automating applications for our social tariffs
  - Building digital product capacity for system changes to optimise automation.
  - Developing leading and lagging indicators to enable further insight of portfolio

Environment /Operations

We fail to protect biodiversity and mitigate the effect of climate change and population growth

- **Long-lasting damage to biodiversity due to our operations**
- **Prolonged periods of no water due to drought**
- **Significant flooding events overwhelming the capacity of our assets**

Trend =

Overall risk is stable. We continue to deliver the required improvements as part of our Water Resources Management Plan (WRMP) to manage supply and demand. Covid-19 has not increased population but has caused population movement and increased consumption at home. We have managed water supply and focused reductions where we can balance these changes.

Risk impact

Increased frequency and severity of disruption to customers and higher cost to maintain our operational service due to extreme weather and temperature rise, eroded further by reduced headroom for water resources due to population growth. Potential for environmental damage due to over abstraction at sensitive locations such as chalk streams and loss of biodiversity.

How we're managing the risk

- Effective deployment of the Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) process, which includes climate change and population forecasts in line with regulatory guidelines, with agreement through PR24 process to provide required funding
- Delivering demand reduction schemes such as our smart metering programme and water efficiency improvement plans
- Due to Covid-19, we have kept a close watch on customer demand across our company to ensure we target improvements where demand has grown, mainly due to people movement during the pandemic
- Working closely with the water companies in the South East (and regulators), and others nationally to provide an overall water resources plan that meets the need whilst protecting / improving environment and resilience
- Both demand reduction and the development of new supply options continue to manage existing abstraction levels to protect the environment
- Working with local partners on smarter water catchments initiatives to nurture the water cycle, improve river quality and enhance ecosystems
- Enhancing biodiversity on our sites through a blend of changing grassland management and the creation of new habitats by 5% during this AMP. In addition, we are implementing the mandatory 10% net gain in biodiversity on projects where it is required under the Environment Act 2021.

Principal risks and uncertainties continued

Environment / Operations continued

We are unable to operate, maintain or develop our technology systems or networks to support our operations

- **Loss/compromise of critical business systems/ data**
- **Prolonged information//operational technology outage**

Trend =

Overall risk is stable due to having prepared our systems for hybrid working between home and office. We are also updating our contact centre and work management systems to improve customer service. There is also an ongoing shift to cloud services to offset aging technology risk.

Risk impact

May result in disruption to our corporate, operational and customer systems and services.

How we're managing the risk

- Reviewed our technology investment for the next three years – deliberate decision to increase investment and reduce risk by:
  - Upgrading critical systems used to manage leakage and test water quality to keep them current
  - Replacing 3,500+ analogue telecoms lines with digital services by 2025
  - Continuing to upgrade the systems we use to schedule operational work on our assets
  - Replacing out of date applications with modern platforms
  - Continuing to move applications to the cloud to improve resilience
  - Upgrading our networks to keep them in support
  - Upgrading servers and operating systems to keep them current

We fail to protect physical assets

Material loss or damage to key operational sites due to malicious third party action that impacts our service to customers and the environment

Trend =

Risk is stable. No material increases in vulnerability.

Risk impact

May result in contamination of water or loss of containment at reservoir through malicious activity, uncontrolled release of water or wastewater through malicious activity and supply interruptions. Apart from remediation costs associated with reservoir breach, contaminated water or more likely cost of vandalism, theft, and site security there may also be regulatory investigations or penalties and reputational harm.

How we're managing the risk

- Compliance with Protective Security Guidance (PSG) and Water UK Security Standards (WUKSS)
- Maintenance of security systems and CCTV including access alarms
- Security and Emergency Measures Direction (SEMD) programme delivery and SEMD audit programme
- Site and strategic asset surveys and condition assessments
- Regular risk assessments of physical security threats and measures
- Incident response process
- Management of our Security Services contract

We fail to defend against cyber-crime and protect our data

- **Loss/compromise of critical business systems/ data**
- **Prolonged information/operational technology outage**

Trend =

Over the year we improved controls through our dedicated cyber security programme and our risk remained stable. We continue to monitor the wider geo-political landscape carefully to respond to a deteriorating threat position.

Risk impact

May result in loss of systems or data that affect our ability to provide safe drinking water, protect the environment or respond to our customers' needs

How we're managing the risk

- Improved the Drinking Water Inspectorate (DWI) relationship and usage of the industry wide Cyber Assessment Framework tool to assess our cyber risks
- Created an Executive-led weekly Cyber Gold Command to oversee cyber risk management, review overall Business Continuity Planning, and to have a Crisis Management team in place in case of attack
- Continued a dedicated Cyber Security Programme that is further developing the technology that secures our information and controls our operational technology assets
- Designed and commenced procurement of a new Privileged Access Management platform with heightened password management and rotation
- Improved control processes to enable role-based access control to reduce the risk of unauthorised access to data and systems
- Designed new capability to protect and reduce the risk of attack to the operational technology network, enabling the detection of attack, identification of vulnerabilities and remote access
- Maintained regular updates of our technology with the latest security patches, and active management of system users
- Continued to strengthen our technology security measures including effective modern firewalls, threat and vulnerability monitoring, identity management and multi-factor authentication
- Maintained clear policies and procedures with mandatory security awareness training
- Increased the use of incident alerting tools, and tools to prevent the deliberate and accidental loss of data and maintained physical and electronic site security controls including active alarm monitoring

Principal risks and uncertainties continued

Environment / Operations continued

We fail to maintain asset integrity and resilience

- **Major event caused by aging assets,mains burst, sewer collapse or a Northern Outfall Sewer bridge failure**

Trend =

Overall risk is stable. We have continued to improve asset information and our understanding of asset health and resilience, with improvements in key measures such as mains repairs and replacement of key high-risk assets. However, we have also experienced and anticipate ongoing increased costs associated with energy which have put additional pressure on our investment plans.

Risk impact

Deterioration in the health of our asset base resulting in a reduction in operational performance, an increase in asset integrity failures, injury or fatalities of our employees or members of the public, failure to meet regulatory obligations and significant reputational damage.

How we're managing the risk

- Implemented an Asset Management System which is certified to ISO 55001:2014 to maximise the value from our assets
- Maintain an asset register which is used to define targeted maintenance programmes based on asset criticality
- Asset standards in place and subject to continual improvement to improve compliance
- Targeted inspections plan in place to enhance and maintain critical assets such as trunk mains, trunk sewers and assets in the rail environment to reduce the likelihood of catastrophic failure
- Developed and maintained our rising main burst risk model that assimilates information on material, location and historic burst rates and provides key information to the business on the priority locations of rising main rehabilitation/renewal
- Resilience assessments undertaken for water and in progress for wastewater to identify resilience needs beyond our risk appetite
- Improving asset information and our understanding of asset health and asset risk to inform investment planning. This includes developing improved visualisation of the data we hold, with plans to develop more forward-looking metrics to identify emerging trends and a broader set of asset health KPIs
- Developing asset strategies for our key asset cohorts to identify long-term investment needs
- Full review of our capital governance, allocation, and efficiency processes to ensure a targeted approach to our investment choices based upon immediate and long-term risk profiles to maximise our resilience outcome
- Incident management structure in place to respond to small to large scale incidents should our assets fail

We fail to effectively design, deliver and/or handover, capital projects

Ineffective design, delivery and/or handover of capital projects

Trend ↑

Risk has increased. The risk exposure is increasing owing to construction inflation (labour, plant, materials) and the affordability of the original cost-benchmark.

Risk impact

The consequence of under-performance in the Capital Programme is de-scoped programmes and projects leading to higher environmental and customer risk in the operational business.

How we're managing the risk

The impact of this risk is being managed through:

- The optimisation of the portfolio of projects through the business planning cycle;
- The implementation and continuous improvement of our Intelligent Client model, that is bringing greater control over the management of our AMP7 Portfolio, Programmes and Projects;
- Investing in our people to embed the skills needed to fulfil our short, medium and long-term objectives;
- Driving efficiency through our organisation and our supply chain using efficiency levers including:
  - Asset standards reviews
  - Programme optimisation
  - Collaborative planning and production control
- Productisation and Standardisation (Product and Solution)
- Providing an effective interface with major external projects, such as Thames Tideway Tunnel and HS2 , through dedicated or specialist resources.

We fail to supply enough wholesome water to meet demand

- **Prolonged periods of no water due to asset and/or process failure**
- **Water quality incident that results in widespread 'Do Not Use' or 'Do Not Drink' notices**

Trend =

Overall risk is stable. Despite challenging supply chain and business issues the risk trend is stable, driven by significant business focus within this area.

Risk impact

We may impact business, domestic customers and communities due to interruptions to water supply or cause danger to public health due to poor water quality.

How we're managing the risk

- Thames Water driven risk based Public Health Transformation Programme, addressing key water quality and resilience risks, focusing on customers, people, investment and processes and includes the delivery of agreed Drinking Water Inspectorate improvement programmes. This year we completed our largest ever programme of employee training and upskilling to reduce operational risk and improve resilience of supply to customers
- Industry leading Conditional Allowances programme to reduce risk at our large water production facilities and high-risk trunk mains and thereby improve the resilience of supply of potable water to customers
- Leakage reduction programme, including our ambitious plans to insource the repair and maintenance activity of our potable water infrastructure
- Delivering SMART (Smart Metering and Smart Water) proactive management of our potable water network, using data and insights to drive system-wide performance improvements from source through to our customers taps. These programmes include demand management, customer water efficiency, improving real-time process and network data, proactive programmes to manage pressure across our system to prevent bursts and reduce leakage
- Accelerating our programme of critical asset maintenance. Including the largest ever number of maintenance activities on our critical London Trunk Main and a major refurbishment of one of our major raw water storage reservoirs – the Queen Elizabeth II reservoir (see case study on page 23)
- Our Water Resource Management Plan (WRMP) sets out how we will manage the water supplies in our region to meet current and future needs up to 2100.

Principal risks and uncertainties continued

Environment / Operations continued

We fail to collect, treat and recycle wastewater to protect public health and the environment

Serious and/or long lasting adverse public health or environmental impact resulting from pollution incidents due to asset and/or process failure

Trend ↑
Overall risk has increased. There is growing concern regarding the historic industry practice of adopting combined sewer overflows in order to prevent sewer flooding during rainfall events. Given the introduction of bathing water status to rivers and recent river health reports, there is increasing scrutiny to understand the extent of storm overflows and accelerate the reduction in their use and subsequent volumes of storm discharges.

There is accepted non-compliance with flow to full treatment at sewage treatment works across the sector which has resulted in Ofwat commencing an investigation coupled with a criminal investigation by the Environment Agency.

Whilst there has been an overall reduction in the number of pollution incidents over the year, this still remains above our target reduction.

Risk impact
Premature and prolonged spills from storm overflows can adversely impact river health and amenity value associated with the use of rivers for swimming and water activities by the public. Non-compliance with permit conditions, can lead to criminal and regulatory investigations.

Blockages and failures on the waste network can disrupt business and domestic customers due to interruption to drainage services and sewer flooding.

How we're managing the risk
- Delivery of Spills Reduction Plan to better understand performance at our sewerage treatment works (STW), address compliance risk to permit, and invest in resilience and treatment capacity on our sites to reduce need for storm overflows and hit our target of 50% reduction in spill duration overall and 80% reduction in sensitive catchments
- Delivery of Pollution Incident Reduction Plan; key initiatives include:
  - Continued roll out of our digital smart waste network deploying over 8,500 monitors into the network in AMP7 to predict and identify blockages before they have any customer or environmental impact.
  - Enhanced sewer rehabilitation programme
  - Proactive inspection and removal of sewer interceptors that contribute to 20% of all blockages
  - Improved monitoring at our sewage treatment works
  - Continued lobbying to restrict the sale of plastic based wet wipes
- Delivery of landmark sewer enhancements through the Lee Tunnel and Thames Tideway Tunnel to improve river water quality
- Asset strategy development for our key asset cohorts to identify medium to long-term investment needs, including the development of our Drainage and Wastewater Management Plan working with organisations responsible for drainage to identify investment needed to protect homes and businesses from flooding
- Increasing resilience of our waste network to winters and high ground water periods through catchment Groundwater Impacted System Management Plans, and prioritise future resilience investment through the development of wastewater resilience assessments based on good practice in water supply
- Critical Asset Inspection Programme covering Northern Outfall Sewer, trunk sewers, critical pumping stations, sewers crossing railways and digesters
- Researching emerging contaminants in sludge and developing alternative solutions to sludge recycling to agriculture

People / Safety

We fail to attract, engage and retain a diverse and inclusive workforce

Industrial action or staff shortages

Trend =
Overall risk is stable. External economic, political and societal factors such as rising inflation, challenging recruitment market, increase in business change activity and updated requirements for competence.

Risk impact
Without an appropriately skilled, diverse, and engaged workforce and leadership team we may be unable to deliver the transformational change necessary to deliver our AMP7 plan and long-term ambitions.

How we're managing the risk
- Making progress with our skills strategy, addressing current and future requirements
- Building strategic partnerships in recruitment to access a diverse range of candidates, with particular focus on care leavers and young persons
- Making our recruitment and onboarding processes easy and accessible
- Growing our apprenticeship offer to upskill existing colleagues, build leadership capability, and attract new talent by offering quality programmes from level 2 to 6 (degree level) (see Investing in our People on pages 36 – 39)
- Developing technically competent colleagues to demonstrate competency to our regulators. We're extending our license to operate framework to more critical technical roles with training, coaching and periodic assessment
- Holding regular 'Living our Values' events to increase engagement
- Strengthening our relationship with Trade Unions, participating in joint workshops to deliver agreed approach to business changes.

Principal risks and uncertainties continued

People / Safety continued

Our activities fail to prevent physical injury or mental harm (to our employees, supply chain partners or members of the public)

Fatality/serious life changing injury

Trend =

Overall risk is stable. Process & Asset Safety – No significant process or asset failures. Strong focus on improving understanding of risk profile and control environment in these areas has started.

Occupational Health, Safety & Wellbeing – Annual increase in lost time incidents, although rate still industry leading. New Situational Awareness programme to address personal hazard perception and attention, contributory causes to many lost time injuries. Reduction in incidents of damage to buried utility services. Rising cases of stress and anxiety disorders linked to new ways of working, post Covid-19.

Risk impact

Fatality/serious life changing injury

How we're managing the risk

- The strategic Health, Safety and Wellbeing Improvement Programme is aligned with our Turnaround Plan:
  1. Fix the basics – Detailed risk management review to fully understand our safety risk profile, identify clear priorities, accountabilities and improvement activities aligned to objective risk reduction and assurance.
  2. Raise the bar – Implement a Human Factors programme to understand and explain why people do what they do and to shift the focus from compliance with policy and procedures to visible leadership and ability to influence behaviours
  3. Shape the future – Set aspirational long term goals to inspire innovation from within Thames Water and through our supply chain partners
- The Corporate value of 'Take Care' is supported by a strong health, safety and wellbeing culture
- Health and safety management system is externally accredited to ISO 45001
- Integrated mental and physical health interventions are delivered by health and safety advisers, in-house occupational health team and network of trained mental health first aiders
- External risk-based audits of critical operational areas drive objective improvement plans
- Robust performance and assurance reporting is provided through management and Executive Committee structures
- The Board's Health, Safety and Environment Committee monitors performance and oversees health and safety risks.

Finance / Legal

We are unable to secure sufficient liquidity to meet our funding requirements

Insolvency or insufficient resources to satisfy Instrument of Appointment obligations

Trend =

Overall risk is stable. Geopolitical and macroeconomic challenges are increasing the cost of funding. This is being monitored closely, and despite market volatility, we continue to have access to debt capital markets. Furthermore, we have ready access to significant credit facilities.

Risk impact

Deterioration in credit ratings could potentially give rise to increases in associated funding costs and/or reduced access to debt capital markets. This, in turn, may adversely impact our ability to deliver transformational change.

How we're managing the risk

- Treasury strategy covering funding, hedging and cash management in place
- We've undertaken a detailed capital structure review with the support of our shareholders
- Focus on cashflow management to maintain a strong liquidity position supported by available committed banking facilities
- Ongoing focus on credit ratings and financial covenant headroom in budget setting
- Investment governance process in place
- Regular communication with key stakeholders (e.g., lenders and credit rating agencies)
- Our Treasury team is monitoring the capital markets with a focus on de-risking funding plans where possible and being increasingly alert to bank counterparty risk.

We fail to adapt our cost base for changes in inflation or interest rates

Breach of our financial covenants and / or material financial losses

Trend ↑

Risk has increased. Recent price increases across key components of our cost base (including power and chemicals) have been unprecedented. Inflationary pressures are expected to continue into FY24, impacting much of our cost base. Rising economic pressures experienced by UK households could pose further risks to cash collection and operating cashflow.

Risk impact

If we are unable to adapt our cost base to rising inflation or interest rates, this could result in re-prioritisation of investment and reduced service levels, impacting customer service and operational performance. In addition, our financing arrangements rely on the business generating sufficient operating cashflow. A very material deterioration may cause a breach of covenants resulting in intervention by our financiers.

How we're managing the risk

- Power hedging to provide cost certainty over a large proportion of power costs
- Supplier management programme to improve quality, efficiency, innovation and cost
- Debt improvement programme focused on optimising cash collection from household customers
- Robust performance management processes to analyse and initiate action to improve cost base and cash collection performance
- Management focus and action taken on working capital to improve cash positions
- Delivery of the Treasury strategy, specifically optimising the liquidity position; funding requirements; interest, inflation and cross currency hedging.

→ **See our Long-term viability statement (on page 64) for further details on financial resilience.**

Principal risks and uncertainties continued

Trust and Strategy

We fail to comply with our own values, behaviours and standards as well as our legal and regulatory obligations

- **Serious breach of Instrument of Appointment, water industry regulation and/or statutory legislation**
- **Unlawful activity/behaviour by Thames Water or its partners**

Trend ↑

Risk has increased. Ofwat and the Environment Agency have opened investigations into the performance of our sewage treatment works due to concerns regarding compliance with the flow conditions. As a result, we are experiencing an upward trend in terms of the level of scrutiny we are placed under by our regulators. There are also risks around delivery of our WINEP schemes.

Risk impact

Failure to comply with legal and regulatory obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. We could be subject to, possible lengthy investigations by regulators, particularly in relation to regulations for the water industry, as well as, for example, environmental, health and safety, competition and data protection legislation with potential resultant fines linked to company turnover.

How we're managing the risk

- An embedded policy framework to understand and meet legal and regulatory compliance obligations
- Accountability matrix for individual 'licence' conditions
- Regular audits of compliance with key regulatory obligations and undertakings
- Horizon scanning for changes to the legal and regulatory environment
- The Executive, with oversight from the Board, promotes high ethical standards of behaviour
- Anti-bribery and corruption governance, monitoring and investigation of dishonest and unethical behaviour. Clear Speak Up reporting and whistle blower lines. These ensure any failure to comply with our values and standards should be identified and resolved accordingly
- Reporting process and forms completed for all conflicts of interest, inducements, gifts and hospitality ensuring transparency in all probity matters
- Health and safety culture, audit and review programme
- Strengthening of policies and standards, control frameworks and associated three-line assurance model (e.g., Financial Controls Improvement Plan, implementation of Health and Safety Control Framework)
- Documented processes and controls for key activities
- Mandatory training programmes.

We fail to deliver public value

- **Unable to deliver our strategy**
- **Adverse PR24 outcome**

Trend =

Overall risk is stable. Although public interest in different aspects of public value has increased (particularly those related to rivers and affordability) and decreased (particularly climate change, post COP26, and leakage) on balance we assess the level of risk as stable. Our pro-active messaging, ahead of the rest of the industry, on the unacceptability of discharging untreated sewage has been well-received, as has our commitment to transparency and our intensive programme of stakeholder engagement on this topical issue.

Risk impact

Reputational damage and negative stakeholder perception if we fail to deliver what customers value and fail on environmental stewardship. It will undermine our ability to work in partnership. The ultimate consequence is loss of our licence/being re-nationalised (possibly with little or no compensation). More immediately, there would be a risk of negative headlines, customer complaints and community protests, with potential for enforcement action with financial penalties, more investigations, adverse regulatory and public policy outcomes, and an adverse PR24 settlement.

How we're managing the risk

- Strategy led work to define and operationalise Public Value.
- Finance led work to create and embed Investment Appraisal Framework, including Public Value
- Strategy led work to embed Public Value in Key Performance Indicators and Key Risk Indicators, objectives, etc. Regulation led work to embed Public Value in our PR24 submission to Ofwat and in engagement with all regulators
- Public Affairs and community/stakeholder engagement work to identify emerging issues and understand and address local concerns
- Customer Challenge Group (CCG) to help us ground our work in customer and community engagement.

Principal risks and uncertainties continued

Trust and Strategy continued

We fail to engage, and gain the trust of, customers, communities and stakeholders in our plans

Renationalisation, loss of our Instrument of Appointment without compensation

Trend =

Overall risk is stable. Driven by increased risk from the attention placed on spills and river pollution and our continued operational and performance challenges offset by greater transparency and our Turnaround Plan.

Risk impact

We may be unable to secure the necessary engagement, support and investment necessary to deliver our long-term ambitions.

How we're managing the risk

- We are working with a third party to measure and evaluate our reputation and assess key areas of interest and influence for our stakeholders
- Extensive engagement with customers and with stakeholders at national, regional and local levels to understand their needs, expectations and preferences
- Implementing our turnaround plan to improve our performance and customer service
- Public value programme to support wider community engagement and environmental improvement
- Implemented robust 24/7 communication and engagement with customers and stakeholders during incidents
- Proactive engagement with impacted customers and stakeholders to support delivery of our AMP7 capital programme
- Proactive and continuous engagement with customers and stakeholders on key business plans, 2050 Vision, Water Resources Management plan (WRMP) and Drainage and Wastewater Management Plan (DWMP)
- Introduced new structures and processes to support stakeholder engagement across the business to support a more coordinated approach internally
- Regular engagement with Government officials and elected representatives on water, environment, and customer service-related issues
- Regular dialogue with investors to support them in their investments and reflect their priorities in our plans
- Working to ensure all commitments have been properly thought through and are tracked through to completion.

We fail to protect our business from developments in the regulatory, legislative or political environments

Catapulted into non-compliant environment with new unfunded obligations

Trend ↑

Risk has increased. Ongoing high level of political and regulatory interest in company performance on sewage spills and, linked to that, scrutiny of corporate finance and governance issues including dividend payments and Executive pay. In addition, there is more political and regulatory scrutiny/action as evidenced by Ofwat/Environment Agency investigations and the government consultation on storm overflows.

Risk impact

Our operations might be impacted by changes to the regulatory framework or legislation which influence how we are regulated and the statutory requirements we must meet or require significant investment over what we anticipated in our business plan.

How we're managing the risk

- Horizon scanning for changes to the legal and regulatory environment
- Tracking changes in regulatory policy and obligations
- Tracking commitments made and delivery against commitments
- Building compliance culture and compliance risk assessment across Thames
- Conducting targeted risk based regulatory compliance work
- Monitoring developments in Whitehall, Westminster and City Hall
- Building intelligence on drivers for change and changes in the pipeline
- Influencing regulatory policy agenda and public policy
- Building relationships with regulators (Ofwat, Drinking Water Inspectorate, Environment Agency) and political stakeholders, including demonstrable delivery against Turnaround Plan
- Active and ongoing engagement and consultation with regulators, politicians and regional and local stakeholders on a broad range of issues, particularly those of high concern such as resilience, river water quality, and a review of London flooding
- Facilitating discussion and collaborative work on matters of policy
- Working in partnership with other organisations such as Water UK, other water companies and industry bodies to inform the public policy debate around the water sector.

Compliance with sanctions against Russia and Belarus related to the conflict in Ukraine

Thames Water recognises the increasing extent and reach of sanction legislation following the Russian invasion of Ukraine.

Following the imposition of sanction legislation, we obtained advice from our legal advisers on the steps that need to be taken to comply with these sanctions, both from a supply chain and customer perspective. This advice has been circulated to the appropriate senior managers around the business and is being acted upon.

Assurance work around compliance has also been carried out. This confirmed initial sanctions screening had been completed across the business including for New Appointments and Variations (NAVs), Non-Household (NHH) Retailers, and for our suppliers.

We continue to monitor both the sanctions legislation and our compliance with this legislation.

Long-term viability statement

Introduction

In accordance with the UK Corporate Governance Code the Directors have undertaken a robust assessment of the long-term viability of the Company. The main purpose of performing such an assessment is to ensure that the business is able to withstand various severe but plausible scenarios where operations and financing arrangements are able to continue to deliver critical customer service in the instance such negative events materialised.

Board's approach to the viability assessment

Using the various risk management processes (see pages 54 – 63), the Board regularly assesses the risks facing the Company and takes into consideration the preventative and mitigating actions available to it. The process includes financial forecasting, risk management assessment, regular and timely budget review and scenario planning analysis.

The Board has selected a ten year assessment period ending 31 March 2032, which covers the remainder of AMP7, AMP8 and the early part of AMP9. Whilst the Company has reasonable visibility over AMP7, the level of uncertainty increases the longer the look-forward period as the variability of potential outcomes increases over time. Given the long-term nature of the business providing an essential water and waste water services, the Directors consider the 10 year period to be an appropriate period to assess the Company's prospects.

Severe but plausible downsides and conclusion

The Board has assessed the financial resilience of the business against a range of severe but plausible scenarios derived primarily from the principal risks and uncertainties set out on pages 56 – 63. Each of the scenarios have varying negative impacts with operational cashflows decreasing and / or capex increasing due to remedial actions. By conducting stress testing, the Directors have considered the impact on the covenants attached to the Company's funding position, the credit rating and liquidity (taking into account the dependency on existing financing arrangements and the availability of new debt). Financial covenants pertaining to the Event of Default ('EoD') have been used to determine viability as non-compliance would typically result in creditors accelerating repayment and enforcing their security. Whilst Dividend Lockups and Trigger Events are undesirable, they are more designed to act as early warning signals, as such in the short term are not meant to threaten the viability, but instead provide time for the business to initiate remedial actions.

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

1. Adverse weather events – Scenario 10 – Particularly relevant given the historical extreme events of wet weather in 2021 and 2020, exceptionally hot summer of 2020 and freeze thaw in 2018
2. Water quality failures – Scenario 11 – Whilst remote, the industry has experienced Cryptosporidium contamination events. As Thames Water has a number of large assets, such an event could adversely impact a large number of customers
3. Cyber attacks and corresponding asset failures – Scenario 12 – We have witnessed an increasing threat of cyber attacks as more activities move online

The adverse impact of these combinations was severe enough such that credit ratios neared EoD thresholds at certain points during the assessment period. All combination downside scenarios include (i) the impact of an adverse macroeconomic environment, (ii) significant cash flow shocks from regulatory penalties for failure to achieve certain performance targets, (iii) additional expenditure required to achieve business plan objectives, (iv) an increase in the cost of new debt issuance associated with any potential credit rating downgrade arising from adverse operational and/or financial performance and (v) implementation of Ofwat's gearing sharing mechanism as per the Final Determination published in December 2020.

Scenario	Principal Risk
1. Economic downturn influenced by macro events such as Covid-19, cost of living and inflation Prolonged low GDP growth leading to low inflation and poor collection rates, mitigated in part by low interest rates and working capital management. Given the regulatory framework where Regulatory Capital Value ('RCV') and revenues are inflation linked, and that a material portion of the Company's debt is not linked to inflation, the Company's viability is more at risk in scenarios involving low inflation, assuming that the Company does not experience significant cost pressure above the inflation rate. In a low inflation environment, RCV would increase by less than otherwise would be the case, while the value of the proportion of the Company's debt that is fixed nominal would remain the same.	We are unable to secure sufficient liquidity to meet our funding requirements We fail to adapt our cost base for changes in inflation or interest rates

Scenario	Principal Risk
1. Economic downturn influenced by macro events such as Covid-19, cost of living and inflation *continued* The majority of the Company's debt is either fixed nominal or inflation linked and part of our allowed revenue at each regulatory price review is linked to interest rates. These factors significantly reduce the exposure of our nominal interest costs (on a cash basis) to changes in interest rates. We have assessed the impact of inflation being around 1.5% higher and interest rates being around 1% lower than base case assumptions for a total of 4 years, 2 years near the start and 2 years near the end of the assessment period.	

Long-term viability statement continued

Scenario	Principal Risk
2. Severe climate events and operational failures Unplanned costs associated with extreme hot, cold and wet weather events and the failure of key assets impacting delivery of our water and waste services. This reflects the risks mentioned in the disclosure around climate change reporting. We have assessed the impact of a series of adverse weather events involving an extreme hot, cold and wet weathers event taking place over 3 years near the start of the assessment period with this pattern repeating itself in the last 3 years of the assessment period. Such incidents amount up to around 4% of forecasted allowed totex (annual average) and is mainly based on our past experience in dealing with such adverse weather events. Note: Outcome Delivery Incentives ('ODI') penalties incurred due to consequential underperformance from adverse weather are reflected in scenario 5.	We deliver a poor customer experience We fail to protect biodiversity and mitigate the effect of climate change and population growth We fail to maintain asset integrity and resilience We fail to supply enough wholesome water to meet demand We fail to collect, treat and recycle wastewater to protect public health Our activities fail to prevent physical injury or mental harm (to our employees, supply chain partners or members of the public)

Scenario	Principal Risk
3. Water quality failures Widespread water contamination event involving Cryptosporidium, resulting in a significant supply interruption and penalties. We have assessed the impact of two incidents over the assessment period with each event amounting to around 4% of forecasted allowed totex (annual average). Note: Outcome Delivery Incentives ('ODI') penalties incurred due to consequential underperformance from water quality failures are reflected in scenario 5.	We deliver a poor customer experience We fail to supply enough wholesome water to meet demand Our activities fail to prevent physical injury or mental harm (to our employees, supply chain partners or members of the public) We fail to comply with our values, behaviours & ethical standards as well as our legal and regulatory obligations

Scenario	Principal Risk
4. Cyber security A severe but not catastrophic compromise of technology and systems which control the operation of our water or wastewater services. Such a breach has been assumed to be temporary in nature, with systems being restored within a few days. Costs incurred relate to opex. This downside also includes failures of major water and wastewater assets requiring remedial measure, which result in totex increases. We have assessed the impact of an incident over the assessment period, amounting to around 1.5% of forecasted allowed totex (annual average).	We deliver a poor customer experience We are unable to operate, maintain or develop our technology systems or networks to support our operations We fail to defend against cyber-crime and protect our data We fail to supply enough wholesome water to meet demand We fail to collect, treat and recycle wastewater to protect public health

Scenario	Principal Risk
5. Failures to achieve performance commitments and non-compliance with regulations Penalties from failing to deliver performance as per the business plan and fines from regulatory / legal bodies. This involves 3 major fines over the assessment period, reducing operating cashflows. We have assessed the impact of further penalties and fines equivalent to around 3% of forecasted allowed totex (annual average). This includes an average of ODI penalties associated with (i) adverse weather, (ii) water quality failure and (iii) a cyber security risks. The ODI penalties incurred for each downside case is roughly double that assumed for the Base Case over the assessment period and take place on a yearly basis.	We deliver a poor customer experience We fail to collect revenues from our customers We fail to maintain asset integrity and resilience We fail to supply enough wholesome water to meet demand We fail to collect, treat and recycle wastewater to protect public health We fail to comply with our values, behaviours & ethical standards as well as our legal and regulatory obligations We fail to engage, and gain the trust of, customers, communities and stakeholders in our plans

Long-term viability statement continued

Scenario	Principal Risk
6. Failure to achieve business plan objectives Further overspend incremental to the business plan. Based on our historical spend for AMP6 and our expected spend for AMP7 as per our latest business plan, Thames Water has invested more than the allowance set by Ofwat in each Final Determination. As such, we have assessed the impact of around £70m p.a. average increase in totex over a 10 year period, incremental to the additional investment already incorporated in the business plan under the base case. Such overspend predominately relates to capex. This downside takes into account the progress made in the turnaround programme to control costs assumed in the base case. Under this downside, the over investment for AMP8 and AMP9 is roughly twice the amount assumed under the base case	We fail to adapt our cost base for changes in inflation or interest

Scenario	Principal Risk
7. Increase in the cost of new debt issuance An increase in the cost of new debt issuance has been assumed to reflect any potential credit rating downgrade arising from adverse operational and / or financial performance	We are unable to secure sufficient liquidity to meet our funding requirements
8. Gearing sharing mechanism An assumption that this mechanism in its current form continues after AMP7	We are unable to secure sufficient liquidity to meet our funding requirements We fail to protect our business from developments in the regulatory, legislative or political environments
9. Pandemic One year impact of another pandemic similar to the first year of Covid-19 in the UK involving lockdowns and social distancing. Consequences involve lower cash collections mitigated by lower volumetric activity and working capital management. Quantification of the potential impact is based on experience of events in 2020/21	We fail to collect revenues from our customers Our activities fail to prevent physical injury or mental harm (to our employees, supply chain partners or members of the public)

Scenario	Principal Risk
10. Adverse weather events based on a combination of scenarios 1, 2. 5, 6, 7, 8, 9	See above
11. Water quality failures based on a combination of scenarios 1, 3, 5, 6, 7, 8, 9	See above
12. Cyber attacks and corresponding asset failures combination of scenarios 1, 4, 5, 6, 7, 8, 9	See above

The Directors have also considered various mitigating actions when applying the combined downside scenarios, these involve limiting distributions from the Company and further cash injections from shareholders funded by raising incremental debt at the holding company level, namely from Kemble Water Finance Limited. Other mitigants include the reprofiling of totex spend, management of working capital and increasing insurance cover where applicable. As a significant proportion of debt and some totex is index linked, the Company is reasonably well placed to manage inflation risk.

For completeness the Board has also considered how various economic downsides would impact the Company's defined benefit pension liability. As this pension liability is significantly hedged against movements in inflation and interest rates, we do not consider changes in such factors to have a severe adverse impact which would threaten our assessment of viability over the assessment period. It is recognised that increases in defined benefit pension contributions due to inflation would be accompanied by increases in our revenues which are also linked to inflation. Additionally, for the assumption around longevity, the Directors concluded that it is not considered that a plausible change in this assumption would be significant enough to have a severe impact on the defined benefit pension liability.

Long-term viability statement continued

In conducting the viability assessment, the Board has assessed the intercompany arrangements and the corporate structure of the Group (as detailed on page 77). No scenarios were identified that would impact the fundamental viability of the Company.

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

Key assumptions underpinning the assessment include the following:

- The aggregate impact of adverse events and conditions, which are not considered in the scenarios modelled, would not exceed the additional mitigations available to management
- TWUL is able to continue to access debt finance and capital markets
- The water sector is not renationalised
- TWUL receives £1.5 billion of equity to, amongst other things, accelerate compliance spending, invest in improving operational performance and increase financial resilience. This assumption is made on the following basis:
  - To support Thames Water in the delivery of its business plan, its shareholders have provided an Equity Commitment Letter where the shareholders have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the Company in March 2023. Given the initial equity commitment has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the Board believes it is reasonable to incorporate £500 million of equity funding in its assessment.
  - Shareholders have further evidenced their support for the Company and its business plan through an Equity Support Letter where the shareholders have committed to hold investment committee meetings, as a path to obtaining approval for funding their pro rata share of conditional commitments in respect of the further £1 billion of additional equity which is assumed in the Company's business plan. Whilst this is not a legal commitment to fund, is subject to conditions and is dependent on governance arrangements between shareholders, given that the Company and its shareholders are currently engaged in a collaborative process to agree and facilitate such equity commitments, the Board believes it is reasonable to incorporate this additional £1 billion of equity funding in its assessment.
  - The Company will carefully monitor progress towards achieving funding under the Equity Support Letter. The Board further notes that in the scenario where sufficient equity commitments and/or funding were not forthcoming, the Company, at that point, could revise its business plan to fit with then available funding, and adjust total expenditure down accordingly. Implementing a revised business plan would deliver less for customers, communities and the environment.
  - The Board's viability assessment is subject to review by our external auditors who comment on whether there are any inconsistencies between this and the rest of the financial statements. Their audit opinion on pages 127 – 133 of this Report has not highlighted any inconsistencies.

Board's conclusion

In assessing the impact of the principal risks, the Board has considered the preventative and mitigating actions that are available to address the aggregated impact and importantly the impact on the covenants that attach to the Company's key funding facilities. Based on this assessment, the Board has a reasonable expectation that the Company will be able to operate within its financial covenants, maintain an investment grade credit rating and maintain sufficient liquidity facilities to meet its funding needs over the ten year assessment period.

Section 172 statement

Our approach

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

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

Thames Water's governance framework is conducive to Board-level decisions being made with stakeholder interests, and the longer-term impact, in mind. On the following page are some examples of how the Board of Directors considered matters and reached decisions, demonstrating how they have had regard to S172 when discharging their duties this year.

Section 172 statement continued

Each Director at Thames Water receives, as part of their induction, a formal introduction to the business and the Executive team and a full briefing on their legal duties as a Director, including those covered by section 172 of the Act. The induction process is managed by the Company Secretary, and, if considered necessary, includes input from independent advisers.

All Directors receive a monthly report on the performance of the business covering a range of management information that includes health and safety, customer experience, operations, digital strategy and transformation, asset management, regulation, capital delivery, corporate affairs and sustainability, people, finances and commercial activity.

As set out in the Governance Report (from page 73), the Board met formally seven times during the year in full session. The Board has six sub-committees, which all report up to the Board. Details of how Board members engage directly with stakeholders, including customers, employees, investors, community groups and policymakers can be found on pages 89 – 90.

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

The Company's governance structure, based on appropriate delegation of management responsibility, allows the Board to remain focused on the longer-term strategic issues affecting the business. The Board also includes Non-Executive Directors appointed specifically to represent the interests of the Company's ultimate shareholders, which ensures an additional emphasis on longer-term considerations in the decision-making process given the relative stability of the Company's equity investor base.

The Company takes a comprehensive and long-term approach to risk management, an activity which is overseen by the Audit, Risk and Regulatory Committee ("ARRC"). Board Directors receive regular updates from ARRC, as they do from all Board Committees. The ARRC report for this year can be found on page 96, while an overview of the Company's risk management system, and the long-term viability statement, can be found on pages 54 – 67.

In September 2021, the Board held its annual day-long strategy session, at which it reviewed, among other matters, development of our Vision 2050, the roll out of the 'Living our Values' programme and progress on the Turnaround plan.

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

The health, safety and well-being of the Company's employees are critical to the business and an area of focus for the Board and the Health, Safety and Environment Committee, whose report can be found on page 93. Detailed reports and updates relating to health and safety and to staff wellbeing and engagement are regularly presented to Board meetings.

Ian Pearson, the Non-Executive Director who leads the Company's workforce engagement programme, has continued to hold sessions with employees throughout the year, and provided regular updates to the full Board. This year, the Board was able to get back onto sites and meet teams in person again. The Board visited teams across Thames including at sewage treatments works and our customer billing and financial care teams. They discussed a variety if issues including the move to our future way of working, the progress of our Turnaround plan, and issues around facilities and training. Further details on the Board-led workforce engagement programme and the feedback generated by it can be found on page 40.

Details on how the Company as a whole engages with employees more generally can be found in the Stakeholder Engagement section on page 41, while its approach to workplace environment and culture can be found in the Investing in our people section on pages 36 –39.

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

Day-to-day business relationships are managed by Executive team under the supervision of the Board, and details of how the wider Company engages with suppliers are included in the Stakeholder Engagement table on page 41.

Oversight of customer service and engagement issues are within the remit of the dedicated Customer Service Committee of the Board. Directors also maintain regular contact with the Customer Challenge Group (CCG) (see page 17). This year, a new CCG was formed, and members of the Board met the new Chair , Sukhvinder Kaur-Stubbs, to discuss customers' priorities, and our investment and service improvement plans.

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

As a utility business engaged in the provision of water and wastewater services, the Company's interaction with and impact on both the communities it serves and the environment are of particular interest to Directors. Environmental protection and climate change is identified as a principle risk requiring the Board's attention. The ARRC leads on mitigation of that and other risks on behalf of the Board, while environmental considerations are a key part of the remit of the Health, Safety and Environment Committee.

The Sustainability section in the Strategic Report, on pages 27 – 39, provides further detail on the Company's activities in relation to climate and environmental concerns. The Company's engagement with community groups and NGOs is explained in the stakeholder Engagement table on page 41, while the Board's direct role in such engagement is set out on pages 89 – 90 of the Governance section. You can also read more about our approach to managing climate risks in the Taskforce for Climate-Related Financial Disclosures (TCFD) report on pages 49 – 53.

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

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

Under the Company's Policy Framework, all policies relating to "significant strategic, operational, financial or compliance risk areas" move up for review and sign-off through the Executive, to Board Committee if needed and then to the full Board. Details of our policies are included in the Non-financial information statement on pages 71 – 72.

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

Since Thames Water is ultimately owned by a limited number of institutional shareholders, who are, in addition, represented on the Board through Non-Executive Directors, there is direct and regular contact between all equity investors and the Board. The composition of the Company's Board is detailed on pages 78 – 80. The Board of Thames Water's ultimate parent company, Kemble Water Holdings Ltd, is composed entirely of shareholder representatives, acting between themselves for all investing entities.

During the year, the Board approved a payment of £37.1 million to service debt obligations. It also approved the decision not to pay a dividend to external shareholders. No dividend is paid without the Board assessing the payment against our dividend policy.

During 2021/22 the Board, together with our shareholders, approved various significant investments by the shareholders to ensure the resilience of Thames Water in the long term. This included £300 million to unlock the conditional allowances built into our final determination and enable improvements to our water network in London.

In June 2022, the Board and shareholders of Thames Water approved a revised £11.5 billion business plan for the current regulatory period (ending 31 March 2025). This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed in our final determination for 1 April 2020 to 31 March 2025. Our shareholders have committed £500 million in new equity in 2022/23 to support the delivery of our turnaround plan, and the Board is working with shareholders on plans to provide a further £1 billion of equity funding over the remainder of the current regulatory period.

Section 172 statement continued

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

Driving culture, living our Purpose and embedding behavioural change

Relevant Section 172 Categories
(a) Long-term Impact
(b) Employees
(e) Business conduct

Discussion/Action
The Board considered the development of and oversaw the launch and delivery of the 'Living our Values' programme, throughout the year. The programme aims to connect Thames Water employees to our Purpose, thereby enabling delivery of the turnaround plan and helping to regain the trust of customers and stakeholders. The Board also:

- agreed that it would be important for each of the Independent Non-Executive directors to attend one of the sessions, to monitor how the roll out was progressing and being received
- stressed the importance of rolling out the Living our Values to contractors as well as direct employees – this will be considered further once the employee roll out has been completed
- requested further updates from the executive team during 2022/23 to review the progress of how the programme has successfully driven culture change and embedded values across the company

Outcome/Impact
The Board approved the 'Living our Values' programme and supported the Executive Team in delivering its roll out. The Board was updated at Board meetings by the People Director on the progress of the roll out, enabling Board members to retain effective oversight.

Employee engagement

Relevant Section 172 Categories
(a) Long-term Impact
(b) Employees

Discussion/Action
Directors reviewed the results of the 2021 'Hear for you' employee engagement survey and the insight it provided. It was discussed that some of the company communications during the Covid-19 pandemic had been to office-focused and had not sufficiently engaged frontline staff.

Moving forward, it was acknowledged that the different populations across the business (office-based, site-based, contractors, etc) would respond to change differently and that the return to sites towards the end of the year would need to be carefully managed. The Board also stressed the need for ongoing engagement with staff as teams returned to site.

The Board also conducted a deep dive into the new workforce management system, to understand the performance improvements it has provided.

Outcome/Impact
- A carefully planned Future ways of Working' strategy was implemented in Q4, which prioritised health, safety and wellbeing of staff and ensured that colleagues across the business felt supported as we transitioned out of Covid-19 (read more on page 39)
- Better, clearer, targeted communications and email bulletins to the frontline, such as weekly 'Wellness Wednesday' emails were rolled out and have been well received

Oversight of customer service and engagement strategies

Relevant Section 172 Categories
(a) Long-term Impact
(b) Employees
(c) Relationships with suppliers, customers and others
(e) Business conduct

Discussion/Action
The Customer Service Committee ('CSC') received updates throughout the year on customer service and communications to ensure effective oversight of the customer engagement programme. For example, on the topic of leakage, members of the CSC and wider Board attended a leakage customer immersion session, to engage directly with customers to get their views on leakage and how we are performing in that area. This was followed by an in-depth update to the CSC on the leakage customer engagement programme, including feedback from customers (via surveys research and our customer insight community) and how the business used that to improve service communications and inform long-term planning. Another Board customer immersion session is planned for the first half of 2022/23.

Outcome/Impact
- The CSC approved a strategy to deliver a transformational shift in the approach to serving customers across both the retail and operations teams.
- Insights gathered from customer feedback, particularly our customer voices community, were consolidated with other customer research to create an initial framework of what customers and communities expect Thames Water to address in our PR24 plan.

Storms: improvement in response to major incidents and approach to spills

Relevant Section 172 Categories
(c) Relationships with suppliers, customers and others
(d) Community and Environment
(e) Business Conduct

Discussion/Action
Following the severe flooding in London in summer 2021, the Board reviewed lessons learnt, and discussed areas of potential improvement in performance and communications in these circumstances. The Board discussed communications with customers, liaising with other agencies and approved an independent technical review.

The Board also discussed the issue of river health and spills and conducted two 'deep dives' into spills to better understand the risks, issues and planned interventions. The Board also discussed how the prioritisation of spills compliance could risk other turnaround performance areas.

Outcome/Impact
The Board agreed that a standardised procedure should be produced for incidents which could exceed the capacity of assets, such as extreme weather events. This direction informed the launch of an incident communications management strategy in December 2021 to deliver proactive messaging to customers and communities during incidents.

The Board approved the business's 'compliance first' Storm Overflow Plans to ensure that the most at-risk sites are made resilient to spills. It was also agreed that spills and storm discharges, and how to address them, should be a standing agenda at Board meetings.

Vision 2050

Relevant Section 172 Categories
(a) Long-term Impact
(b) Employees
(c) Relationships with suppliers, customers and others
(d) Community and Environment
(e) Business Conduct

Discussion/Action
The Board considered the feedback received from stakeholders and provided comprehensive feedback to the Executive at meetings throughout the year.

The Board requested particular additional detail around what capabilities and enablers would be required to drive the Vision forward, including employee capability, engineering capacity, the cost of implementation and options for funding including government support, the wider economic impact, energy use and carbon footprint.

Outcome/Impact
The Board directed the Executive to include more partnership working in its plans, and to make the Vision more customer centric. The content of Vision 2050 has been gradually refined accordingly.

Non-financial information statement

To comply with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006, we are providing the details below to help stakeholders understand our position on key non-financial matters.

We have used cross referencing as appropriate to deliver clear, concise and transparent reporting.

Non-financial information	Section	Pages
Business model	Business model	12 – 13
Policies	Non-financial information	71 – 72
Principal risks	Our principal risks and uncertainties	56 – 63
Turnaround plan	Overview of year one	2

Performance against our strategic non-financial performance measures is one indicator of the effectiveness and outcomes of our policies and guidance.

Across Thames Water, policies and statements of intent are in place to ensure consistent governance on a range of issues. For the purposes of the NFR requirements, these include, but are not limited to:

Our people

People are at the heart of our business. We value and harness the unique skills, experiences and backgrounds that each individual brings to our family. Our ongoing commitment to maintaining a safe, inclusive and great place to work enables us to attract and retain diverse talent. This helps us ensure we are representative of our communities, who flourish with us, helping us to succeed, driving the right outcomes for our customers, business and environment. We have a comprehensive suite of policies that support our people which are available on our company intranet.

Further information is available via the following sections of this report:

Non-financial information	Section	Pages
Market drivers	Thames Water in context	10 – 11
People	Investing in our people	36 – 39
Gender pay	Investing in our people	36 – 39
Diversity of the Board	Corporate Governance	73 – 125
Ratio of pay	Remuneration report	100 – 119
Performance Commitments	Our key performance indicators (and also in our Annual Performance Report)	17 – 21

Policy	Description
Code of conduct	Our code of conduct covers our approach to business activities and how we work, providing a clear, ethical and legal framework for our employees, customers and stakeholders.
Honesty and ethical behaviour policy	We're committed to conducting all aspects of our business in an honest, ethical and transparent manner. Our Honesty and ethical behaviour policy covers bullying, harassment, discrimination and victimisation.
Health and safety policy statement	We aim to protect our people, our contractors, and the customers who live and work in the communities that we serve, by ensuring Thames Water operations are carried out safely every single day.
Employee relations policy	Our employees are our most important assets. We recognise that sound and effective employee relations are an integral part of the success of our business. We're committed to building strong relationships with our employees which are based on trust and mutual respect.
Diversity and inclusion policy	Our equality, diversity and inclusion policy provides employees and managers with the knowledge, guidance and support needed to ensure Thames Water is a diverse, inclusive and great place to work.
Board diversity policy	We recognise and embrace the benefits of having an effective and diverse Board, representative of the communities we serve, as an essential element in promoting the long-term sustainability of the company.
Mandatory training policy	We recognise the importance of continuous training and development and there are some topics that are essential for all our staff and, in some cases, our business partners. Our mandatory training policy provides clarity on the process for agreeing and developing new training, including how we roll out training to our workforce, measure progress and measure compliance.

Environment

We fully recognise that, in providing our services, we influence, and are influenced by, the natural environment. We're committed to continually improving our environmental performance and, at a minimum, complying with environmental and regulatory standards.

What we do, and how we do it, can have a positive and lasting impact on society and the natural environment. By going above and beyond the basics of delivering our essential service, we can create significant public value. We also know we can achieve more by working together with our customers, stakeholders, delivery partners, suppliers and regulators.

We have many policies in place to help us address our impact on the environment, all of which are available on our website. Further information is available via the following sections of this report:

Non-financial information	Section	Pages
Generating public value	Sustainability Report	27 – 39
Performance commitments	Our key performance indicators	17 – 21
Environmental stakeholders	Stakeholder engagement	41 – 42

Policy	Description
Environment policy	We are committed to continually improving our environmental performance, protecting and enhancing the environment in which we operate, preventing pollution and sustainably managing water resources.
Climate change policy	We believe that a twin track approach of managing the unavoidable impacts of climate change on our business ('adaptation'), combined with a reduction in our greenhouse gas emissions ('mitigation'), is essential if we are to manage the challenges that climate change represents. We have committed to reduce our operational emissions to Net Zero by 2030.
Biosecurity policy	As custodians of large areas of land and water, the increasing threat of invasive, non-native species is of real concern to us. To take care of our estate we are committed to ensuring compliance with all invasive, non-native species (INNS) regulatory guidance through the implementation of good biosecurity practice.

Non-financial information statement continued

Policy	Description
Biodiversity policy	To balance the needs of the animals, plants, birds and insects that call our sites home we are committed to continually improving our biodiversity performance at those sites and beyond, whilst aiming to deliver our services in the most sustainable way. As a minimum we will ensure compliance with all biodiversity, environmental and regulatory requirements, and through our ambitious delivery programme we aim to achieve much more. Our commitment to enhancing biodiversity during our activities goes beyond the 10% biodiversity net gain industry standard. We have also challenged ourselves to deliver 5% net gain on 253 of our most valuable biodiversity sites.
Energy policy	Managing our energy use innovatively has an important part to play in delivering efficiency and resilience. This ensures the services we provide are sustainable for future generations. We are committed to continually improving our energy performance, increasing our use of renewable energy, and minimising our greenhouse gas emissions.
Sustainability policy	Striking a balance, doing the right thing for people, for the performance of our business and for the natural environment is what being more sustainable means to us.
Heritage policy	We have a long and unique heritage that allows us to tell the story of water supply and sewage treatment in the UK, with fascinating historic assets that bring the story to life. As a minimum we will ensure compliance with all heritage and regulatory requirements.

Human rights

We acknowledge and operate in accordance with the United Nation's guiding principles on business and human rights. We promote human rights through our employment policies and practices and through our supply chain. We have policies (including those mentioned in the section on Our people), and processes in place which ensure we're compliant with these requirements, and they're enforced throughout our business.

Further information is available via the following sections of this report:

Non-financial information	Section	Pages
People metrics	Investing in our people	36 – 39
Stakeholder engagement	Stakeholder engagement	41 – 42
Gender pay	Investing in our people	36 – 39

Policy	Description
Modern slavery act statement	We recognise our responsibility to comply with all relevant legislation including the UK Modern Slavery Act 2015. In accordance with the requirements of the Act, we release an annual Statement on Modern Slavery, which outlines the actions we have taken to address the risks of modern slavery and human trafficking in our operations, supply chain, and customer and client relationships. Our modern slavery act statement is available on our website
Privacy notices	Our Thames Water privacy notice is available on our website. It explains how we process the personal data of our customers and other individuals with whom we have contact. We have a separate privacy notice outlining how we process our employees' data. We regard sound privacy practices as a key element of corporate governance and accountability.
Data protection policy	Our data protection policy sets out the data protection principles and obligations under the Data Protection Act 2018 with which we must comply. Across our business the privacy and security of personal information is respected and protected.

Social matters

We are proud of our record in supporting our people, our business partners and the communities we operate in. As well as the specific policies mentioned below, we have guidance and initiatives in place to support the following:

- Age UK, Citizens Advice Bureau and debt advice bodies
- An employee 'Time to give' programme and an employee charitable donations matching scheme to support local charities and groups
- Promotion of skills development through partnerships with universities and colleges
- Environmental groups such as WWF, RSPB and local Wildlife Trusts.

→ **Further information is available in our Sustainability Report on pages 27 – 39.**

Policy	Description
Public value policy	Our aim is to understand what others expect of us and to look for opportunities to work in partnership with them. We aim to be responsive to the needs of all our stakeholders, including our customers, employees, government, shareholders, investors, regulators, suppliers and the wider community in which we operate.
Procurement policy	Our procurement policy incorporates our position on maintaining a sustainable supply chain and sets out how we source and procure all goods and services across the business responsibly, ethically and sustainably.
Tax	We manage our taxes appropriately and efficiently, within both the letter and the spirit of tax legislation, for the benefit of our customers, shareholders and our local communities. See our 'Tax strategy and policy' publication on our website. Our tax arrangements are explained in detail in 'Our Finances Explained', which is published on our website.

Anti-corruption and anti-bribery

We seek to promote a culture of honesty and integrity in all our dealings, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data from the business. In addition to our code of conduct we have additional policies in place to guide our people. These are available on our company intranet.

Furthermore, we have a confidential 24-hour anonymous 'speak up' hotline, details of which are published within our Honest and ethical behaviour policy. This, and a robust whistleblowing process is available to all to raise concerns. We also have a responsive internal Business Integrity team available to answer questions or address concerns raised.

Policy	Description
Honesty and ethical behaviour policy	To provide the best possible service and safeguard our employees, we're committed to conducting all aspects of our business in an honest, ethical and transparent manner.
Competition compliance policy	The purpose of this policy is to set out Thames Water's principles with regard to competition law compliance and the steps that will be taken to mitigate the risk of breaching competition law.
Corporate criminal offence policy	The purpose of this policy is to communicate the group's approach to the Corporate Criminal Offence for Failing to Prevent the Criminal Facilitation of Tax Evasion. Our Corporate Criminal Offence policy is published on our website.

Governance

Chairman's introduction

Ian Marchant
Chairman

"As a Board, we're focused on making sure Thames Water is a Purpose-led organisation – delivering life's essential service, so our customers, communities and the environment can thrive."

As a Board, we're focused on making sure Thames Water is a Purpose-led organisation – delivering life's essential service, so our customers, communities and the environment can thrive.

As part of that, we monitor culture and behaviours. The Executive team and senior leaders have been rolling out a 'Living our Values' programme to reconnect the business with the values. It's a really important part of fixing the basics, as part of the turnaround plan, and underpins the delivery of our Purpose. As a Board, we also had a session dedicated to living our values, where we shared stories that brought the values to life.

Ian Pearson, our Workforce Lead Non-Executive Director, has also continued to engage with teams across the business as part of a structured engagement programme (page 40) to hear more about culture and the changes we need to make.

The Board and its Committees receive regular updates on the turnaround plan, the results of workforce surveys and feedback, and our risk environment. Combined with our engagement, this flow of information helps us assess how behaviours across Thames Water are in line with our values and Purpose and where additional management action may be needed to address any issues.

ESG and the role of the Board

Doing things in the right way is critical to the success of Thames Water, and our approach to Environmental, Social and Governance (ESG) is something we, as a Board, consider in all our decisions. During the year, we've been engaged in the changing conversation on river health, and fully support Sarah and the team's approach. We absolutely agree that all discharges of untreated sewage into rivers are unacceptable.

As a Board, we have a diverse skillset including significant experience in adapting to and mitigating climate change. We're supporting the business on it's road to Net Zero by 2030 and we will be overseeing alignment with the recommendations under the Taskforce for Climate Related Financial Disclosures (TCFD) as we move towards full compliance from 2022/23. You can read more about what we've been doing to prepare in our TCFD report on pages 49 – 53.

The Section 172 Statement on pages 68 – 70 in the Strategic Report explains how the Board and Directors have taken into account several of the issues that fall within the ESG categories, and you can find more information in this Corporate Governance Report. You can also find more information about how we are performing in our Sustainability Report on pages 27 – 39 and in our ESG Statement on our website.

Governance and Board evaluation

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

In March 2020, the Board conducted a full review of its own effectiveness. This included an evaluation of the board composition and dynamics, board oversight, meeting focus and support, and succession planning. A follow-up 'light touch' evaluation was completed in September 2021 to assess progress one year after the appointment of Sarah Bentley as CEO. Both evaluations considered the Board's compliance obligations under the UK Corporate Governance Code and Ofwat's Report on Board, Leadership, Transparency and Governance.

The 2020 evaluation identified 31 actions across 11 areas for improvement, such as board composition, stakeholder engagement, board dynamics, board support, management and focus of meetings, risk management and succession planning. Subsequently, the 2021 review identified a further 28 proposed actions across 11 areas of improvement. We have merged the two sets of recommendations into a more simplified list. The CFO is tracking progress of action resolution on a monthly basis and providing periodic status updates to the Board. This is in line with best practice and also addresses recommendations from the Internal Audit review. We have closed 26 of the 49 combined actions and, as a Board, have agreed a plan to address the remaining activities in 2022/23.

We're also beginning to plan with Lintstock for our next externally-facilitated full Board evaluation during 2022/23.

Chairman's introduction continued

Changes to the Board

In 2021/22, we saw a few changes to the Board composition. Brandon Rennet stepped down as CFO in September 2021 and was replaced by Alastair Cochran. Paul Donavan and Greg Pestrak resigned in October 2021 and December 2021 respectively. They will be replaced by two new investor directors. We look forward to the skills and experience they will bring.

Following the appointment of the two new directors, we plan to review the Board skills matrix and composition of the Committees within the next year, to make sure we're set up in the right way to support the delivery of the turnaround plan and to maintain the highest levels of governance.

In May 2022, our Company Secretary, David Hughes, also left the business. His duties and responsibilities are being covered by our Head of Legal, Assistant Company Secretary and Chief Financial Officer while we search for and appoint his replacement.

Ian Marchant
Chairman

Embedding our Purpose

Underpinning Thames Water's Turnaround Plan is our culture: how we do things is just as important as what we do. Only then can we deliver our Purpose. As a Board, we can't steer a change in performance without ensuring that we all reflect our values as a company every day. While our values have provided an important sense of stability and continuity through a challenging time of change, the last two years have also provided an important opportunity to build trust by becoming more transparent and inclusive.

This year, the Board oversaw a substantial programme to ensure that our values permeated every aspect of our strategic Turnaround plan. You can read more about how we rolled out this programme, 'Living our Values' across the company on page 36. The Board was involved in defining the shape and goals of the programme, and engaged actively on its progress with Lynne Graham, the People Director, at Board meetings throughout the year.

Setting an example

- Established an almost entirely new Executive team that embodies and drives our values – headed by our CEO Sarah, who is leading from the front in being transparent, open and completely committed to providing the best possible service to customers
- Ensured appropriate incentive by aligning Executive remuneration to culture (see the Directors' Remuneration report beginning on page 100)
- Acted as role models by ensuring that our own behaviour reflects our company values, and by creating a diverse and inclusive Board

Driving cultural change

- Oversaw delivery of 'Living our Values' programme to show colleagues how our values come to life in our turnaround plan and translate into expected behaviour, and directly engage mid-level management to increase accountability for living our values and instil a consistent culture within their teams
- To support the leadership team in driving cultural change across the business, members of the Board had a session dedicated to living our values, where they shared stories that brought the values to life

Monitoring how our values are lived

- Received and discussed the results of our annual employee engagement survey, 'Hear 4 you'
- Site visits and discussions between Board members and colleagues as part of the Board's workforce engagement programme (see page 40) ensures that we get a fuller understanding of the culture at all levels of the company and how our people live Thames Waters' values day-to-day
- Regular updates and reports on operational performance, the results of workforce surveys and feedback, and our risk environment enable the Board to assess where additional management action may be needed to address any issues
- Policy appraisals ensure that our policies remain up to date with expected behaviours – for example this year we reviewed and approved our Modern Slavery statement.

Rolling out 'Living our Values' to senior leaders in February 2022

Compliance with the Corporate Governance Code

Compliance Statement

We're committed to robust standards of corporate governance and we follow the requirements of both the UK Corporate Governance Code (the 'Code') and Ofwat's Board Leadership, Transparency and Governance Principles ('BLTG Principles'). We've complied with all the relevant provisions of the Code throughout the year except Provisions 9, 17, 24 and 32, to the extent set out below.

Provision 9 of the Code requires that the posts of Chair and Chief Executive are usually held by separate people, while the BLTG Principles call for 'an explicit division of responsibilities between running the board and executive responsibility for running the business'. Until August 2020, Ian Marchant temporarily combined the roles of Chairman and Interim Chief Executive pending the appointment of the new CEO. When Sarah Bentley joined as Chief Executive in September 2020, Ian, who was considered independent on appointment, reverted to his original role of Non-Executive Chairman. We obtained Board and shareholder approval for this temporary arrangement. During this period and since, Nick Land has acted as Deputy Chairman to ensure continuity of effective governance and to provide an alternative contact point for Directors, shareholders and the Executive team in the event of any concerns about how the dual role was being managed. None of the activities that Nick has undertaken during his time as Deputy Chairman compromised his independence.

Provision 17 of the Code and the BLTG Principles both require that a majority of members of the Nomination Committee are independent Non-Executive Directors. Although no Executive Directors currently sit on our Nomination Committee, only two of the five members are considered fully independent under the Code, since the Chairman and two Non-Executives who represent our shareholders sat on the Committee (with Greg Pestrak stepping down in December 2021). The Board is satisfied that this arrangement does not compromise the activities of the Committee and ensures effective and early shareholder engagement with appointments to the Board.

Provision 24 of the Code requires that the Audit Committee is composed of independent Non-Executive Directors. Although there are four independent members, two Non-Executives representing shareholders also sit on the Committee (with Paul Donovan stepping down in October 2021, this was reduced to one). As above, the Board is satisfied that this arrangement, which meets the BLTG standard of having an independent majority, does not compromise the activities of the Committee, and assists with investor scrutiny and oversight of the Company's activities and with effective engagement between the Committee and shareholders on audit and risk issues.

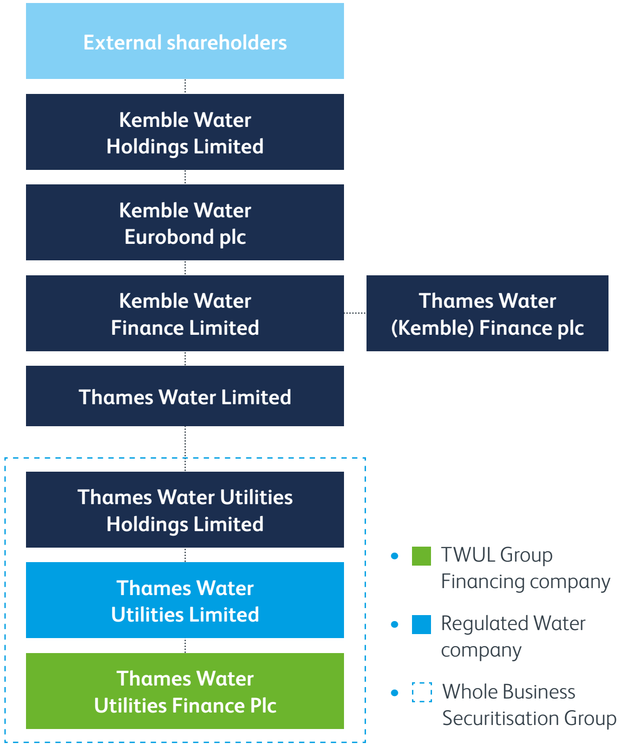
Under Provision 32 of the Code, the Remuneration Committee should comprise independent Non-Executive Directors. Although there are three such members, our Remuneration Committee also includes the Chairman, the CEO and an additional Non-Executive Director, who represents the Company's shareholders. Again, the Board is satisfied that this arrangement, which meets the BLTG standard, does not compromise the activities of the Committee, and ensures effective shareholder oversight of remuneration policy at an early stage.

Corporate Governance Code Principles

BLTG Principles

Group structure

Our structure explained



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

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

In December 2021, USS (Thames Water's second largest shareholder) acquired an additional 8.77% in the company from Wren House Infrastructure. USS, a UK based pension scheme, is an experienced investor in regulated infrastructure assets, and the increase is a testament to their support of Thames Water's long-term strategy and investment needs.

Who	How much	What they do	When
Ontario Municipal Employees Retirement System	31.777%	One of Canada's largest pension plans, with C$105 billion of net assets and global experience managing essential infrastructure	2017-2018
Universities Superannuation Scheme	19.711%	A UK pension scheme for the academic staff of UK universities	2017, 2021
Infinity Investments SA	9.900%	A subsidiary of the Abu Dhabi Investment Authority and one of the world's largest sovereign wealth funds	2011
British Columbia Investment Management Corporation	8.706%	An investment management services provider for British Columbia's public sector	2006
Hermes GPE	8.699%	One of Europe's leading independent specialists in global private markets and manager of the BT Pension Scheme (BTPS), one of the largest UK pension schemes for the private sector	2012
China Investment Corporation	8.688%	One of the world's largest sovereign wealth funds	2012
Queensland Investment Corporation	5.352%	A global diversified alternative investment firm and one of the largest institutional investment managers in Australia	2006
Aquila GP Inc.	4.995%	A leading infrastructure management firm and a wholly owned subsidiary of Fiera Infrastructure Inc., a leading investor across all subsectors of the infrastructure asset class	2013
Stichting Pensioenfonds Zorg en Welzijn	2.172%	A pension fund service provider managing several different pension funds as well as affiliated employers and their employees	2006

Meet our Board

The right skills and experience to turnaround Thames Water

Thames Water is governed by our Board, which is responsible for ensuring our long-term success. The Board comprises our Chairman, two Executive Directors, six independent Non-Executive Directors and two shareholder-appointed Non-Executive Directors. Together, they give us a strong mix of experience to offer an external perspective, challenge the Executive Directors on the development of strategy and performance, and address our diverse customer and stakeholder needs.

We've ensured that the Board has an appropriate combination of Directors so that no one individual or small group dominates the Board's decision making, and we continue to meet Ofwat's expectation that Independent Non-Executive Directors form the largest single group on the Board and the Code requirement that, excluding the Chairman, Independent Non-Executives make up at least half the Board membership.

The Board considers that each Director has sufficient time to fulfil their roles, including preparing for and attending Board and Committee meetings. It also looks closely at the other appointments held by its Directors – see page 88 for our Directors' other interests.

All Directors are subject to formal annual re-election.

Key to Committees

A = Audit, Risk and Reporting Committee

S = Regulatory Strategy Committee

R = Remuneration Committee

N = Nominations Committee

C = Customer Service Committee

H = Health, Safety and Environment Committee

● = Committee Chair

Chairman

Ian Marchant
Chairman – Thames Water Utilities Limited

Appointed to the Board: December 2017
Appointed as Chairman: January 2018
Appointed as Interim Executive Chairman: May 2019 – August 2020

N S R

Relevant skills and experience

- Highly experienced Chairman, CEO and Non-Executive Director with a focus on the utilities sector
- Expertise in governance, finance, regulation, renewable energy and climate change mitigation

During his ten years as CEO of SSE plc, as part of a 21-year tenure at the energy company, Ian led transformational change, performance improvements and the development of renewables. He is currently Chair at Logan Energy and a Non-Executive Director of Fred Olsen Ltd, former Independent Chairman of energy services firm, John Wood Group plc and former Chair of Nova Innovation Ltd. Through his company Dunelm Energy Limited, Ian advises and invests in start-up businesses.

He is the former Chairman and founder of the Scotland 2020 Climate Group and served as the President of the Energy Institute and Chairman of the renewable energy firm, Infinis. Ian is the founder of Scotland's 'Lights up Malawi' campaign for Climate Justice and is Honorary President of the Royal Zoological Society of Scotland. He is also a member of the Prince's Council of the Duchy of Cornwall.

Chief Executive Officer

Sarah Bentley
Executive Director/Chief Executive Officer – Thames Water Utilities Limited

Appointed: September 2020

Relevant skills and experience

- Multi-disciplinary executive with extensive water industry experience
- Relentless customer focus, deep expertise in digital technology and passion for delivering results through the creation of diverse and high performing teams

Sarah was previously Chief Customer Officer at Severn Trent plc where she led the Consumer Retail, Wholesale Network Operations, Group Technology and Transformation divisions.

Prior to that, Sarah was the managing partner for Accenture's digital business unit in the UK & Ireland, where she delivered digital transformation programs to a range of large UK consumer-facing businesses. She has also worked internationally in a number of roles including strategy, marketing and propositions for BT's Global Services division, as CEO of Datapoint, an Alchemy-backed company delivering customer relationship management (CRM) services throughout Europe, and as senior vice president of eLoyalty, a global CRM and marketing consultancy.

Sarah is also a Non-Executive Director of Lloyds Bank plc and Bank of Scotland plc, and acts as the Thames representative on the Board of Water UK.

Chief Financial Officer

Alastair Cochran
Executive Director/Chief Financial Officer – Thames Water Utilities Limited

Appointed: September 2021

Relevant skills and experience

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

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

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

Meet our Board continued

Independent Non-Executive Directors

Nick Land
Deputy Chairman/Senior Independent Non-Executive Director

Appointed to the Board: February 2017

A R N C H

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

Nick brings a wealth of multi-sector finance and governance experience following 11 years as Chair and CEO of EY as part of his 36-year career at one of the world's largest accounting firms. He currently Chairs The Instant Group and is a Non-Executive Director of IHS Towers. He also Chairs the Vodafone Group Foundation and the Private Equity Reporting Group of the British Venture Capital Association.

His is a former Non-Executive Director of the Financial Reporting Council and has a long history of Non-Executive Director roles at global companies such as Vodafone, Alliance Boots and Shell.

Catherine Lynn
Independent Non-Executive Director

Appointed to the Board: November 2018

C H

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

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

Catherine also has 18 years' experience as a Non-Executive Director.

Ian Pearson
Independent Non-Executive Director

Appointed to the Board: September 2014

A S R N

Relevant skills and experience
- Experienced Company Chairman, Non-Executive Director and adviser, with expertise in strategic orientation and value creation
- Wealth of experience in the development of public policy relating to climate change and the environment

Ian brings extensive business and public sector insight to the Board. During a distinguished Ministerial career from 2001-2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury.

He is currently Chairman of Eqtec plc, a clean gas technology solutions company, and Quantum Exponential plc, and has previously been a member of the UK Advisory Board of the accountants PwC.

Hannah Nixon
Independent Non-Executive Director

Appointed to the Board: January 2021

R A

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

Hannah has widespread experience in economics and regulation across a range of industries. She brings significant experience of developing and delivering key regulatory work, advising regulators and companies on regulation, market structuring and competition issues. She was the first CEO of the Payment Systems Regulator, the economic regulator of the UK's £80 trillion payments industry, responsible for driving competition and innovation in the interests of consumers.

Hannah was also a Senior Partner and Head of Profession for Economics at Ofgem, where she had responsibility for the networks division. Hannah is currently Chair of the Single Source Regulations Office, a non-executive director of National Grid Electricity System Operator and the Financial Reporting Council, Council Member and Trustee of the Regulatory Policy Institute at Oxford University, and was formerly a NED of the Jersey and Guernsey Competition and Regulatory Authorities.

Meet our Board continued

Independent Non-Executive Directors continued

Jill Shedden MBE
Independent Non-Executive Director

Appointed to the Board: October 2018

R C

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

Jill is currently Group HR Director of Centrica Plc after holding senior HR positions across the Centrica group. She has championed diversity and inclusion throughout her career and has focused on building a high performing environment and a great place to work. In her role at Centrica, she has led major culture change, cost reduction and reorganisation programmes, as well as achieving “Best Companies” and “Great Places to Work” awards.

Jill was awarded an MBE for her work with the Women’s Business Council, a group set up to advise ministers how to maximise women’s contribution to the future economic growth of the country.

David Waboso CBE
Independent Non-Executive Director

Appointed to the Board: February 2019

H A

Relevant skills and experience
- Highly experienced Chartered Engineer and project manager, leading major infrastructure projects both in the UK and internationally
- Expertise in maximising the potential of digital technology and digitised assets to increase capability, connectivity and reliability

David brings decades of experience leading capital investment and digital transformation projects. After an early career in highways and water supply, he worked on major infrastructure upgrades including the Docklands Light Railway and Jubilee Line Extension. He has held senior positions at London Underground, as well as being the UK representative for the European Rail Agency and a Non-Executive Director of the Rail Safety and Standards Board.

He was awarded a CBE for services to transport in London and has been the President of the Association of Project Management since 2015. Until March 2019 he was Managing Director, Digital Railway at Network Rail.

Non-Executive Directors

Michael McNicholas
Non-Executive Director

Appointed to the Board: July 2019
Represents the interests of long-term investor, OMERS

A N R S H

Relevant skills and experience
- Chartered Engineer with a wealth of management experience
- Expertise in asset management internationally

Michael is currently Managing Director, Asset Management at OMERS Infrastructure, with a focus on Europe. His asset management experience currently focuses on regulated utilities and includes Scotia Gas Networks, Caruna and Ellevio.

Michael previously held the position of Group CEO of Ervia, with responsibility for Ireland’s National Gas Networks and its national Water Utility. Prior to that he was Group CEO of NTR Plc., an infrastructure investment company with a focus on renewable and sustainable infrastructure. He was also an Executive Director in ESB, Irelands national electricity utility, where he held responsibility for Generation & Wholesale Markets, Customer Supply and latterly as Managing Director of ESB International.

John Morea
Non-Executive Director

Appointed to the Board: January 2019
Represents the interests of investors, Infinity and CIC

H

Relevant skills and experience
- Expertise in driving efficiency and embedding innovation to deliver performance improvements, while maintaining priority focus on safety and customer service
- Strong track record in driving sustainability, including promoting environmental protection and climate change mitigation

With a 30 year career in the utility sector, including ten years as the first, and current, CEO of Scotia Gas Networks (SGN), John has successfully led the regulated utility through four price controls and secured its place as the UK energy industry’s leader for customer service. He has led the Company’s digital transformation to drive operational and cost efficiencies.

He has a personal interest in people development, including the diversity and inclusion agenda and promoting STEM subjects to young people. He is a current Director of the Energy Networks Association and past Non-Executive Director of Associated British Ports.

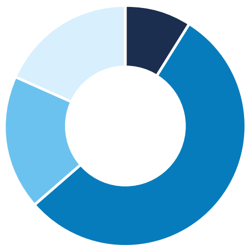
Former Directors
Greg Pestrak resigned December 2021
Paul Donovan resigned October 2021
Brandon Rennet stepped down September 2021

Governance at a glance

Composition of the Board

Executive
2/11 = 18.18%

Chairman
1/11 = 9.1%



Non-Executive
2/11 = 18.18%

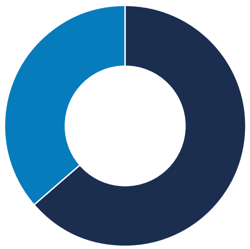
Independent Non-Executive
6/11 = 54.54%

Gender diversity

Board

Female
4/11 = 36.36%

Male
07/11 = 63.64%



Executive team

Female
4/11 = 36.36%

Male
07/11 = 63.64%

Board tenure (years)

Chairman

Ian Marchant — 4 years, 7 months

CEO

Sarah Bentley — 1 year, 10 months

CFO

Alastair Cochran — 9 months

Independent Non-Executive Directors

Nick Land — 5 years, 5 months

Catherine Lynn — 3 years, 7 months

Ian Pearson — 7 years, 10 months

Hannah Nixon — 1 year, 5 months

Jill Shedden — 3 years, 9 months

David Waboso — 3 years, 5 months

Non-Executive Directors

Michael McNicholas — 3 years

John Morea — 3 years, 5 months

Male Female

Board skills matrix

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

		Our Chairman	Our CEO	Our CFO	Our Independent Non-Executive Directors						Our Non-Executive Directors	
All Board Directors have regulated industry exposure and strategic leadership experience		IDM	SEB	AC	HN	NL	CL	IP	JS	DW	MMc	JM
Experience	Utility industry experience or experience of network operations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance/corporate	Economic regulation/public policy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Finance	✓	✓	✓	✓	✓		✓		✓	✓	
Customer	Customer service	✓	✓			✓	✓		✓		✓	
Technology	Technology/digital systems		✓			✓	✓			✓		✓
Resilience	Capital projects	✓		✓			✓			✓	✓	✓
	Engineering									✓	✓	✓
Environment	Environmental/sustainability	✓	✓	✓				✓			✓	✓
	Climate Change	✓	✓	✓				✓				✓
Team	Culture change and transformation	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Remuneration	✓			✓	✓	✓	✓	✓		✓	
	Health and safety	✓				✓	✓			✓	✓	✓

Our Executive team

Our Executive team is responsible for the day-to-day running of our business. As at 30 June 2022, it consists of the CEO, CFO and eight directors responsible for specific areas or functions of the business.

During 2021/22, we made several changes to the Executive team, including some adjustments to function titles and the responsibilities of individual directors. In September 2021, Alastair Cochran replaced Brandon Rennet as Chief Financial Officer. During 2021, we also welcomed Francis Paonessa as Capital Delivery Director in May. In July, Cathryn Ross joined as Strategy and External Affairs Director and Tony Vasishta as Managing Director, Ventures. In September, we were joined by Nevil Muncaster as our new Operations Director, London and Caroline Sheridan as Engineering and Asset Director.

George Mayhew resigned in April 2022 as Corporate Affairs and Sustainability Director. His portfolio has been reallocated among other Directors to promote greater efficiency.

Norma Dove-Edwin joined the Executive team in May 2022 as Digital Transformation Director, replacing Mike Potter who acted as Interim Director until December 2021.

Caroline Sheridan
Engineering and Asset Director

Joined the Executive: September 2021

Relevant skills and experience
- Formidable level of experience in Asset Management
- Creating long term systematic, sustainable strategies

Caroline has extensive experience in asset management within both the airport and railways industries and joins us from TfL where she originally held the position of Renewals and Enhancements Director before taking over and TfL engineering and asset strategy.

Caroline believes that people are at the heart of change and encourages collaboration by aligning everyone around a clear strategy as well as making the most of the experts in the business, she will be looking to raise the bar on how we better understand our assets.

Warren Buckley
Retail Director

Joined the Executive: March 2021

Relevant skills and experience
- Extensive experience in leading customer service and sales transformation across multiple industry sectors including Telecoms and Financial Services
- Over 30 years of people leadership and cultural change to create truly customer focussed teams including frontline experience having started as a call centre agent
- Proven background of integrating human and technology in delivering seamless digital and non-digital channels

Warren joined Thames Water from HSBC plc where he was responsible for the onshore and offshore contact centres for its Retail and Wealth business, including customer experience transformation and sales and service performance. Warren led a team of 27,000 colleagues globally for HSBC as their Managing Director and Global Head of Channel Optimisation and Contact Centres.

Prior to HSBC, Warren held several positions at BT including Managing Director of Customer Service and Operations at BT Retail, and Managing Director of Service Management at Openreach, having previously held customer service, experience and operational leadership roles at Orange, Avaya, Lucent Technologies and Vodafone.

Warren is also the Chair of Citizens Advice, a position he took up in 2018 having served as a trustee since 2012.

Cathryn Ross
Strategy and External Affairs Director

Joined the Executive: June 2021

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

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

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

In January 2020, Cathryn was appointed the inaugural Chair of the Regulatory Horizons Council, an independent committee established by BEIS, and she is also a Non-Executive Director of the Institute of Customer Service.

Our Executive team continued

Lynne Graham
People Director

Joined the Executive: January 2020

Relevant skills and experience
- Experience in designing and delivering complex cultural and organisational change programmes.
- Skilled in leadership development; MSc in Coaching and Behaviour Change.

Lynne is accountable for the HR function, covering the entire employee life cycle including talent attraction and selection, reward and benefits, payroll and administration, learning and development, employee relations and organisational development.

She has led major change programmes that have delivered significant value through cost reduction and through productivity improvements by driving an engaged culture.

Prior to Thames Water she has operated at Executive and Main Board level in diverse sectors – Eurostar (rail); British Gas (gas utility); Westbury Street Holdings (hospitality); Yodel (logistics).

Francis Paonessa
Capital Delivery Director

Joined the Executive: April 2021

Relevant skills and experience
- Strong track record of initiating and executing large and complex projects across a range of sectors.
- Broad range of engineering knowledge and experience, particularly in complex system integration and driving value for money.

Francis came to Thames Water from the business and strategy consultancy Aczel, where he advised clients on a number of high-profile projects in the defence and infrastructure sectors. Prior to this, he was the Managing Director of Infrastructure Projects at Network Rail, where he was accountable for delivering £25 billion of major renewal and enhancement infrastructure projects over the five-year regulatory period.

Before Network Rail, Francis spent four years at Bombardier, the world's largest designer and manufacturer of rail vehicles, where he held a number of positions including the Managing Director of its UK business. His early career was at Vosper Thornycroft, the military shipbuilder, where he was latterly Technical Director and then Managing Director of the Portsmouth Shipbuilding Facility.

Steve Spencer
Operations Director, Thames Valley & Home Counties

Joined the Executive: April 2017

Relevant skills and experience
- Significant experience of the water industry over 25 years.
- Proven track record of improving performance and delivering strong operational results.

Steve oversees the efficient running of water and wastewater operations. He is responsible for delivering high quality drinking water and reducing leakage, alongside safely processing wastewater, transforming it into renewable power and returning clean water to our rivers.

His career has been dedicated to the water sector. Not only has he held senior leadership positions across Thames Water, he has also worked at Southern Water and MWH Australia.

Tony Vasishta
Managing Director, Ventures

Joined the Executive: June 2021

Relevant skills and experience
- Extensive property and commercial experience, in the UK and internationally across a variety of asset classes.
- Proven background leading functions and companies with senior roles at Tesco, Boots, Circle Health, TJX and Woolworths.
- Regular contributor to the industry media and speaker at a number of real estate, retail and commercial conferences both in the UK and internationally.

Tony joined from Liberty Global where he was the Managing Director Global Real Estate and the CEO of Liberty Property Co. the wholly owned technical real estate vehicle of Liberty Global. Liberty Global is the world's largest international TV and broadband company. With approximately 4,000 properties across Europe and an annual budget of $600 million.

Tony oversaw the real estate, facilities management, fleet and energy functions of the Liberty Global group of companies and led LG's global real estate team. As well as being a founding member and leader of the Property Company, Tony also led the creation of Liberty's EV charging company.

He joined Liberty Global from Starbucks, where he led the real estate, strategy, design and asset management function for the EMEA region based in Amsterdam.

Tony is a master's graduate and attended South Bank University, Oxford University and the Graduate School of Business at Stanford University, California.

Our Executive team continued

Norma Dove-Edwin
Digital Transformation Director

Joined the Executive: May 2022

Relevant skills and experience
- Strategy-focused executive with significant experience in driving global business transformation and change programmes and delivering business value
- Hands-on Commercial Technology leader, with experience in managing scale, ambiguity and risk

Norma has worked in top FTSE multinational companies including BAT, Shell, Unilever, HBOS, QBE Insurance, Labatt, and BP and has led diverse, multicultural teams based all over the world.

Prior to joining Thames Water, Norma served as Chief Information Officer at the Electricity System Operator National Grid and previously as the Group Chief Data and Information Officer at Places for People, a property management, development and regeneration company. At British American Tobacco, she held several senior director roles and was Head of Global Data Services.

Building on her technical background and embracing the core values of integrity, transparency and collaboration, Norma has a deep understanding of the partnership required between the technology function and other functions to focus on outcomes and deliver great customer experiences through unlocking the strategic value of digital and data.

Norma has an MBA from Imperial College, London.

Nevil Muncaster
Operations Director, London

Joined the Executive: September 2021

Relevant skills and experience
- Deep sector expertise
- Experienced leader and asset manager who is passionate about delivering sustainable infrastructure solutions

Nevil joins us with over 30 years' experience in the waste and water sector working with Veolia Water and latterly Yorkshire Water where he was Director of Asset Management and most recently Chief Strategy and Regulation Officer. He was also the Chair of Keyland Developments driving a focus on sustainable housing solutions.

Prior to this, Nevil held senior positions at Veolia Water including managing director of two of its UK water businesses.

Former Executive team members
John Bentley stepped down in April 2021
Nicola Cocks stepped down in July 2021
John Beaumont stepped down in August 2021
Mike Potter stepped down in December 2021
George Mayhew stepped down in April 2022

Roles and responsibilities

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

The Chairman
Ian Marchant creates the conditions for the effective working of the Board. He is responsible for promoting high standards of corporate governance, and setting the agenda and conduct of Board meetings, taking account of the concerns of all Directors and encouraging active engagement. He ensures that Thames Water maintains effective communication with our external shareholders and other key stakeholders. He supports and advises Sarah, our CEO, and he leads the evaluation of the performance of the Board, its Committees, and individual Directors.

The Deputy Chairman/Senior INED
Nick Land, our Deputy Chairman, is available to chair Board and Committee meetings if the Chair is unable to attend, and to answer any shareholder queries that cannot be addressed by the Chairman or Executive Directors. He supports the Chairman in his role and leads the Non-Executive Directors in oversight of the Chairman.

The Independent Non-Executive Directors
Our INEDs are valued members of the Board who bring independent advice and review and challenge the Board on behalf of all stakeholders, including customers. They are independent in character and judgement, with relevant experience, and collectively have strong connections with, and knowledge of, the water industry. They understand the interests of our customers and how these can be respected and protected.

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

Board Committees
The Board is supported by six Committees, which focus on specific issues. They report to the Board on matters discussed and make recommendations on matters that require the Board's approval. The terms of reference of the Committees are published on our website.

The Board decides the membership and constitution of each Committee. In accordance with the BLTG Principles, each Committee is chaired by an Independent Non-Executive Director, except the Nomination Committee, which is chaired by the Chairman. The Committees may engage independent professional advisers and they can also call upon other group resources to assist them in their duties.

→ **See the Board Committee Reports on pages 92 – 119**

The Company Secretary
The Company Secretary acts as secretary to the Board and all the Committees provides advice to the Directors and is responsible for advising the Board on governance matters. He oversees good information flow to the Board and the Committees, and ensures that the Board operates in accordance with relevant laws and governance principles.

The Executive
The Board delegates the execution of our strategy and day-to-day financial, operational and regulatory decisions to the CEO, supported by the Executive team, through a Schedule of Delegated Authority. The Board receives monthly reports on safety, financial and operational performance throughout the year, so it can satisfy itself that the Executive team are managing the business in line with the strategic objectives and targets set.

Roles and responsibilities

* We currently have two Non-Executive/Investor Directors, following Greg Pestrak and Paul Donovan stepping down from the Board. The process to recruit two new Investor Directors is underway.

Roles and responsibilities continued

The Chief Executive Officer

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

The Chief Financial Officer

Alastair is responsible for management and oversight of Thames Water's financial affairs. He develops and recommends the business plan and budget, and ensures that effective business and financial controls and risk-management processes are in place. Together with the rest of the Executive team, he assists Sarah in developing the business strategy and implementing the decisions of the Board and its Committees. He supports Ian and Sarah in developing strategic relationships with key stakeholders, political leaders and customers.

External Shareholders

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

This additional oversight from our ultimate owners provides an effective system of checks and balances, similar to those that apply to listed public companies, while leaving operational authority and overall responsibility for the business in the hands of our Board. Thames Water's holding company and ultimate shareholders are also bound by undertakings that ensure that they will always support Thames Water in complying with its regulatory obligations. These mean that decisions over matters reserved for external shareholders continue to be made in full consideration of the services provided to, and interests of, customers.

During 2021/22, a number of reserved matters required approval, including:

- The appointment and remuneration of Alastair Cochran as CFO
- Our Remuneration Policy
- Bonus payments for 2020/21
- The re-appointment of Ian Marchant as Chairman
- The annual budget for the financial year 2022/23
- The revised Integrated Business Plan for AMP7

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

Board meetings

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

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

Board Members	30-Jun-21	29-Sep-21	30-Sep-21	29-Nov-21	26-Jan-22	23-Mar-22	Total	Appointment	Resignation
Director									
Ian Marchant	●	●	●	●	●	●	6/6		
Sarah Bentley	●	●	●	●	●	●	6/6		
Alastair Cochran	○	●	●	●	●	●	5/5	Sep-21	
Brandon Rennet	●	○	○	○	○	○	1/1		Sep-21
NEDs									
John Morea	●	●	●	●	●	●	6/6		
Greg Pestrak	●	●	●	●	○	○	4/4		Dec-21
Michael McNicholas	●	●	●	●	●	●	6/6		
Paul Donovan	X	●	●	○	○	○	2/3		Oct-21
INEDs									
Catherine Lynn	●	●	●	●	●	●	6/6		
Ian Pearson	●	●	●	●	●	●	6/6		
Jill Shedden	X	●	X	●	●	●	4/6		
David Waboso	●	●	X	●	●	X	4/6		
Hannah Nixon	●	●	●	●	●	●	6/6		
SINED									
Nick Land	●	●	●	●	●	●	6/6		

● Meeting attended ○ Not a Board member at date of meeting X Apologies

Roles and responsibilities continued

Appointment and induction

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

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

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

Inductions in action

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

The business

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

Culture and values

- Each Director is provided with a briefing on our people and company culture, including health, safety and wellbeing, talent and succession, trade unions and an overview of our remuneration policy.

Governance

- Training relevant to their duties as Independent Non-Executive Directors
- Meetings with the Chairman and Chairs of the Board's Committees
- Briefing on the regulatory and governance framework, Company policies and Board procedures
- An overview of our major risks and our internal risk management strategy.

Regulators and other stakeholders

- Participation in briefings with the Environment Agency, Defra and Water UK
- Briefing about customer engagement to understand our customers' views including engagement with our Customer Challenge Group and other key stakeholders.

Induction in action

Alastair Cochran, Chief Financial Officer

Alastair's spent his first few weeks getting to know the business and listening to colleagues and stakeholders. This included a number of visits to our operational sites, strategy meetings with the Board and Executive team, and deep dives. He attended the annual Thames Water Raft Race fundraising event to get to know colleagues in an informal way and joined an afternoon volunteering at Woking sewage treatment works. Alastair also met key stakeholders, including representatives from Ofwat.

During Alastair's first month, he visited

3
water sites (Shalford, Ladymead, Coppermills)

4
sewage treatment works (Basingstoke, Little Marlow, Henley, Beckton)

3
customer contact centres (Walnut Court, Kemble Court, Slough)

2
nature reserves (Walthamstow Wetlands, Kempton Nature reserve)

1
Thames Water's Laboratory

1
Thames Tideway Tunnel

1
Gateway Desalination Plant.

He also attended

4
Board/Executive strategy days

Roles and responsibilities continued

Training and professional development

Several deep dives and technical sessions were held this year to ensure Directors remain up to date with key developments across the business and the wider industry. Further informal sessions were held with specific focus on topics of interest to the Board, including presentations, regular updates and briefings. The Board activities section on page 91 gives more information on topics covered during the year.

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

We aim to continually refresh and expand the Board's knowledge and skills to enable Directors to effectively fulfil their roles and contribute to discussions on technical and regulatory matters. All Directors have access to professional development provided by external bodies and our advisers. For example, in March 2022, Eversheds Sutherland provided a live training session on Securitisation and Competition Compliance.

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

Directors and their other interests

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

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

It is the Board's view that this procedure operated effectively during 2021/22. During the year, no Independent Non-Executive Director declared a material interest in any contract of significance with Thames Water or any of its subsidiary undertakings. Paul Donovan, a shareholder-appointed Non-Executive Director, is also CEO of Arqiva Limited, which is a major supplier of smart meters and associated technology to Thames Water. As in the previous year, and prior to his resignation, Paul recused himself from Board discussions regarding the metering programme and did not receive relevant Board materials.

Of our Executive Directors, Sarah Bentley sits as a Non-Executive Director on the Boards of Lloyds Bank plc, Bank of Scotland plc and Water UK. Alastair Cochran does not act for any FTSE company as a Non-Executive Director or Chairman.

→ **You can find information on payments to companies in which our Directors have interests on page 97 of our Annual Performance Report.**

Stakeholder engagement

How the Board engages with stakeholders

Our stakeholders are crucial in helping us to deliver our Purpose and our strategy. You can find more information on how the business engages with our stakeholders including customers, employees, regulators, shareholders and other groups on page 41.

As they lead Thames Water and support the Executive Team, it's important that our Board members are involved in driving our stakeholder engagement programme, so they can understand the issues and challenges of each of our key stakeholder groups.

Examples of what the Board has been doing are set out here.

Customers

Board engagement

- Qualitative and quantitative customer insight was considered by the Customer Services Committee and reported to the Board
- Ian Marchant, Hannah Nixon, Catherine Lynn, Nick Land, Jill Shedden and David Waboso attended an online customer immersion session on leakage, together with members of the Executive team, our CCG and our independent leakage monitor
- Board members met with the new Chair of the CCG to discuss investment and service improvement plans
- Sarah Bentley has engaged with customers directly on LinkedIn. This provides an alternative platform for customers to engage directly with us on the issues that matter most to them

Key issues raised

- Updates on our turnaround plan and key service improvement initiatives
- Online customer experience and ease of contacting us
- Customer views on leakage
- Communications during incidents and disruptions
- Pollutions and river health
- Long term water resource management plans

Outcome

- The Board maintains effective oversight of the customer engagement programme and receives and discusses customer feedback. The Board was satisfied that customer views are being listened to and help shape operations and future plans
- Rolled out a plan for more proactive communications during incidents
- Updates to our website to provide clearer communications on leakage
- Sarah's open, direct messaging on LinkedIn with customers and other members of the public has been well received

Employees

Board engagement

- Ian Pearson, our lead Non-Executive Director for workforce engagement, held engagement forums with staff across the business
- Board members have visited sites, where they have been able to meet employees in person
- Sarah engages with colleagues through live events, by joining 'All Hands Calls', through all employee 'e-brief' emails, and by meeting colleagues on sites. She also hosted events such as our Remembrance Service in November 2021

Key issues raised

- Greater clarity and focus of internal communications, particularly for frontline staff
- Roll out of new workforce management programme
- More support needed to look after frontline employees' mental health
- Upskilling, career development and reward
- Future ways of working

Outcome

- Roll out of plan to provide improved, tailored communication to frontline staff
- An explicit 'frontline first' approach to communications, led by the Board, showing recognition, direction, and appreciation
- Employees were kept informed and appraised of progress, and were listened to during a challenging year, particularly in respect of changes in leadership, business model and ways of working.
- More information is included in the note from Ian Pearson, our Workforce Engagement Lead Director, on page 40

Shareholders

Board engagement

- Our shareholders are represented on the Board by two Non-Executive Directors, enabling a regular, active dialogue (the two vacant NED positions will be filled during 2022/23)
- Sarah Bentley and Alastair Cochran provide quarterly performance updates
- Monthly shareholder liaison meetings with Alastair Cochran to discuss upcoming issues
- All day in-person event in May 2022, attended by Board members and shareholders

Key issues raised

- Turnaround plan, business strategy, vision and objectives
- Financial and operational performance
- Integrated Business Plan
- Pollutions and river health

Outcome

- Having shareholder representatives on the Board enables other Directors to better understand investor views
- Stronger shareholder oversight enables more thorough review, analysis and challenge of strategic plans

Stakeholder engagement continued

Other investors

Board engagement
- Regular presentations and update calls throughout the year, usually hosted by Sarah Bentley and Alastair Cochran, including:
- Full year and interim results presentations
- Transaction-related investor meetings
- An ESG roadshow

Key issues raised
- Updates on operational and financial performance with a particular emphasis on our business turnaround and the outlook for key financial metrics
- Context on how ESG considerations impact the company and our commitment to being Purpose-led

Outcome
- Banks and debt investors were kept informed of key news and developments, helping us to maintain cost-efficient access to capital markets.
- This included:
  - €1,150 million of Green Bonds in January 2022
  - A further £375 million of borrowing facilities signed during the year from banks and other institutional lenders

Regulators

Board engagement
- Regular calls and online joint working groups with Ofwat and other regulators. For example, Ian Pearson, Jill Shedden, John Morea, Hannah Nixon, David Waboso attended Ofwat's water Company Director event in April 2022 to discuss issues facing the sector and the customers we serve
- Non-Executive Directors attend Ofwat's twice-yearly non-executive events
- Quarterly sessions with Ofwat on transformation progress
- Sarah Bentley attended quarterly Environment Agency meetings and regular Water UK Board meetings

Key issues raised
- Potential investigations by Ofwat and the Environment Agency into river health and sewage treatment works
- Financial, customer and operational performance
- Issues that could affect customers and the environment
- Turnaround plan

Outcome
- Increased Board understanding of regulatory challenges and priorities, through constructive dialogue with Ofwat
- Insight into our relative performance against the rest of the industry
- Regulators helped to consider impact of regulatory decisions and new policies

NGOs and community groups

Board engagement
- Sarah Bentley met with a number of community groups and NGOs
- Sarah helped launch Riverwatch, a joint initiative with Thames21, Tideway and Thames Water to monitor the health of the river and clean it
- Sarah spoke to a large number of stakeholders at the Rivers Trust Spring Conference in March 2022

Key issues raised
- Pollution problems, sewage discharges and river health
- Neighbourhood plans

Outcome
- Sarah is leading a change in Thames Water's engagement and messaging – showing that we're committed to working collaboratively.
- Joint partnerships developed to deliver long term strategic projects, e.g. smarter water catchments
- Thames Water committed to a package of measures and actions to improve river health, including investing £20 million at our top nine polluting sewage treatment sites

Policymakers and elected representatives

Board engagement
- Board Directors attended our (virtual) Annual Stakeholder Review with a range of stakeholders in July 2021, which included a Member of Parliament, a London Assembly Member and GLA officials
- Sarah Bentley held various one-to-one meetings during the year with MPs to discuss issues in their constituencies, for example with Jeremy Hunt MP and Helen Hayes MP
- Board members have engaged with government ministers such as the Secretary of State for Business to discuss renewable energy, and the Minister for London to discuss our green recovery programme
- Sarah Bentley met with the Greater London Authority, meeting the Deputy Mayor for Environment and Energy Shirley Rodrigues, and attending the Mayor's London Infrastructure Group
- Sarah has also met with the CEO of the National Infrastructure Commission, and Ian Marchant became one of the newly-formed National Preparedness Commission's members, attending meetings during the year

Key issues raised
- Operational and customer service performance
- Water supply network resilience
- River health
- Flooding
- Pollutions
- Green recovery

Outcome
- Feedback from policy makers and elected representatives helps us understand whether we are meeting stakeholders' expectations in the communities we serve. It also keeps us close to changes to policy that affect the regulatory environment in which we operate
- Engagement has informed Thames Water's turnaround plan and development of our Vision 2050

Board activities to drive our Turnaround plan

Pillar of the Plan	The Board's Governance Role	Examples of Board activity in 2021/22	Outcome
Fix the basics	• Review our customer service, communications and media strategies to ensure customers remain at the heart of business decisions • Receive and review regular updates on customer complaints and C-MeX metrics through monthly Board reports and presentations to Board meetings • Particular focus placed on this area by the Board's Customer Service Committee • Review proposals to increase resilience of systems and assets, with a focus on improving performance in key areas such as leakage, supply interruptions and pollution reduction • Review our operational and cost efficiency to drive maximum value for money for our customers and drive efficiency in the water cycle	• Reviewed and approved new customer service strategy • Analysis of customer complaints performance – CSC received an update on KPIs around customer service and communications failure following the London flooding in the Summer – London floods: Board discussed lessons learned and what could have been done differently • Approval of capital budget for 2021/22 and an updated Integrated Business Plan • Oversight of the business planning and funding process • Approval of cost-transformation plans to drive efficiency and quality outcomes in spending • Engaged with shareholders on the capital structure review process and development of the revised business plan for the current regulatory period Focused strategic sessions held: • Online customer immersion session on leakage in May 2021 • Deep dive into new workforce management system in January 2022 • 'Teach in' session on IBP3 in March 2022	• New customer service strategy has led to a reduction in complaints • Board approved Spills Reduction Strategy, which would address ways to reduce the impact and volume of storm overflows. • New planned response system for incidents integrated into the business • Board consensus that spills and storm discharges, and how to address them, should be considered regularly at Board meetings. • Development of a revised £11.5 billion business plan for the current regulatory period to significantly improve Thames Water's operational performance. This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed in the water company's final determination for 1 April 2020 to 31 March 2025.
Raise the bar	• Oversee people strategy • Champion diversity and corporate values • The Health, Safety and Environment Committee considers our impact on the environment, as well as the safety of our operations on our sites and in the community	• Oversight of the Executive team's delivery of the 'Living our Values' programme to drive cultural shifts across the business • Pollutions were considered at each meeting of the HS&E Committee • Focused strategic sessions held around operational technology capability, long-term impacts of the Covid-19 pandemic, including the impact on workforce health and wellbeing, our planned response to the crisis in the Ukraine and the Company's financial outlook within the current macroeconomic environment, and environmental compliance around sewage discharges	• Strategic Future Ways of Working: return to the office plan created and implemented: considered how different populations across the business (office-based, site-based, alliance members and contractors etc) would respond to change, prioritised health, safety and wellbeing in adopting a flexible approach here possible, and managed the return to work very carefully. • HSE committee considered initiatives being rolled out under the Pollutions Incident Response Plan (PIRP) including the specific plans for the top 13 sewage treatment works. • Living our Values: The Board generally agreed that it would be important for each of the independent non-executive directors to attend one of the sessions appropriately. The Board also stressed the importance of rolling the Living our Values to contractors given they make up more than half of the current work force.
Shape the future	• Approve expenditure and plans for capital projects to increase resilience • Oversee our People and Skills strategies • Review our sustainability policy and associated policies and monitor progress • Ensure we have the right governance framework in place to monitor the impact of our operations on the environment, and to make a positive impact on the communities around us	• Worked with Executive team to refine our Vision for 2050 and new business model and align with PR24 • Board approved significant capital investment, during the year included: Mogden Recovery Plan, the Deephams biomethane gas to grid project, and the proposed relocation of Guildford sewage treatment works • Reviewed plans for alignment with the requirements of the Taskforce for Climate-Related Financial Disclosures, and considered the necessary governance structures and oversights needed to ensure full compliance during 2022/23	• Vision for 2050 evolved to take into account feedback from Board and key stakeholders: explicitly incorporating more on customers and more on partnership working • Interim TCFD report included in the Annual Report and Sustainability Report 2021/22, with full compliance on trcak for 2022/23

Customer Service Committee Report

Catherine Lynn
Chair of the Customer Service Committee

At a glance

The Customer Service Committee provides additional oversight on behalf of the board of the activities that relate directly or indirectly to Thames Water customers, including households, businesses and developers. In addition, the CSC ensures that the 'voice of the customer' is being embedded into Thames Water. The CSC is also able to provide subject matter expertise and experience to support the operational delivery to customers across Operations and Retail.

Membership and attendance

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

The Committee met three times in this reporting period

Paul Donovan and Greg Pestrak, two of our Non-Executive Directors, resigned during the course of the year. They will be replaced on the Board by two new investor directors. The Committee composition will be reviewed during 2022/23 to ensure it is sufficiently independent and has an appropriate representation of Directors' skills.

Committee Members	29-Jun-21	23-Nov-21	22-Mar-22	Total	Appointment	Resignation
Catherine Lynn	Meeting attended	Meeting attended	Meeting attended	3/3		
Paul Donovan	Meeting attended	Meeting not attended	Meeting not attended	1/1		01-Oct-21
Nick Land	Meeting attended	Meeting attended	Meeting attended	3/3		
Greg Pestrak	X	Meeting attended	Meeting not attended	1/2		03-Dec-21
Jill Shedden	Meeting attended	Meeting attended	Meeting attended	3/3		

Meeting attended   Meeting not attended   X Apologies

The role of the Committee

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

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

Committee activities during the year 2021/22

During the year, the Committee received and discussed updates on customer service performance and the delivery of our services strategy, including specific updates in relation to:

- The Customer Transformation Plan
- C-MeX plan
- Overall customer service including customer service KPIs, complaints trends including root causes, billing performance and retail and operations performance
- Customer Engagement insights on Section 19 Leakage Undertakings
- The development of leadership behaviours to transform customer service culture
- The future of the Customer Challenge Group, and the appointment of a new chair and members
- Waste and Water Performance
- Review of Committee Terms of Reference.

The Committee Chair attended an online Leakage Customer Immersion Session on 13 May 2021 to engage directly with customers on Thames Water's leakage performance. The Committee remains focused on looking at ways to improve customer service levels and engagement with customers as the Company moves forward and recommending appropriate action to the Board.

Health, Safety and Environment Committee Report

David Waboso
Chair of Health, Safety and Environment Committee

Committee Members	29-Jun-21	23-Nov-21	22-Mar-22	Total
David Waboso	Attended	Attended	Attended	3/3
Nick Land	Attended	Attended	Attended	3/3
Catherine Lynn	Attended	Attended	Attended	3/3
Michael McNicholas	Attended	Attended	Attended	3/3
John Morea	Attended	Attended	Attended	3/3

Meeting attended   Meeting not attended   X Apologies

At a glance

The Committee is responsible for reviewing and monitoring matters relating to health and safety, the environment, drinking water quality and security.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors and two other Non-Executive Directors. The Chief Executive Officer, the Operations Director, the Engineering and Asset Director, the People Director and the Health, Chief Safety & Security Officer also usually attend meetings. Other individuals may attend by invitation. The Company Secretary acts as secretary to the Committee.

The Committee met three times in this reporting period

Role of the Committee

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

- Health, safety and wellbeing of customers and colleagues;
- Drinking water quality and public safety;
- Environmental performance, including pollution incidents;
- The overarching asset management strategy, policies and resulting procedures and processes; and
- The zero carbon and energy strategy.

Committee activities during the year 2021/22

At its formal meetings this reporting year, the Committee has considered and discussed:

- Regular health and safety reports
- Regular environmental and water quality reports
- Health, Safety and Wellbeing Strategy
- The Pollution Incident Reduction Plan
- Update on discharges of untreated sewage
- Asset strategy, plan and standards compliance
- Review of Committee Terms of Reference

The Committee has also undertaken several deep dives into specifically identified risk areas including:

- Service Avoidance
- Road and Street works
- Control of Contractors

The Committee looks forward to continuing to challenge the business on how it manages health and safety issues and those relating to the environment, and as a result improving standards, practices and outcomes, as part of a broader process of change across the Company.

Regulatory Strategy Committee Report

Hannah Nixon
Chair of the Regulatory Strategy Committee

At a glance

The Committee has primary responsibility for regulatory and compliance matters linked to the corporate strategy and the business plan.

Membership and attendance

Including the Chair, the Committee consists of two Independent Non-Executive and three other Non-Executive Directors. The meetings are also attended, as required, by the Chief Executive Officer, the Regulation Director and the Chief Financial Officer. Other members of the Executive team, other Thames employees and third-party advisers may be invited to attend meetings by the Committee. The Company Secretary acts as secretary to the Committee.

The Committee met three times in this reporting period

Greg Pestrak, one of our Non-Executive Directors, resigned during the course of the year. The Committee composition will be reviewed during 2022/23 to ensure it is sufficiently independent and retains an appropriate representation of Directors' skills.

Committee Members	28-Jun-21	22-Nov-21	21-Mar-22	Total	Appointment	Resignation
Hannah Nixon	●	●	●	3/3		
Ian Marchant	●	●	●	3/3		
Michael McNicholas	●	●	●	3/3		
Ian Pearson	●	●	●	3/3		
Greg Pestrak	●	●	○	2/2		03-Dec-21

● Meeting attended ○ Meeting not attended X Apologies

Role of the Committee

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

- The Group's governance, policy and strategy in relation to decisions with regulatory implications
- The Group's regulatory price control submission process

Committee activities during the year 2021/22

The Committee reviewed and discussed, among others, the following matters:

- The Committee's Terms of Reference
- Regular updates on the activities of and engagement with Ofwat, the Environment Agency and the Drinking Water Inspectorate
- Section 19 Leakage Undertakings
- The Company's ongoing engagement with Ofwat
- The proposed response to the Condition B licence change consultation
- Customer Challenge Group
- PR24 Programme incl. bronze plan and next steps
- Updates on other regulatory developments including compliance with regulatory undertakings and investigations by Ofwat under the Competition Act
- The investigation by Ofwat and the Environment Agency relating to sewage pollutions under the Water Industry Act.

The Committee looks forward to contributing to the development of the Company's longer-term strategy as the new Executive leadership seeks to take the business forward.

Nominations Committee Report

Ian Marchant
Chair of the Nomination Committee

Committee Members	30-Sep-21	Total	Appointment	Resignation
Nick Land		1/1		
Ian Marchant		1/1		
Michael McNicholas		1/1		
Greg Pestrak		1/1		03-Dec-21
Ian Pearson		1/1		

Meeting attended   Meeting not attended   X Apologies

At a glance

The Committee has primary responsibility for the composition of the Board and leadership needs of the Company.

Membership and attendance

Membership of the Committee, excluding the Chair, consists of two Independent Non-Executive Directors, Nick Land and Ian Pearson, and two Non Executive Directors, Michael McNicholas and Greg Pestrak.
The Committee is Chaired by Ian Marchant.

The Company Secretary acts as secretary to the Committee, ensuring that all of the information required by the Committee to operate effectively is available. When appropriate the CEO, CFO, People Director and external advisors may attend meetings by invitation.

Greg Pestrak, one of our Non-Executive Directors, resigned during the course of the year. The Committee composition will be reviewed during 2022/23 to ensure it is sufficiently independent and retains an appropriate representation of Directors' skills.

The Nomination Committee met formally once during the year.

Role of the Committee

The main duties of the Committee are to:

- Review from time to time the structure, size and composition of the Board of the Company and to make recommendations to the Board regarding any changes it considers necessary; and
- Keep under review the leadership needs of the Company and make recommendations regarding the formulation of succession plans for appointments to the Board, to maintain an appropriate balance of skills and experience as well as diversity to ensure that it remains effective and focused on driving forward the strategy of the Company.

The Committee is satisfied that there remains an appropriate combination of Executive Directors and Non-Executive Directors on the Board such that no one individual or group of individuals dominates the Board's decision making.

Activity during the year

The Nomination Committee's core responsibility is to manage the appointment process for new board directors – the exception being the appointment of a new Chairman which would be carried out by the Board, led by the Senior Independent Director.

During the year, the Committee supported our shareholders with the process to appoint new Non-Executive Directors to replace Greg Pestrak and Paul Donovan, who stepped down in October 2021 and December 2021 respectively. It set out the requirements we have for members of the Board, consulted on short lists and met the preferred candidates. A final decision and announcement on the appointments will be made in the coming months.

When the new candidates join the Board, there will be a skills review to make sure we're maximising their skills and experience in the delivery of the turnaround.

After being appointed during the previous financial year, with the announcement made in May 2021, Alastair Cochran joined Thames Water as our Chief Financial Officer in September 2021. Russell Reynolds Associates was engaged as the external search agency to support this appointment. Russell Reynolds has no other relationship to the Company and is a signatory to the latest Voluntary Code of Conduct for executive search firms.

Alastair spent his first month meeting stakeholders and colleagues, and spending time on operational sites to hear first-hand the challenges the business is facing. You can find out more about his induction on page 87.

Audit, Risk and Reporting Committee Report

Nick Land
Chair of the Audit, Risk and Reporting Committee

This report gives you, our stakeholders, an overview of the activities and areas of focus for the Audit, Risk and Reporting Committee (the "Committee" or "ARRC") during 2021/22. The Committee's primary responsibility is to provide support to the Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework.

Committee Members	28-Jun-21	16-Sep-21	22-Nov-21	21-Mar-22	Total	Appointment	Resignation
Nick Land[I]	●	●	●	●	4/4		
Paul Donovan	●	●	○	○	2/2		01-Oct-21
Michael McNicholas	●	●	●	●	4/4		
Ian Pearson[I]	●	●	●	●	4/4		
David Waboso[I]	●	X	●	●	3/4		
Hannah Nixon[I]	●	●	●	●	4/4		

● Meeting attended ○ Meeting not attended X Apologies

(I) Independent.

During the year the Committee held four formal meetings, in which it:

- Considered and discussed the impacts on the business and risks of the ongoing macro-economic environment (including Covid-19, power price inflation and increases in cost of living) and its impact on going concern and the long-term viability assessment
- Reviewed and recommended to the Board for approval six-monthly reporting to Ofwat in respect of the Section 19 Undertakings[1] following its investigation into our leakage performance
- Engaged with the Group's external auditor, PricewaterhouseCoopers LLP ("PwC"), on a regular basis in relation to the status of their audit work and matters arising
- Approved and tracked the annual Internal Audit plan and key findings
- Reviewed the External Quality Assessment ("EQA") covering the effectiveness of the Internal Audit function
- Reviewed and challenged significant judgements, both from an accounting and risk perspective
- Formally considered sufficiency of resources to deliver our obligations at each of our scheduled meetings (the Ring Fence Certificate)
- Reviewed financing arrangements such as funding, liquidity facilities and hedging
- Oversaw improvements to our risk management framework by providing oversight over the Risk Management Improvement Plan ("RMIP") and assessing how the Company has responded to macroeconomic, financeability and cyber security risks.

Additionally, the Committee received reports on whistleblowing, fraud and anti-bribery. Key cases are brought to the attention of the Committee including any lessons learned from those investigations.

Looking ahead to 2022/23, these items will remain a focus for the Committee. The Committee will continue to promote clarity and transparency in all our reporting; oversee the further development of the Company's risk management processes; oversee the Company's assurance framework, ensuring processes and controls (covering both financial and non-financial reporting) are appropriate and that published information is accurate, complete and reliable; and monitor going concern and the long-term viability of the Group.

1 Undertakings for the purpose of section 19 of the Water Industry Act 1991.

Audit, Risk and Reporting Committee Report continued

Governance

The Board considers the Committee has the appropriate composition, skills and experience to discharge its responsibilities. Both the Independent Non-Executive Directors and the other Non-Executive Directors on the Committee have the required financial experience and proficiency in accounting to fulfil their duties.

The meetings are regularly attended (by invitation) by the Chairman of the Board, Chief Executive Officer, Chief Financial Officer ("CFO"), Director of Risk, Audit & Assurance, Group Financial Controller and external auditors to ensure all the information required by the Committee for it to operate effectively is available. Other members of Thames Water's senior management team are invited to attend meetings when appropriate.

In conjunction with each meeting, the external auditor, the CFO and the Director of Risk, Audit and Assurance hold private sessions with the Committee without Thames Water management being present. In performing its duties, the Committee has access to the services of the Risk, Audit and Assurance function, the Company Secretary and, if required, external professional advisers.

Separately, the Chairman regularly meets with the external auditor, the CFO, the Director of Risk, Audit and Assurance and the Head of Internal Audit to ensure the impact of material issues and judgements are fully assessed and understood.

The Committee's key responsibilities

The key responsibilities of the Committee relate to the following four areas:

1) **Financial and Regulatory Reporting:** oversight of the financial and regulatory reporting, ensuring integrity, accuracy, completeness, and reporting and regulatory compliance. The Committee reviewed and recommended for approval the 2021/22 Interim Report, Annual Performance Report ("APR"), Annual Report and Sustainability Report, interim and annual covenant compliance certificates, and Annual Debt Prospectus.

2) **Internal Controls and Risk Management:** assessing the effectiveness of the Company's risk management framework and internal controls. During the year, this included reviewing principle risks and their impact on the business; with close attention to risks relating to the ongoing macroeconomic impacts, climate change and cyber security. The Annual Controls Self-Assessment findings and actions were additionally reviewed by the Committee, as were any whistleblowing, fraud reporting or unethical behaviour reports.

3) **Internal Audit:** assessing the effectiveness of the internal audit function and reviewing reports from the internal audit function and relevant Company policies. During the year, the Committee reviewed and approved the Audit Plan for 2022/23 and considered quarterly factors relevant to the annual approval of the Ring-fencing (Condition P) Certificate.

4) **External Audit:** oversight of the external auditor's independence, objectivity, and effectiveness; including the recommendations to appoint or remove the external auditor, and approval of any non-audit services and the annual external audit plan. The Committee reviews audit findings identified during their work.

Financial and Regulatory Reporting:

A fair, balanced, and understandable set of financial statements

The Committee reviewed the Annual Report and Sustainability Report, and Annual Performance Report ("APR"), ahead of publication to ensure they were aligned with the Company's position, performance and strategy, and that the narrative sections were consistent with the financial statements and tables. The significant issues identified by the Committee in relation to the 2021/22 financial statements are noted on the following page, these include matters identified by the external auditor in its audit report. These cover compliance with financial covenants over an assessment period of at least 12 months from the date of issue of the accounts, significant management estimates and judgements, appropriate disclosures made across the Annual Reports, consistency of accounting policies and standards across the Group and other financial reporting matters.

In conclusion, the Committee advised the Board that the 2021/22 Annual Report and Sustainability Report and the APR provide a fair, balanced and understandable assessment of the Group's position; and that the necessary information is provided for shareholders to assess the Group's prospects, performance, business model and strategy.

Audit, Risk and Reporting Committee Report continued

Significant judgements used in the financial statements

This table lists the most significant accounting judgements and estimates considered during the financial period. These matters were considered within our external audit which is consistent with the Independent Auditor's Report.

Accounting area and judgement	The Committee's Role	Conclusion and Impact on Financial Statements
Macroeconomic impacts	There has been judgement applied within the financial statements due to the ongoing impact of macroeconomic factors including cost of living increases, power price increases and rising inflation. This has been taken into account in the Committee's review of going concern and the Long-term Viability Statement disclosures within the financial statements. This review focused on the key assumptions and sensitivities used within the modelling, including downside scenarios and stress tests over a period of 10 years.	Based on the audit work performed by PwC and the Committee's review of key judgements and uncertainties, the Committee is satisfied with the preparation of the accounts on a going concern basis and the conclusion of the Long-term Viability Statement.
Bad debt provision for household customers	The ongoing uncertainty around the future economic outlook has required renewed assessment of the bad debt methodology and provision. The Committee reviewed the methodology, the ageing of debtors used, and the basis driving the cash collection and write-off rates in the year. These assumptions were considered together with the findings from PwC.	Based on its review, the Committee was comfortable with the level of bad debt provision recognised for household customers. The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.
Environmental litigation provisions	Prosecutions in relation to environmental incidents are brought against the Company by the Environment Agency and Ofwat. Provisions are based on both legal guidance of expected outcomes for incidents being prosecuted and based on historical data for incidents which are early on in the legal process.	The Committee recognises that regulatory scrutiny has intensified. The Committee concluded that the provisioning methodology management applied was reasonable. See the respective Provisions and Contingent Liabilities notes in the consolidated financial statements page 172.
Provisions and contingent liabilities	The Committee considered other provisions within the accounts relating to potential legal and regulatory matters. The Committee considered the appropriateness of the methodologies used, and the relevant details including the latest information from our legal advisors.	The Committee is satisfied with management's judgement to retain our classification of contingent liabilities and with the estimates used by management in calculating provisions. See the respective Provisions and Contingent Liabilities notes in the consolidated financial statements.
Capitalisation criteria	The classification of costs between capital and operating expenditure requires judgement. The Committee sought to understand significant investments and expenditure during the year, any notable year-on-year movements and changes in policy. In April 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, Intangible Assets. The impact of this is that customisation and configuration costs that were previously capitalised in respect of this decision should now be expensed. The outcome of this assessment has been reflected for the financial year ended 31 March 2022.	The Committee has held regular discussions with management and PwC and deems the classification of expenditure as appropriate. The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.
Valuation of defined benefit obligations	The valuation of the Company's defined benefit obligations is highly sensitive to assumptions used and requires significant judgement and estimation. The Committee considered the valuation exercise undertaken by independent actuaries Hymans Robertson LLP as at 31 March 2022, the assumptions used within this report and the additional risk from the impact of macroeconomic factors on market volatility.	From these reviews and discussions, the Committee was satisfied with the valuation of the Company's defined benefit accounting treatment. See the Retirement Benefit Obligation note in the financial statements for further disclosure.
Valuation of financial derivatives	The Committee reviewed and discussed the methodology adopted in the valuation of various derivative instruments with the Head of Treasury, Tax and Corporate Finance.	The treasury team from PwC, who specialise in this area, have tested the valuations of these derivative instruments as part of their audit. The Committee was content with the methodology applied to value derivatives in the financial statements.
Metered sales accrual	The metered sales accrual reflects the value of services provided to customers during the year but not billed for as of the 31 March 2022 . The accrual is calculated by our billing system using historic meter reading data and adjusted using management judgement for our best estimate of water consumption (informed through trends in smart metering data where customer accounts lack recent meter reads).	The Committee concluded that the methodology management applied to calculate the accrual was reasonable.

Audit, Risk and Reporting Committee Report continued

Internal controls and risk management

The Committee oversaw significant improvements to the Company's risk management framework, which covered both our assessment of new and existing risks, and the internal control processes. This included oversight over the Risk Management Improvement Plan ("RMIP"), which seeks to better align the sources of risk data within Thames Water and to embed risk management across the business. The Committee reviewed regular updates on the Company's principal risks, further development of the Company's risk appetite statements, updates to the Schedule of Delegated Authority ("SoDA"), and action taken in response to whistle-blowing cases.

There is a continued focus on new and emerging risks within the business and how the Company responds to them in addition to existing risks. In addition, the Committee received updates regarding management of regulatory reporting risks, and requested specific updates be made to the Board regarding cyber security and pollutions (including reputational risks/ impacts).

The Company's ability to provide clean and safe drinking water is sensitive to environmental changes. The Company is continually reassessing our climate related risks and how these fit into the overall risk management approach. You can find more information about how the Company is planning to mitigate the risk in our section about our aligning to our Task Force on Climate-related Financial Disclosures ("TCFD") on page 49, as well as in the risks section on page 54.

The Committee was provided with an update on establishing a common and structured approach to the internal controls frameworks. The Internal Controls Framework ("ICF") defines the key management structures and processes required to be in place to maintain the effectiveness and integrity of our system of internal control. This structured approach will be fully rolled-out over time.

These updates allowed the Committee to make informed reviews of corporate policies, approve the annual internal audit plan, review key findings from the internal audit reports, recommend control and assurance mitigations, and consider sufficiency of resources to deliver our obligations at each of our scheduled meetings (as detailed in our Ring-fencing Certificate, previously referred to as the "F6A statement" or "Sufficiency of Resources Certificate under Condition P").

Internal audit

The Committee monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Group's overall risk management systems. An External Quality Assessment ("EQA") was conducted within the year by BDO LLP, which showed the function is generally effective and efficient in delivery, reflecting the work to improve the function over the past few years, but also included areas for further development. All relevant and agreed actions have subsequently been addressed by the internal audit team.

In 2021/22 the Committee considered and approved the remit and activities of the internal audit function ensuring it had adequate resources and appropriate access to information to enable it to perform its function effectively and was free from management or other restrictions in accordance with the relevant professional standards.

The Committee reviewed and assessed the annual internal audit plan which contains a mix of risk based and cyclical reviews. The plan is delivered through appropriately skilled and qualified internal resources supported with external resources where more specialised skill sets are required, typically within Information Systems and Treasury. The plan is approved by the Committee each year after ensuring that the plan aligns with the Committee's view of risks.

Within the year, any published internal audits which were categorised as high risk triggered a requirement for management to present their action plan to the Committee, providing assurance that control gaps or identified risks will be addressed in a timely manner. The Committee monitors the effectiveness of action closure, including the reviewing the status of any overdue actions.

Throughout the year, the Committee has also been provided with updates to audit standards and an impact assessment regarding the Department for Business, Energy and Industrial Strategy's consultation on proposed audit and reporting reform.

The Committee Chairman held private meetings with the internal audit team to ensure third line independence is being maintained.

External audit

The Committee reviewed PwC's terms of engagement and the scope and execution of their audit work. The Committee assessed the independence and objectivity of the external auditor, considering relevant UK professional and regulatory requirements and the relationship with the auditor, including the provision of any non-audit services in accordance with the Group's Non-Audit Services Standard.

2021/22 is the fourth year PwC has been Thames Water's external auditor. PwC was appointed as the Group's auditor after a competitive tender in 2018/19. The Group adopts the same approach to audit tendering as a FTSE 100 company, ensuring the Group's compliance with the current regulation on the statutory audit of public interest entities. Therefore, the Group will ensure the statutory audit is put out to tender by 2028/29 or earlier depending on the Committee's recommendation.

Effectiveness of the external auditor

The Committee also assessed the effectiveness of the external audit during the financial year by considering the resources, continuity, qualifications, and experience of the external audit team. It also assessed the planning and organisation of the external audit including the appropriateness of the auditor's assessment of the key audit risks and its relevant response to these. These risks are detailed in the Independent Auditor's Report included within the consolidated financial statements. Following this year's annual review, and discussions held between the Committee and PwC throughout the audit process, the Committee is satisfied with the professional scepticism of the auditor and that sufficient challenge was demonstrated towards key areas of management judgements and accounting policies. Therefore, PwC was deemed effective in their role as external auditor in the year ended 31 March 2022.

Auditor's independence and objectivity

An external auditor's independence is essential to the provision of an objective opinion on the true and fair view presented by the financial statements. There are safeguards in place to maintain this independence by frequently reviewing non-audit services performed by the external auditor, ensuring employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Group, and rotating the lead engagement partner at least every five years and other key audit partners every seven years. Katharine Finn has been the current lead engagement partner and a key audit partner for four years. The fees for this financial year, as detailed within the consolidated financial statements, are reasonable and allow an effective audit to be conducted. The increase in fees this year is attributable to additional audit work due to an allowance for inflation, scope of audit regulations and business activity.

Non-audit services

The Committee prohibits non-audit services other than in respect of certain services required for regulatory assurances which it would be impractical for another provider to provide. To safeguard the objectivity and independence of PwC, approval from the Committee Chairman is required for PwC to provide any of these non-audit service where the engagement fee is over £25,000. This approval ensures the external auditor is not performing any work which could create a conflict of interest or breach an external auditor's independence and objectivity. These services are typically limited to where specific knowledge of the Company or Group is necessary for their provision; for instance, assurance work relating to Ofwat submissions, regulatory accounts, interim reviews, leakage reporting and AMP performance commitments. All services are deemed to be permissible in accordance with the FRC's Revised Ethical Standard 2019. Non-audit services were £832,983 in the current period (2020/2021: £960,300). The Committee continued to ensure safeguards were in place relating to non-audit work, including written representations from PwC which confirmed their independence, and was content that the non-audit fees incurred have not resulted in a loss of independence or objectivity.

Directors' Remuneration Report

Jill Shedden
Chair of the Remuneration Committee

"We are clear that remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees."

Contents

This report details the activities of the Remuneration Committee for the financial year to 31 March 2022. It sets out the Remuneration Policy and remuneration details for the Executive Directors and Non-Executive Directors of the company

Attendance

Membership of the Committee during 2021/22:

	Meetings attended/not attended
Jill Shedden[I]	
Nick Land[I]	
Ian Marchant	
Michael McNicholas	
Ian Pearson[I]	
Greg Pestrak*	

Meeting attended   Meeting not attended   (I) Independent

* Greg Pestrak stepped down in December 2021.

Chair's statement

As a Committee, we strongly believe in the importance of transparency regarding matters of remuneration. We strive to ensure that the total reward package received by our executive directors is set at a level which is fair, allows us to recruit and retain the right calibre of individual and reflects both the priorities and values of the business. We are clear that remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees.

The Committee seeks to ensure that there is a clear and demonstrable link between executive remuneration and the delivery of our business purpose – to deliver life's essential service, so that our customers, communities and the environment can thrive.

As we exit the 2021/22 performance year, we have also concluded the first year of the eight-year turnaround plan to fix the basics, raise the bar and shape the future. The majority of the Executive Team are new into role and the Committee has seen a real focus on improving underlying performance resulting in incremental improvements. These improvements are setting the basis for the remaining seven years of the turnaround plan. The Committee recognises that, whilst in-year performance is not where we would want it to be, overall, performance is trending in the right direction.

Overview of remuneration outcomes for 2021/22

At the start of the year, we set targets that focused on the following:

- Safe people – a reduction in lost time incidents, a number of strategic safety improvement actions and a year-on-year improvement in the employee engagement index
- Customer service – a reduction in complaints and a decrease in customer contacts
- Customer and environmental delivery – reduction in supply interruptions, blockages and internal flooding events, progress against our turnaround plan and progress against improving our stakeholder engagement
- Financial – reducing the gross Opex run rate and improving our Opex efficiency, increasing our cash collections and increasing our Capex efficiency

The targets for the Annual Management Bonus plan are linked to our KPIs where progress is tracked each month and reported to the Board. Overall, 2021/22 has been a very challenging year although we have seen good progress in some areas, particularly our customer focus. We faced significant headwinds throughout 21/22 including severe macro-economic pressures and extreme and volatile weather events.

Directors' Remuneration Report continued

- Despite the challenges faced in 2021/22 we have dramatically reduced the number of customer complaints by over 40% and have seen a decrease in customer contacts by 28%
- Although we were significantly impacted by adverse weather conditions in February 2022 our underlying performance to avoid supply interruptions has improved by 50% over the last two years

We did not perform as we would wish against our health and safety, environmental and financial measures:

- Unfortunately, throughout the year we saw an increase in lost time incidents. No incident is acceptable to us and all incidents were thoroughly investigated
- We did not meet our performance measures for internal flooding events. The end of year flooding performance has been confirmed as 1,324. This excludes the extreme London flooding in July 2021 which was a 1 in 200-year weather event. Including this event in July 2021 results in a performance of 2,103 incidents
- We faced a very challenging financial environment with exceptional cost increases in chemicals and energy particularly impacting performance. Significant effort was put in to address these inflationary pressures resulting in outcomes that were above threshold in some areas.

The performance outcomes against annual bonus targets are on page 106. Overall, the Annual Management Bonus outcome is 55.1% which is slightly above target. The Committee believes this is a fair reflection of performance in year. This is equivalent to 66.1% of salary for both the CEO and CFO.

In assessing bonus outcomes, the Committee decided to exercise discretion for one of the measures – cash collections. Cash collections was 0.5% under the threshold measure and the Committee unanimously agreed to exercise upward discretion to award at threshold. This increased the bonus outcome by 1.88%. The decision was made to recognise the significant effort made by the Retail team to drive performance in this area which is continuing to improve despite significant macro-economic challenges. The performance outcomes against the 2019/2022 Long Term Incentive Plan (LTIP) targets are on page 107. Overall, the LTIP outcome is 23.5% which is significantly below target. The Committee believes this to be a fair reflection of the performance of the company over the last three years. In assessing the outcome, the Committee decided to exercise downward discretion against the Integrated Performance Assessment measure by capping the outcome for Return on Regulated Equity (RoRE) at 3.9% for 21/22 against an actual outcome of 13.8%.

Board Changes

We welcomed Alastair Cochran to the Board on 6 September as Chief Financial Officer following Brandon Rennet's decision to leave the business. The remuneration arrangements for Alastair are fully consistent with our remuneration policy, including the alignment of pension entitlement with the wider workforce, equivalent to a contribution of 12% of salary.

→ **Read more about details of Alastair's remuneration**

2022/23 Remuneration

During 2022/23 the Committee will undertake a review of remuneration arrangements. Delivery of our eight-year turnaround plan is critical to the future success of Thames Water and we will ensure our remuneration framework clearly links remuneration to the delivery of the Company's strategic priorities, aiming to promote its long-term success, and reinforce the Company's culture. We will continue to set stretching yet achievable targets to align all elements of remuneration with the delivery of our purpose and critical elements of our business plan.

In 2022/23, the Annual Management Bonus scheme will operate in a similar way to 2021/22 with a continued focus on safe people, customer service, customer and environmental delivery, strategic change programmes and financial delivery.

The 2022/25 Long Term Incentive Plan (LTIP) award for Executive Directors and for members of the senior leadership community is currently under review. Whilst the intention is for this to operate in a similar way to existing plans, we want to ensure it accurately incentivises performance against our business plans and we are taking the time to develop an appropriate measure for the necessary improvement in river health which we are committed to achieving.

Remuneration – at a glance

This section summarises the Remuneration Policy, the charts are required under schedule 8 of the Large and Medium-sized Companies and Groups Regulations 2008

Remuneration policy and structure

Our remuneration policy is designed to attract, retain and motivate our leaders to ensure focus on delivering business priorities within a framework designed to promote the long-term success of the Company.

Remuneration principles

- Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees
- The policy should link remuneration to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture
- Promote demonstrable links between reward for Executive Directors and performance for customers and shareholders, as well as performance against the Company's environmental targets
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives.

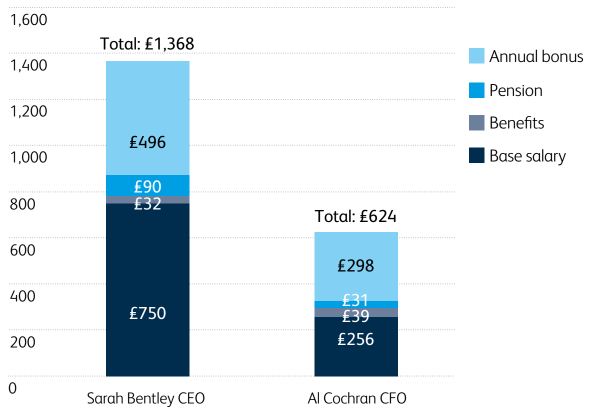
Remuneration policy

Element	Key elements
Base Salary	Reflects the scope and responsibilities of the role, the skills and experience of the individual and market No cap although increases will not normally exceed average increases for the wider workforce
Pension	Payment to the defined contribution pension scheme or cash in lieu of pension Pension contributions are aligned to the wider workforce at 12% of salary is aligned to workforce norms at 12% of salary
Other Benefits	Competitive range of benefits No maximum limit although set to be in line with market and the rest of workforce
Annual Management Bonus	Based on safe people, customer service, customer and environmental delivery, strategic programmes and financial performance over one year Maximum opportunity of 120 per cent of base salary Malus and claw back provisions apply
Long-term incentives	Based on achievement of the performance measures set over three years Maximum opportunity of 200 per cent of base salary A withholding period of up to 2 years Malus and claw back provisions apply

Remuneration outcomes 2021/22

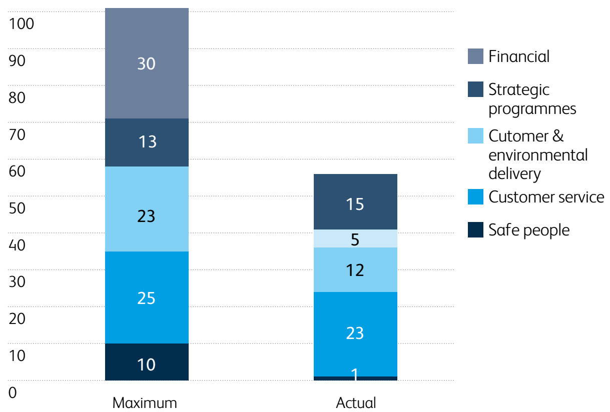
Total Remuneration for Executive Directors 2021/22

£'000s



Annual Management Bonus – one year ending 31 March 2022

%



Key performance indicators (KPIs) performance

- **Safety – Lost Time Incidents Reduction**
- **Culture – Employee Engagement Index**
- **Reduce Customer Complaints**
- **Reduction in Customer Contacts (calls, emails, letters)**
- **Supply Interruptions (SI>3)**
- **Blockages**
- **Flooding Incidents**
- **Stakeholder Engagement and Transparency**
- **Delivery of turnaround plan milestones**
- **Cash Collection % – Current Year**
- **Opex Spend**
- **Gross Opex Efficiency (in year)**
- **Capex Efficiency**

- At or above stretch target
- Between threshold and stretch target
- Below threshold target

For the purposes of this table Sarah's remuneration excludes payments made for forfeited long-term incentive awards from Severn Trent. Full details of Sarah's remuneration can be found here

Remuneration – at a glance continued

Remuneration policy and structure continued

Approach to remuneration for 2022/23

Fixed

Base salary
Individual performance, the external market, and internal and external economic factors

Pension allowance
12% of salary aligned with workforce

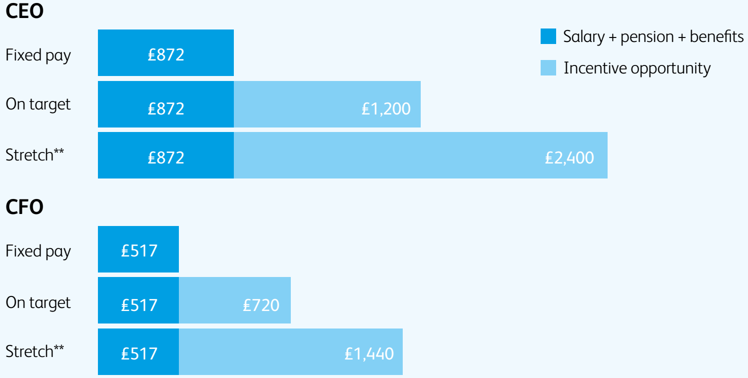
Benefits
- Car allowance
- Insurance

Variable

Annual bonus
- Safe People
- Customer Service
- Customer & Environmental Delivery
- Strategic Programmes
- Financial

LTIP
- Integrated Performance Assessment
- Customer
- Environmental

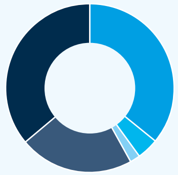
Possible outcomes under the Remuneration Policy*



* Fixed pay is the minimum payable, and is made up of base pay for 2022/23, pension allowance and benefits.
For incentive opportunity, the maximum performance results in the maximum Annual Management Bonus (120%of salary). Performance is also shown in the chart at 50% of maximum which results in 50% of maximum payment (60% of salary). For the LTIP, stretch performance results in the maximum payment (200% of salary).
On target performance results in 50% of maximum payment (100% of salary).

** All Executive incentives at Thames Water are cash awards. As such, the above chart does not include the impact on the potential value of the package of a 50% appreciation in share price over the LTIP performance period.

Elements of CEO remuneration 2022/23 'on target' scenario



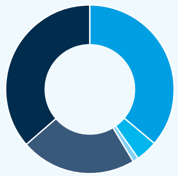
Salary	36%	Fixed
Pensions	4%	
Other benefits	2%	
Bonus	22%	Variable
LTIP 2021/24 opportunity	36%	

Elements of CEO remuneration 2022/23 maximum scenario

Salary	23%	Fixed
Pensions	3%	
Other benefits	1%	
Bonus	28%	Variable
LTIP 2021/24 opportunity	46%	

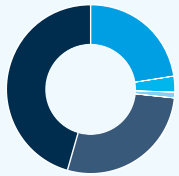
* based on CEO's 2021/2022 package

Elements of CFO remuneration 2022/23 'on target' scenario*



Salary	36%	Fixed
Pensions	4%	
Other benefits	1%	
Bonus	22%	Variable
LTIP 2021/24 opportunity	36%	

Elements of CFO remuneration 2022/23 maximum scenario*



Salary	23%	Fixed
Pensions	3%	
Other benefits	1%	
Bonus	28%	Variable
LTIP 2021/24 opportunity	46%	

* based on CFO's 2021/2022 package

Summary of Remuneration Policy across wider group

The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases and remuneration arrangements for the Executive Directors. For other Executive team members, the Committee reviews and approves all incentive elements.

During the year, the Committee received periodic updates on wider workforce remuneration matters in line with the UK Corporate Governance Code 2018.

Neither Sarah nor Alastair will receive a salary increase this year. The Committee also noted the decision not to award salary increases to the Executive and other senior leaders. Salary increases for the remaining population are subject to negotiations with our Trade Unions which are ongoing.

Annual Report of Remuneration (required under schedule 8)

This section has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The information has been audited as indicated..

Single total figure of remuneration for Executive and Non-Executive Directors (audited) for 2021/22 and 2020/21

		Salary/Fees £'000		Taxable Benefits £'000		Annual bonus £'000		LTIP £'000		Other £'000		Incentive Recovered £'000		Pension related benefit £'000		Total pay £'000		Total fixed pay £'000		Total variable pay £'000	
		2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Executive Directors:																					
1	Sarah Bentley	**750**	438	**32**	19	**496**	273		–	**680**	446		–	**90**	53	**2,048**	1,229	**872**	509	**1,176**	720
	Alistair Cochran	**256**	–	**9**	–	**298**								**31**		**594**		**296**		**298**	
2	Brandon Rennet	**213**	425	**7**	15		265		–		425		-28	**53**	106	**273**	1,208	**273**	546	**–**	662
	Chairman																				
3	Ian Marchant	**325**	460	**–**	–		–		–		–		–		–	**325**	460	**325**	460	**–**	–
Independent Non-Executive Directors:																					
4	Alistair Buchanan	**–**	18	**–**	–		–		–		–		–		–	**–**	18	**–**	18	**–**	–
5	Nick Land	**75**	75	**–**	–		–		–		–		–		–	**75**	75	**75**	75	**–**	–
6	Catherine Lynn	**70**	70	**–**	–		–		–		–		–		–	**70**	70	**70**	70	**–**	–
7	Hannah Nixon	**70**	15	**–**	–		–		–		–		–		–	**70**	15	**70**	15	**–**	–
8	Ian Pearson	**70**	70	**–**	–		–		–		–		–		–	**70**	70	**70**	70	**–**	–
9	Jill Shedden	**70**	70	**–**	–		–		–		–		–		–	**70**	70	**70**	70	**–**	–
10	David Waboso	**70**	70	**–**	–		–		–		–		–		–	**70**	70	**70**	70	**–**	–
Non-Executive Directors																					
11	Paul Donovan	**35**	60	**–**	–		–		–		–		–		–	**35**	60	**35**	60	**–**	–
12	Michael McNicholas	**60**	60	**–**	–		–		–		–		–		–	**60**	60	**60**	60	**–**	–
13	John Morea	**60**	60	**–**	–		–		–		–		–		–	**60**	60	**60**	60	**–**	–
14	Greg Pestrak	**45**	60	**–**	–		–		–		–		–		–	**45**	60	**45**	60	**–**	–
	Total	**2,169**	1,951	**48**	34	**794**	538	**–**	–	**680**	871	**–**	–28	**174**	159	**3,865**	3,525	**2,391**	2,143	**1,474**	1,382

1. Sarah Bentley's remuneration for 2020/21 reflects annual salary, travel & car allowance of £30,000, annual pension of 12% of salary and around £1,500 for medical benefits prorated to time in office since 1 September 2020 and compensation payments linked to her forfeiting a bonus and other incentive payments at Severn Trent. Sarah Bentley's remuneration for 2021/22 reflects annual salary, travel & car allowance of £30,000, annual pension of 12% of salary, medical benefits and annual bonus. As reported in the previous year's report, Sarah was granted buy-out payments to compensate for unvested awards which were forfeited as a result of her leaving Severn Trent. In September 2021 Sarah received a payment of £502,016 for the loss of unvested awards. In July 2022 she will receive a payment of £178,000 which is in respect of Thames Water performance conditions for the period of April 2020 to March 2022. A payment of £548,780 will be made in July 2022 as the final buy-out of inflight and forfeited awards. This payment is not subject to performance conditions and is the final buy-out payment.
2. Brandon Rennet's remuneration for 2021/22 reflects annual salary, car allowance of £12,500, annual pension of 25% of salary and circa £2,200 for medical benefits. It is pro-rated to his exit on 30 September 2021. Brandon was not entitled to receive any bonus or LTIP payments for the 2021/22 performance year. Details of Brandon Rennet's remuneration on departure are set out in the Payments for Loss of Office section in this report.
3. Alastair Cochran's remuneration for 2021/22 reflects annual salary, car allowance of £12,500, annual pension of 12% of salary, medical benefits and annual bonus. It is pro-rated for his start date of 6 September 2021.
4. Alistair Buchanan's fee is pro-rated to the end of his contract date of 3 July 2020. Alistair received no payment after he left as Director.
5. Hannah Nixon's fee for 2020-2021 is pro-rated from her appointment date of 14 January 2021.
6. Paul Donovan's fees for 2021/22 are pro-rated based on him stepping down in October 2021.
7. Greg Pestrak's fees for 2021/22 are pro-rated based on him stepping down in December 2021.

Annual Report of Remuneration (required under schedule 8) continued

Arrangements for Sarah Bentley

Sarah joined Thames Water on 1 September 2020 as Chief Executive Officer. All pay and benefits have been set in line with the current Remuneration Policy. Sarah's CEO base salary was set at a level that the Committee regards as appropriate for the size and scope of the role. In line with the remuneration policy, Sarah's pension contribution of 12% of salary is aligned to the wider employee population. Sarah also receives other benefits including travel & car allowance, private medical cover and life assurance.

As disclosed in our previous Annual Report, as part of Sarah's offer of employment, Thames Water committed to make payments to compensate for bonus and inflight long-term incentive awards which were forfeited when she left Severn Trent. A payment of £502,016, as compensation for the forfeited 2018/21 LTIP, was paid on her first anniversary in September 2021 and is included in the single figure remuneration table.

A further buyout for the loss of inflight incentives (the Severn Trent 2019/22 LTIP) is due to Sarah in July 2022. Part of that buyout is subject to the achievements of targets set in relation to Thames Water's return on regulatory equity (RORE), Customer Service performance, Customer Delivery and Environmental performance over a two year period commencing 1 April 2020. Having reviewed the performance of Thames Water during the reference period, the Committee made the decision to award £178,000. As this is subject to company performance this is included in the single figure table.

Sarah will receive a further £548,780 as a final buy-out payment. This is not performance related and is directly correlated to her loss of inflight share awards. There will be no further payments made to Sarah as compensation for forfeited Severn Trent awards. This amount will be reflected in the 2022/23 single figure table.

Arrangements for Alastair Cochran

We welcomed Alastair Cochran as CFO on 6 September 2021. A summary of Alastair's remuneration from appointment is set out below:

Element of remuneration

Base salary	£450,000 per annum
Pension	A contribution of 12% of salary (in line with the wider employee population)
Benefits	Car allowance, private medical insurance and life assurance
Annual Management Bonus	For 2021/22, a maximum opportunity of 120% of salary
LTIP	For the 2020/23 and 2021/24 cycles, a maximum opportunity of 200% of salary

The Committee agreed to compensate for inflight incentive awards that were forfeited by Alastair on him joining Thames Water. A payment of £150,000 will be made in July 2022, £100,000 in July 2023, and a payment of £100,000 in 2024. The Committee also agreed to apply a bonus outcome that is not pro-rated for 2021/22.

The total Executive Directors remuneration reflects the total work completed; however, this is paid proportionately from different entities to recognise the work that they do for the wider group outside of the Thames Water Utilities Ltd. entity. Kemble Holdings Ltd. is fully funded by shareholders. Of the total Executive Directors' remuneration of £2,914,524 (2021: £2,436,883), £2,185,893 (2021: £1,827,663) is for the Executive Directors for their services to Thames Water Utilities Limited and has been disclosed within note 4 to the financial statements. In addition, the Executive Directors received total remuneration of £728,631 (2021: £609,211) for their services to other companies within the Kemble Water Holdings Limited Group. No operational distinction is made between services provided by the Directors to one or the other.

Additional requirements in respect of the single total remuneration figure table

Base salary (audited)

Base salaries are a fixed sum payable monthly in arrears. For the Executive Directors, these are reviewed every year, taking into account their individual performance, the external market and internal and external economic factors, with any changes taking effect from 1 July each year.

Chief Executive Officer (CEO): Sarah's base salary is £750,000 per annum. No salary increase has been awarded since Sarah joined in September 2020.

Chief Financial Officer (CFO): Alastair's base salary is £450,000 per annum.

Benefits

For Sarah, benefits include private medical insurance and travel and car allowance of £30,000 per annum.

For Alastair, benefits include private medical insurance and a car allowance of £12,500 per annum.

Annual Report of Remuneration (required under schedule 8) continued

Annual Management Bonus (audited)

For 2021/22, all managers were eligible to participate in the Annual Management Bonus scheme. The maximum opportunity for Executive Directors was 120% of salary. The performance period was 1 April 2021 to 31 March 2022 with payment in July 2022. The scheme was assessed by the Remuneration Committee and approved by the Board against a number of performance areas as follows:

Measure	% of Pay-out	Threshold	Target	Stretch	Approved Outcomes	% Bonus Payable
Safety	5%	5%	10%	20%	0.15 for LTIR Strategic on track	1.25%
Engagement	5%	75%	77%	79%	69%	0%
Customer Complaints	12.5%	20%	25%	30%	43%	12.5%
Customer Contacts	12.5%	20%	25%	30%	28%	10%
Supply Interruptions*	10%	10 min 38 sec (15 min 43 sec)	9 min 26 sec (14 min 31 sec)	8 min 26 sec (13 min 31 sec)	8 min 02 sec (11 min 03 sec)	10%
Blockages	7.5%	75,000	72,500	68,000	74,569	2.2%
Flooding**	7.5%	1,145	1,025	941	1,324	0%
Stakeholder Engagement	5%	3	3.1	3.2	2.7	0%
Delivery of Turnaround Plan	5%	70%	80%	100%	95.8%	4.50%
Cash Collection % – Current Year	7.5%	86.70%	88.20%	89.20%	86.2%	1.88%
Opex Spend	7.5%	£1,152m	£1,137m	£1,127m	£1,135m	4.5%
Gross Opex Efficiency – In Year	7.5%	£62m	£72m	£82m	£66.9m	2.8%
Capex Efficiency***	7.5%	TBA	TBA	TBA	19%	5.5%
Total	**100%**		**Outcome as a % of maximum bonus**			**55.1%**

* Supply Interruptions is 8 min 02 sec based on underlying performance. This excludes any catastrophic events. There was a single catastrophic event in December 2021 at Westside North London. Including that event results in an end of year performance of 11 mins 03 secs. Performance against both measures was above the stretch target.

** The end of year Flooding performance has been confirmed as 1,324. This excludes the extreme flooding in London in July 2021 which was a 1 in 200-year weather event. Including this results in a final performance of 2,103 incidents.

*** During the original design of the plan, 7.5% of the total bonus opportunity was allocated to capital efficiency with this measure to be defined. It has now been confirmed that no suitable mechanism has been identified however, the AMP7 Intelligent Client delivery arrangement in Capital Delivery is 19% more efficient than the AMP6 eight2O model. The Committee accepted this assessment in agreeing the Capex Efficiency outturn.

Annual Report of Remuneration (required under schedule 8) continued

Sarah Bentley and Alastair Cochran will receive an Annual Management Bonus pay out at 55.1% of the maximum. There is no personal performance element for Sarah and Alastair and their bonus payments are directly linked to Company performance. The broader management population has a personal performance element of 10%. The broader management population will, on average, receive a bonus pay-out of 55.9% (within a range of 49.9%-59.9%). Sarah and Alastair are therefore in-line with the broader management population.

Applying the 55.1% of maximum outcome produces a payment of £495,900 for Sarah and £297,540 for Alastair. To compensate Alastair for the loss of shares from his previous employment, he will receive a bonus outcome that is not pro-rated. These payments will be made in July 2022 at the same time as bonus payments for all other managers.

Long Term Incentive Plan ("LTIP") (audited)

For 2019/22, members of the Executive Team and senior leaders were able to participate in the LTIP. The maximum opportunity for Executive Directors was 200%. The performance period was 1 April 2021 to 31 March 2022 with payment in July 2022. The scheme was assessed by the Remuneration Committee and approved by the Board against a number of performance areas as follows:

Measure	% LTIP pay-out	Threshold	Target	Stretch	Approved Outcomes	% pay-out outcome
Integrated Performance Assessment	20%	2.72%	3.03%	3.66%	3.33%	14.8%
CSAT	20%	4.50	4.55	4.60	4.34	0%
R-NPS	20%	–9	–7	–5	–21	0%
Water quality	10%	2.5	2.0	1.5	2.59	0%
Leakage*	10%	606.3	603.3	596.2	603.3	5%
Pollutions (total and per 10,000km)	10%	282/25.8	259/23.7	252/22.4	271/24.87	3.7%
Internal sewer flooding incidents** (total and per 10,000 connections)	10%	1,090/1.78	1,025/1.67	1,000/1.63	1,324/3.46	0%
Total as a % of opportunity	100%					**23.5%**

* During 2021/22 we created a Leakage Reporting and Insight Improvement Programme (LRIIP) which was designed to improve confidence in our data quality and processes, improve resilience, provide greater accuracy and consistency of reporting through assurance, and demonstrate how we will use insight to effectively deliver improved leakage performance expected by our customers and stakeholders. As part of this, this year we have incorporated some minor improvements to our leakage reporting methodology as we work towards become fully compliant with the Ofwat common guidance. So that our current performance is reported on a consistent basis, we have applied these improvements to our previously reported performance and have reset the 2019/20 baseline (from 671.8 Ml/d at AR21 to 674.4 Ml/d at AR22). Although this has meant we've had to revise our reported leakage for last year, this remains ahead of our revised target for 2020/21.

The Committee has made the decision to award the LTIP outcome based on the current information available which demonstrates achievement of an at target reduction. Should further review result in a lower reduction being achieved the Committee will instigate the clawback clause contained within the LTIP.

** The end of year Flooding performance has been confirmed as 1,324. This excludes the extreme event in July 2021 which was a 1 in 200-year weather event. Including the event in July 2021 results in a final performance of 2,103 incidents.

In assessing the final outcome of the LTIP, the Committee decided to exercise discretion against the Integrated Performance Assessment measure. Integrated Performance Assessment is based on a three-year average of RoRE (Return on Regulated Equity). The performance outcome for 2021/22 was 13.8%. The Committee exercised downward discretion as it believed the 13.8% did not accurately reflect underlying performance. The decision was made to apply the maximum allowable RoRE of 3.9% for 2021/22. This resulted in an overall outcome of 3.33%.

Neither Sarah nor Alastair participated in the 2019/22 LTIP.

Total pension entitlements (audited)

The Executive Directors are currently eligible to participate in our defined contribution pension scheme, with Thames Water making contributions up to a maximum of 12% of base salary, to align with the wider workforce. No element of Annual Management Bonus or LTIP is pensionable. Executive Directors may choose to receive a cash allowance instead of these pension contributions. There are no additional benefits upon early retirement.

For 2021/22, Sarah and Alastair both elected to receive a cash allowance of 12% of base salary.

Executive Directors' service contracts

All Executive Directors have service contracts which may be terminated by Thames Water with 12 months' notice and the individual giving 6 months' notice. The dates of the contracts for the Executive Directors and their notice periods are set out below. There is no maximum or minimum service period for any of the Executive Directors.

	Contract start date	Notice period (by individual / Thames Water)
Sarah Bentley, CEO	1 September 2020	6 months / 12 months
Alastair Cochran, CFO	6 September 2021	6 months / 6 months

Payment for loss of office (audited)

Brandon Rennet stepped down as an Executive Director from the Board and the role of Chief Financial Officer on 30 September 2021. As payment for loss of office Brandon received £106,350 plus £4,722 as pay in lieu of notice. Brandon did not receive any bonus or LTIP awards for 2021/22.

Payments to past Directors (audited)

Brandon Rennet received a payment of £106,350 for loss of office plus £4,722 as pay in lieu of notice in October 2021. This was paid the month after his last month of employment with Thames Water which is in line with normal Company procedure.

Annual Report of Remuneration (required under schedule 8) continued

Percentage change in remuneration of Directors and employees

The percentage change in remuneration between 2021/22 and 2020/21, excluding LTIP for the CEO, CFO, Non-Executive Directors and for the average of all other employees is as follows:

	Percentage change 2019/20 to 2020/21			Percentage change 2020/21 to 2021/22		
	Base salary/ Fee	Taxable Benefits	Annual Bonus	Base salary/ Fee	Taxable Benefits	Annual Bonus
Executive Directors						
Sarah Bentley, CEO	n/a	n/a	n/a	71%	71%	82%
Alastair Cochran, CFO	n/a	n/a	n/a	n/a	n/a	n/a
Brandon Rennet, CFO	0%	0%	(34.9%)	(50%)	(50%)	(100%
Chairman						
Ian Marchant	(50%)	–	–	(29%)	–	–
Non-Executive Directors						
Alistair Buchanan	0%			n/a	n/a	n/a
Nick Land	0%			0%	–	–
Catherine Lynn	0%			0%	–	–
Hannah Nixon	n/a	n/a	n/a	365%	n/a	n/a
Ian Pearson	0%			0%	–	–
Jill Shedden	0%			0%	–	–
David Waboso	0%			0%	–	–
Paul Donovan	0%			(50%)	–	–
Michael McNicholas	0%			0%	–	–
John Morea	0%			0%	–	–
Greg Pestrak	0%			(25%)	n/a	n/a
Employees	2.6%	10%	0.3%	2.8%	0.7%	22.5%

Notes

Sarah Bentley's remuneration in 2020/21 was pro-rated therefore the 71% increase is reflective of the change between a part-year and whole year, and reflects the incorporation of the buy-out of inflight incentive awards.

Alastair Cochran started in his role as CFO on 6 September 2021 therefore no comparison to 2020/21 is available.

Brandon Rennet stepped down as CFO in September 2021 resulting in a negative percentage change.

Non-Executive Directors are not eligible for benefits or annual bonus.

The employee percentages shown represent the change in average employee pay, benefits and annual bonus. This compares the average employee on 31 March of the relevant financial year with the average employee on 31 March of the preceding financial year.

For annual bonus, this applies to the Annual Management Bonus plan where all managers, are eligible to participate in this plan.
The percentage change in benefits in 2020/21 was due to increased employer contribution rates in respect of the two defined benefit pension schemes following the outcome of the 2019 actuarial valuation and a premium increase in private medical insurance.

Ratio of CEO remuneration to workforce

This table shows the pay ratio between the CEO and Thames Water employees. This includes all remuneration such as overtime, long service awards and benefits. The table below provides the ratio between the CEO single figure total remuneration and the median, 25th and 75th percentile total remuneration of all Thames Water's full-time equivalent UK employees on 31 March 2022.

For 2021/22 the pay ratio calculation shows that in total remuneration terms, the CEO earns 53 times that of the median employee due to the buy-out of inflight awards from Severn Trent. This accounts for the majority of the year-on-year increase from 2020/21. The Committee will keep the published pay ratio under review.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	70:1	53:1	39:1
2021	Option A	34:1	25:1	18:1
2020	Option A	25:1	19:1	14:1
2019	Option A	29:1	21:1	15:1

Notes

- We are using Option A as defined in the Companies (Miscellaneous Reporting) Regulations 2018.
- Total remuneration reflects all remuneration including salary, benefits, employer pension contributions and incentives. Of the three alternatives available for calculating the ratio, we chose to use Option A as it is considered to be the most accurate way of identifying employees at P25, P50 and P75. Under this approach we calculate total remuneration on a full-time equivalent basis for all of our UK employees as at 31 March 20221 and rank them accordingly. No adjustments have been made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration.
- The increase in median pay ratio between 2020/21 and 2021/22 is reflective of Sarah Bentley's remuneration being pro-rated in 2020/21 versus a full-year in 2021/22 and the incorporation of the buy-out of inflight incentive awards.
- No direct comparison between 2019, 2020 and 2021 can be made due to the interim appointment of Ian Marchant as Executive Chairman.

Here are the total pay and benefits for the employees at the 25th, 50th and 75th percentiles and the salary component of total pay and benefits for these employees.

2022	Salary	25,422	32,946	44,783
	Total pay and benefits	29,187	39,064	51,886

Annual Report of Remuneration (required under schedule 8) continued

Workforce Engagement

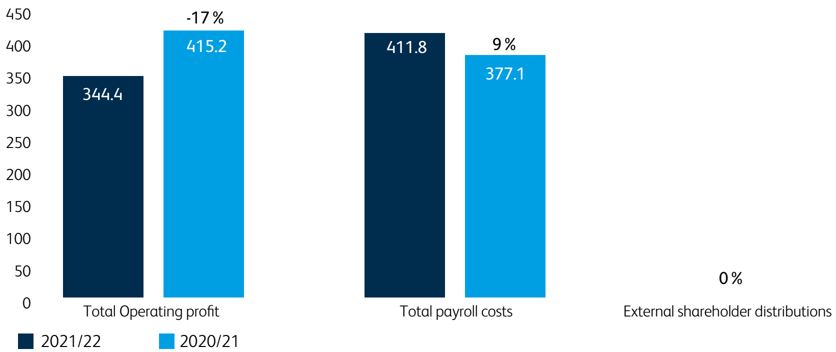
A full update from Ian Pearson, our Designated Non-Executive Director for Workforce Engagement is available on page 40.

We provide employees with a personalised total reward statement each year showing the total value of earnings over the year including salary, employer pension contributions, plus details of the benefits, such as annual leave as well as the wide range of discretionary benefits.

The Remuneration Committee invites the People Director to present proposals for the annual salary review for managers and employees (including the Executive Team) each year. The Committee takes into account remuneration arrangements for the wider employee population when approving the salary increases and incentive payments for the Executive Directors. The Committee also reviews incentives across the company to ensure alignment with purpose, values and culture. In 2021/22, there were no base salary increases for manager levels, and non-managerial employees received an average of 2.25% increase.

Relative importance of spend on pay

Here is the change in total operating profit, external shareholder distributions and overall spend on pay for 2021/22.



Shareholder dividends are those made to external shareholders of the Kemble Water Holdings Limited group in respect of the relevant financial year. The Directors believe that this is the most relevant measure to use as a comparison. No distributions were made to external shareholders relating to 2021/22. No distributions were made to external shareholders in 2020/21.

The 2021/22 total payroll costs include the buy-out awards for the CEO.

We have chosen Total Operating Profit as the most relevant measure for Thames Water.

Ten-year Chief Executive Officer's remuneration

The table below shows the total remuneration earned by the Chief Executive Officer (based on the single total figure of remuneration) in each of the respective last 10 years, along with the percentage of maximum opportunity earned in relation to the Annual Management Bonus and Long-Term Incentive Plan.

	Total remuneration (£'000)	AMB Outcome (% of maximum)	LTIP Outcome (% of maximum)
2021/2022	2,048	55%	n/a
2020/2021	1,229	52%	n/a
2019/2020	196	n/a	n/a
2018/2019	780	n/a	n/a
2017/2018	745	n/a	n/a
2016/2017	740	n/a	n/a
2015/2016	1,015	66%	n/a
2014/2015	2,057	73%	55%
2013/2014	1,294	69%	63%
2012/2013	627	52%	57%

Note:
1. Sarah was not eligible for the 2021/22 LTIP
2. There was no LTIP payment due in 2020/21.
3. S Robertson only received base salary and benefits in 2016 to 2020

Consideration of the views of other stakeholders

Thames Water is a private organisation, with external shareholder representation on the Board of Directors and its committees (including the Remuneration Committee). This governance structure ensures that the Committee's decision-making is subject to the direct input of shareholder representatives and can take into account the views of other shareholders as part of the normal course of business. The Committee reviews executive remuneration at Thames Water in the context of developments in the wider remuneration governance landscape, including trends in generally-accepted best practice, the views of the wider investment community and their representative bodies, as well as those of our regulator, Ofwat.

We also engage throughout the year with other stakeholders such as the CCG, non-governmental organisations (NGOs) and community groups, on what's important to them and these help form our views when determining the incentive plan performance targets each year.

Implementation of our Remuneration policy in 2022/23

Implementation of our Remuneration policy in 2022/23

The Committee has reviewed current base pay arrangements and agreed that there would be no change to base pay for Executive Directors and Non-Executive Director fees (see page 104).

The Committee and the Executive team have agreed that there will be a small number of base pay adjustments for specific managerial roles during 2022/23. Base pay increases for our front-line colleagues are subject to negotiation with our Trade Union Partnership. These negotiations are ongoing and therefore we are unable to provide further information at this time.

Annual Management Bonus 2022/23

In 2022/23, the Annual Management Bonus scheme will operate in a similar way to the previous year with a continued focus on customer service and customer and environmental delivery.

Details of the 2022/23 Annual Management Bonus measures, including the targets for Executive Directors, are below. The on-target bonus opportunity for Executive Directors will be 50% of the maximum opportunity. The maximum opportunity for 2022/23 for Executive Directors will be 120% of salary. In all cases total incentive opportunity remains below the cap in the remuneration policy.

Bonus Element	Objective Measure	Element as % of Total Bonus Opportunity		FY22/23 threshold	FY22/23 target	FY22/23 Stretch
Safe People	Safety (reduction in LTIR and progress against process safety	10%	5%	0.14 90%	0.13 94%	0.12 98%
	Engagement (employee engagement index)		5%	69%	70%	72%
Customer Service	Customer complaints (reduction)	25%	12.5%	22.50%	25%	30%
	CSAT		12.5%	80	81	83
Customer & Environmental Delivery	Supply Interruptions (SI>3)	22.5%	10%	7 mins 50 secs (12 mins 55 secs)	6 mins 50 secs (11 mins 55 secs)	5 mins 50 secs (10 mins 55 secs)
	Blockages		7.5%	74,000	73,000	70,000
	Flooding		5%	1,219	1,099	979
Strategic programmes	Delivery of turnaround plan	10%	10%	70%	80%	100%
Financial	Cash Collection % – total, directly billed	32.5	10.0%	77.5%	80.8%	83.0%
	Opex (net opex)		7.5%	£1,260m	£1,200m	£1,140m
	Gross opex cost savings		7.5%	£170m	£200m	£240m
	Net Capex		7.5%	£1,500m	£1,650m	£1,750m
Total		**100%**				

Long Term Incentive Plan (LTIP) 2022/25

Overall, the LTIP 2022/25 will operate in a similar way to the previous year with a continued focus on delivering critical elements of our stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customer, the environment and shareholders since it is impacted by all aspects of our business plan. The Committee is currently reviewing appropriate targets for Leakage reductions, as well as identifying an appropriate measure for improving river health. As both these elements are under consideration and have yet to be finalised, the 2022/25 LTIP will be disclosed in the half-year report.

All Executive Directors including the CEO (as well as other selected Executives and Senior Managers) will be eligible to participate in the scheme. For the 2022/25 cycle, the on-target pay out for the Executive Directors will be 100% of salary, with a maximum pay out of 200% of salary for delivery of stretch targets.

Non-Executive Directors annual fees (audited)

The fees for the Chairman and Non-Executive Directors were reviewed in March 2022 and remain at their current level. Here are the Non-Executive Director Fees for each role effective from 1 July 2022:

	Total annual fees 01/07/2022	Total annual fees 01/07/2021	Percentage increase
Non-Executive Chairman	£325,000	£325,000	0%
Independent NED / NED (non-committee member)	£50,000	£50,000	0%
Independent NED / NED (committee member)	£60,000	£60,000	0%
Chair of the Customer Service Committee / Remuneration Committee / Health, Safety & Environment / Regulatory Strategy Committee / Workforce Engagement Lead Director	£70,000	£70,000	0%
Chair of the Audit, Risk and Reporting Committee	£75,000	£75,000	0%

Remuneration Committee

Members and attendance

The Remuneration Committee (Committee) is chaired by Jill Shedden and consists of a mix of independent Non-Executive Directors and Non-Executive Directors. The attendance of the members of the Committee during the year is shown on page 100.

The role of the Committee

The role of the Committee is to make recommendations to the Board regarding the remuneration strategy and framework to make sure that the Executive Directors and senior management, including the Executive Team, are appropriately rewarded for their contribution to the Thames Water's performance. The Committee applies good corporate governance by taking into account regulatory requirements, the UK Corporate Governance Code and any corporate governance principles issued by our regulator, Ofwat.

The Committee is responsible for setting remuneration policy and practices that are designed to support strategy and promote the long-term success of Thames Water whilst following the below principles:

- Clarity – remuneration arrangements are transparent and promote effective engagement with stakeholders and Thames Water colleagues
- Simplicity – remuneration structures are uncomplicated with easy to understand rationale and operation
- Risk – reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans are identified and mitigated
- Predictability – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy
- Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of Thames Water is clear and that outcomes do not reward poor performance
- Alignment to culture – incentive schemes drive behaviours consistent with Thames Water's purpose, values and strategy.

The Committee's activities cover a range of subjects including short term incentives, long term incentives, pay and succession planning.

Support to the Committee

To ensure that Thames Water's remuneration policy and practice is in line with best practice, the Committee has appointed independent, external remuneration advisers, Mercer. This appointment took place in 2019 following a selection process. Mercer attend meetings of the Committee by invitation. The People Director also attends Committee meetings to provide advice and respond to specific questions. Such attendances specifically exclude any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

Fees for advice provided by Mercer to the Committee during the year were in the region of £60,000 excluding VAT on the basis on time and materials. The Committee is satisfied that the advice they received from external advisers is objective and independent.

The Remuneration Committee report was approved by the Board on 28 June 2022, and signed on its behalf by:

Jill Shedden
Chair, Remuneration Committee

Appendix 1: Summary of Executive Directors' remuneration policy

Remuneration Framework

The overarching remuneration framework is designed to offer an appropriate mix of fixed and variable pay elements which, as a total remuneration package, attract, retain and motivate talented senior leaders to deliver great outcomes for our customers, shareholders and other stakeholders. At the same time, the package is designed to ensure a balance between appropriate risk taking and careful stewardship.

The core underlying principles for remuneration at Thames Water are outlined below:

- Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees
- The policy should link remuneration to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture
- Promote demonstrable links between reward for Executive Directors and performance for customers and shareholders, as well as performance against the Company's environmental targets
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account an individual's contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives.

The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases and remuneration arrangements for the Executive Directors.

Fixed remuneration

The table below breaks down the policy that applies to Executive Directors:

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Base salary Purpose and link to strategy Attracting and retaining Executive Directors of the calibre required to deliver our strategy. Base salary reflects the scope and responsibilities of the role and the skills and experience of the individual.	Base salaries reflect the scope and responsibilities of the role and the skills and experience of the individual as well as the external market. Base salaries are paid in cash. Base salaries are reviewed annually by the Committee, considering individual performance, the external market and internal and external economic factors. Changes are usually effective from 1 July.	There is no maximum salary increase. Although annual salary increases will not normally exceed average increases for the wider workforce, the Committee retains the flexibility to award larger increases in certain circumstances including, but not limited to: • where role scope has changed; • as part of salary progression for newly appointed Executive Directors, where the salary level is set below the market reference salary at the time of appointment, with the intention of bringing the salary level in line with the market as the individual gains the relevant experience; and • where market conditions indicate a level of under-competitiveness in the context of an Executive Director's performance and/or contribution.	None
Benefits Purpose and link to strategy Supporting health and wellbeing to enable the Executive Director to focus on delivering performance for shareholders and other key stakeholders and to provide a competitive package of benefits that is aligned with market practice.	The Company provides a range of market competitive benefits to Executive Directors that is aligned with that offered to our managers more widely, including (but not limited to) a car allowance, private medical insurance, and other insurance benefits such as group income protection, life assurance and where appropriate relocation and housing costs. The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it can support the objective of attracting and retaining personnel to deliver our strategy.	There is no set maximum. Benefits will be provided at a rate commensurate with the market and the level that is offered to employees. The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically in line with benefits of other employees at least every three years.	None

Appendix 1: Summary of Executive Directors' remuneration policy continued

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Pension allowance Purpose and link to strategy Attracting and retaining high calibre Executive Directors through the provision of cost-effective saving benefits for retirement, aligned to the workforce.	Participation in our defined contribution pension scheme, or cash payments in lieu of pension contributions, payable in monthly instalments during the year, directly to the individual or into their pension scheme.	The company contribution to a pension scheme and/or cash allowance will be up to a maximum of 12% of base salary, in line with the level of contribution offered to the wider workforce.	None

Variable remuneration (in addition to "Fixed remuneration" elements above)

The total remuneration package is designed to ensure that a significant portion of the maximum opportunity for any Executive Director is at risk if key performance targets are not met. The design of the short-term and long-term incentives mean that the majority of an Executive Director's total remuneration is dependent upon performance and delivered over a three- to five-year period.

The aggregate maximum incentive opportunity that shall be eligible to be awarded in any year to an Executive Director from the Annual Management Bonus and any longer-term incentive shall not exceed 320% of salary (whereby 120% is the maximum opportunity for the Annual Management Bonus and 200% is the maximum opportunity for long term incentive plan (LTIP) awards). However, to reflect the nature of the Company's strategy and/or the evolution of its performance horizon over each Asset Management Plan period, the relative split of this aggregate incentive opportunity between the Annual Management Bonus and any longer-term incentive may vary from year to year.

Appendix 1: Summary of Executive Directors' remuneration policy continued

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Annual Management Bonus Purpose and link to strategy To motivate and incentivise the Executive Director to achieve the Company's key annual financial, customer and operational priorities, providing a direct link between annual performance and reward.	Bonuses are based on customer service, customer and environmental delivery, business culture, safety and financial performance, over a performance period of one financial year and are paid in cash. The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. Targets are set to deliver stretching performance for customers and other stakeholders, considering: the operating environment and priorities; customer, shareholder and regulatory expectations; and the business plan for the year ahead. Other than in exceptional circumstances (e.g. a turnaround situation) bonus payments above target (50% of maximum) will only be paid out for performance above business plan. Clawback provisions apply for a period of two years after any payment is made, in the event of financial misstatement, error in calculation, or gross misconduct.	The maximum annual bonus opportunity shall be agreed by the Committee at the start of each year, subject to the aggregate incentive award opportunity limit set out above this table (i.e. taking into account the opportunity awarded under any longer-term incentive plan). The on-target opportunity shall be no more than 50% of the maximum opportunity. The pay-out for meeting the threshold performance level set by the Committee shall normally not be more than 25% of the maximum award opportunity. The maximum opportunity is 120% of salary. **Committee Discretion** Any payment remains subject to the absolute discretion of the Board to reduce it in whole or in part. If overall performance is not satisfactory, the award for any year may be reduced or forfeited, at the absolute discretion of the Committee and Board. In exceptional circumstances, the Committee retains the discretion to: • Change the performance measures and targets and the weighting attached to them part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings or targets are no longer appropriate; and • Make downward or upward adjustments to the amount of bonus resulting from the application of the performance conditions, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.	The annual weighting of the bonus measures may vary depending on the key priorities of the business for the year ahead. Details of the measures for the 2022/25 LTIP will be announced in our half-yearly statement

Appendix 1: Summary of Executive Directors' remuneration policy continued

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Longer-term Incentive (e.g. LTIP) Purpose and link to strategy Incentive schemes with performance periods longer than one-year, incentivising performance that is aligned to the business strategy over the longer term and the creation of stakeholder value. These schemes act as a tool to retain and incentivise executives to deliver the long-term business strategy.	Executive Directors are eligible to participate in the LTIP. This is a non-contractual, discretionary scheme. The Committee considers annually whether it will make an award under the LTIP, the performance period for which will normally be three financial years other than in exceptional circumstances. The award will normally vest three years after the date of grant subject to the achievement of the performance conditions and will be paid in cash. The Committee may recommend, and the Board may approve, alternative arrangements (e.g. with a shorter or longer performance and/or vesting horizon) where a three year LTIP is not viewed as appropriate in the context of the Company's strategy and/or regulatory framework. Clawback provisions apply for a period of two years after any payment is made, in the event of financial misstatement, error in the calculation or gross misconduct. For awards granted from 1 April 2020 onwards, a withholding period applies to vested awards for an additional period of up to two years following the end of the performance period. The structure of any withholding period will be communicated to participants at the time of grant and detailed in the Annual Report on Remuneration. Vested but withheld payments are normally not subject to forfeiture if an individual leaves Thames Water during the withholding period.	The on target and maximum annual potential opportunities shall be agreed by the Committee at the start of each year, subject to the aggregate incentive award opportunity limit set out above this table (i.e. taking into account the award opportunity under the Annual Management Bonus). The on-target opportunity shall be no more than 50% of the maximum opportunity; the pay-out for meeting the threshold performance level set by the Committee shall normally not be more than 25% of the maximum award opportunity. The maximum opportunity is 200% of salary. **Committee Discretion** Any payment remains subject to the absolute discretion of the Board to reduce it in whole or in part. If overall performance is not satisfactory, the award for any year may be reduced or forfeited, at the absolute discretion of the Committee and Board. In exceptional circumstances the Committee retains the discretion to: • Change the performance measures and targets and the weighting attached to the performance measures and targets part way through the performance period if there is a significant and material event which causes the Committee to believe the original measures, weightings or targets are no longer appropriate; and • Make downward or upward adjustments to the level of incentive pay-out resulting from the application of the performance conditions, if the Committee believes that the outcome is not a fair and accurate reflection of business performance; and • Reduce (in part or in whole) or cancel vested but withheld payments during the withholding period.	The performance measures, weightings and targets will be determined and approved by the Committee at the start of each cycle, taking into account shareholder, customer and regulatory expectations. Details of the measures of the 2022/25 LTIP will be announced in our half-yearly statement

Appendix 1: Summary of Executive Directors' remuneration policy continued

Chairman and Non-executive Directors

The policy for the Chairman's fee is determined by the Remuneration Committee (without the Chairman present). The remuneration policy for other Non-Executive Directors is determined by the Chairman and Executive Directors in conjunction with the Committee.

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Fee Purpose and link to strategy To recruit and retain Non-Executive Directors of a suitable calibre with a broad range of relevant experience and skills to oversee the performance of the Company and the implementation of our strategy	Annual fees are paid in cash throughout the year and are reviewed every three years (but not necessarily increased). The fees for the Non-Executive Directors and Chairman are set considering the time commitment of the role and market rates in companies of a similar scale and complexity and requiring a similar time commitment. Any fee changes are normally effective from 1 July. Additional fees are made available to Non-Executive Directors where appropriate, such as chairing or being a member of a Committee. This is to reflect any additional time commitment or duties. In the event of hiring a new Non-Executive Director, the Committee will align the fee structure with the Remuneration Policy in force at that time.	This policy does not set a fee limit. Details of the current fee levels for the Chairman and Non-Executive Directors are set out on page 104.	None
Other items	Non-Executive Directors are not eligible to receive further benefits, do not participate in any performance related arrangements and do not participate in the Thames Water pension plans. All reasonable travel and other expenses incurred by Non-Executive Directors when performing their duties are considered to be business expenses and are reimbursed together with any tax payable.	–	None

Appendix 1: Summary of Executive Directors' remuneration policy continued

Notes to Policy Tables

Setting pay levels and principles

A basic principle of this policy is to offer remuneration commensurate with packages provided by other companies of similar size and complexity, taking into account an individual's contribution and experience. To fulfil this principle, we benchmark all remuneration elements (including basic salary, benefits, pension, short-term and long-term incentives) periodically against a basket of comparator groups, including:

- Other water and sewerage companies (WASCs)
- FTSE-listed companies ranked 50 to 100 (excluding Financial Services)
- A bespoke group of companies of similar size and complexity.

Clawback and Withholding provisions

Clawback provisions apply to the Executive Directors' incentive arrangements. The Committee has discretion to reclaim or claw back some (or all) of the incentive awards paid to individuals for up to two years following payment with respect to the Annual Management Bonus and LTIP. Circumstances in which the Committee may apply clawback include, but are not limited to, a material misstatement, any error in the calculation of an award or an error in the underlying results that leads to an overpayment of any bonus or incentive payment, or material misconduct.

To enhance the long-term alignment between customers, stakeholders and Executive Directors' interests, LTIP awards granted after 1 April 2020 may be required to be withheld for an additional period of up to two years following the end of the performance period. During the vesting and withholding periods, the Committee shall have the discretionary powers to adjust the value of the awards or cancel the awards in certain circumstances ('malus').

Remuneration Committee discretion

All elements within the policy are subject to the discretion of the Committee. In relation to incentives, the Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretion available to the Committee covers aspects such as:

- The timing of the grant and vesting of awards
- Performance criteria and targets
- Determining the size of the award
- Determining the outcome of an award
- The treatment of leavers
- Retrospective adjustment of awards, and
- In exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so.

All assessments of performance are ultimately subject to the Committee's judgement. Where any discretion is exercised, the fact and the rationale will normally be disclosed in the relevant Annual Report on Remuneration.

Approach to remuneration on recruitment

Executive Directors

The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment. The remuneration package offered will be in line with the market and will be no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements, and be subject to the same constraints, as those for existing Executive Directors (as set out on pages 102 – 104 of this report).

Element	Policy and Operation
Base salary	Salaries set by the Committee taking into consideration factors including the current pay for other Executive Directors, the experience, skill and current pay level of the individual and the external market.
Benefits	The Committee will offer a benefits package in line with our benefits policy for Executive Directors.
Pension	Maximum contribution in line with our policy.
Incentive opportunity	The aggregate maximum incentive opportunity that shall be eligible to be awarded in any year (i.e. across the Annual Management Bonus and LTIP) shall not exceed 320% of salary (i.e. 120% of salary for Annual Management Bonus and 200% of salary for LTIP).
Annual Management Bonus	On-target and maximum bonus potential set in line with the Company's policy for existing Executive Directors. The on-target bonus opportunity shall be 50% of the maximum opportunity. Bonus will be prorated to the number of working days worked during the plan year, typically with a minimum threshold of three months service in line with scheme rules.
Longer-Term Incentive Plan (LTIP)	On-target and maximum award opportunities set in line with Company policy for existing Executive Directors. If the individual joins the Company during the LTIP performance period, or alternative longer-term scheme approved by the Board, the individual may have the opportunity to participate in the next LTIP / alternative scheme, normally in April of each year. At the Committee's absolute discretion, the individual may also have the opportunity to participate in the current LTIP / alternative scheme.
Buy-out awards for forfeited remuneration	At the discretion of the Committee, additional payments may be made to a new Executive Director, to replace forfeited remuneration opportunities and/or awards when leaving a previous employer. In determining the structure and level of any 'buyout' award, the Committee will take account of relevant factors including any performance conditions attaching to forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The Committee will typically seek to make buy-out awards on a comparable basis to those that have been forfeited. In exceptional circumstances, the Committee may grant a buy-out award under a structure not included in the policy but that is consistent with the principles set out above.
Internal Promotion	In the case of an internal appointment, any pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted.
Relocation	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation.

Appendix 1: Summary of Executive Directors' remuneration policy continued

Policy on payments for loss of office and on change of control

The table sets out the key features of the service contracts and payment in the event of loss of office for Executive Directors, or on a change of control. In addition, the Committee retains the discretion to settle any other amount reasonably due to the Executive Director, for example to meet legal fees incurred by the Executive Director in connection with the termination of employment.

Element	Policy & Operation
Notice periods in Executive Director contracts	12 months from the Company, 6 months from the Executive Director. Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice or placed on "garden leave" at the discretion of the Company.
Termination payments	Any payment as compensation for loss of office will be made at the complete discretion of the Board on recommendation from the Committee. If the Company wishes to terminate an Executive Director's contract, other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it is required to give either 12 months' notice or make a payment in lieu of base salary only. If the reason for dismissal is redundancy, the Executive Director would be entitled to a statutory redundancy payment.
Annual Management Bonus	In accordance with the scheme rules of the Annual Management Bonus plan, an Executive Director is eligible to a bonus payment subject to being employed by the Company on the 'Payment Date'. An individual will normally not be eligible for any bonus payment for the plan year if they leave the employment of the Company or have been dismissed prior to the Payment Date unless for a Good Leaver reason (below). **Good Leaver* Reason** Performance conditions will be measured at the normal bonus measurement date. Bonus will normally be pro-rated for the period of service during the financial year. Leavers who have left through compulsory redundancy having completed the full bonus year remain eligible for a payment even if they are not employed on the Payment Date. Payments are made on normal Payment Date and are based on actual performance. **Other reason** If the individual is subject to formal disciplinary or capability procedures then eligibility for an incentive payment will be postponed pending the conclusion of any such procedure. **Change of control** Normal policy is to pro-rate the bonus for time and performance to date of change of control. In circumstances where there is an appropriate business case, the Committee may use discretion to determine that the award shall not be pro-rated for time. Use of any discretion will be explained to stakeholders.
Long-Term Incentive Plan	An Executive Director is eligible to a payment from the LTIP (or an alternative longer-term incentive) in accordance with the scheme rules of the plan. **Good Leaver* Reason** Performance conditions will be measured at the award measurement date. An LTIP or alternative award will normally be pro-rated for the period of service during the performance period. If the individual leaves after the award has vested but before any payment in respect of that award, then the relevant payment will continue to be made in the normal way. Payments are made on the normal payment date (taking into account any withholding periods that apply to awards made after 2020) and are based on actual performance. **Other reason** Lapse of any unvested LTIP or alternative awards. Not eligible for any payment for the plan year if the individual leaves the employment of the Company or has been dismissed prior to the payment date. If the individual is subject to a formal disciplinary procedure or has been subject to the Company's capability procedure, then eligibility for a bonus payment will be postponed pending the conclusion of any such investigation and any subsequent disciplinary hearing or capability meeting. **Change of control** Unvested incentive awards will normally be pro-rated for time and take into account performance to date of change of control. In circumstances where there is an appropriate business case, the Committee may use discretion to determine that the award shall not be pro-rated for time. Use of any discretion will be explained to stakeholders.

* Good leavers are defined (as per the scheme rules) as an individual whose employment is terminated by the Company because of 'special circumstances' such as ill-health, injury or disability, redundancy or whose employment terminates automatically by reason of their death. The Committee also retains an overall discretion to determine that an individual is a good leaver.

External Directorship appointments

Executive Directors may accept external appointments with consent. Consideration is given to the appropriateness of the external appointment and whether it may affect an Executive Director's ability to perform their role. The Chairman must approve any external appointments. Fees may be retained by the Executive Director for services relating to external appointments.

Appendix 1: Summary of Executive Directors' remuneration policy continued

Non-Executive Directors' service agreements

The Chairman and Independent Non-Executive Directors have an agreement for service for an initial three-year period which can be terminated by either party with no notice period. Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract and are appointed and terminated without notice by the shareholders of the Company in line with the Shareholder Agreement.

The dates of the service contracts for the Non-Executive Directors are set out below.

	Initial Contract Start Date	Expiry Date of Contract
Chairman:		
Ian Marchant	01/12/2017	30/11/2023
Independent Non-Executive Directors:		
Nick Land	01/02/2017	31/01/2023
Catherine Lynn	28/11/2018	27/11/2024
Hannah Nixon	14/01/2021	13/01/2024
Ian Pearson	01/09/2014	31/08/2023
Jill Shedden	01/10/2018	30/09/2024
David Waboso	01/02/2019	31/01/2025
Non-Executive Directors:		
Paul Donovan	01/07/2019	*
Michael McNicholas	01/07/2019	*
John Morea	28/01/2019	*
Greg Pestrak	15/11/2017	*

Note
* Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract

Details of resignations are on page 84 (within the Corporate Governance section)

Directors' report

The Directors present their Annual Report and Sustainability Report and the audited consolidated financial statements for the year ended 31 March 2022. Thames Water Utilities Limited (the "Company") is incorporated and domiciled in the United Kingdom and a wholly owned subsidiary of Thames Water Utilities Holdings Ltd. Its ultimate parent is Kemble Water Holdings Ltd, a company registered in the United Kingdom and owned by institutional investors. The financial statements are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes disclosures required under the Companies Act 2006 and related provisions.

The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 12 – 14. The Strategic Report also includes additional details on some of the disclosures listed here. More generally, the Strategic Report includes: our business model; our strategic ambitions, key performance indicators and performance against them; our people strategy and workforce engagement programme; our approach to climate change, the environment, local communities and other sustainability issues; how we engage with stakeholders; an analysis of our principal risks and uncertainties and our approach to managing risk; a financial review and long-term viability statement; and a statement setting out how the Directors have complied with the requirements of Section 172 of the Companies Act 2006. The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of these risks and their management or mitigation can be found on pages 54 – 63.

The Company is required under its licence to conduct its business as if it were a public limited company, and as a result the Annual Report and Sustainability Report has been drafted, where possible, to the standards and requirements of a Company with shares listed on the London Stock Exchange. The Directors have provided an extended Strategic Report and a full Corporate Governance Report, which includes comprehensive Remuneration Committee and Audit, Risk and Reporting Committee reports. Some of the information required to be disclosed in the Directors' Report can be found in those other sections, which are incorporated into this report by reference and where highlighted.

Directors

Details about the current Directors of the Company, including their dates of appointment and their biographical details, including other Directorships they hold, can be found on pages 78 – 80. Details of any significant other interests and potential conflicts are provided on page 88. Details of the Directors' remuneration, service contracts and any interests in the shares of the Company are included within the Remuneration Committee report on pages 100 – 119.

The following Board changes took place during the year and up to the date of signing the financial statements:

- Brandon Rennet stepped down in September 2021
- Alastair Cochran was appointed as Chief Financial Officer in September 2021
- Paul Donovan resigned in October 2021 and Greg Pestrak resigned in December 2021

The Company may, by ordinary resolution, appoint any person who is willing to act as a Director, and may by ordinary resolution remove any Director from office. All Directors will be subject to annual re-election at the Company's AGM in July. The appointment and removal of Directors, as a matter reserved to our ultimate shareholders, requires the approval of the Kemble Water Holdings Ltd Board.

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies, which remain in force at the date of this report. The Company maintains a comprehensive insurance programme, renewed annually, which includes Directors' and Officers' Liability cover.

Share capital

As at 30 June 2022, the Company's issued share capital was 29,050,000 ordinary shares of £1 each amounting to £29,050,000, all with equal voting rights and all owned by Thames Water Utilities Holdings Ltd. There were no movements in the Company's share capital during the year. Under the Company's Articles of Association, subject to the provisions of the Companies Act, the Directors have the authority to allot any unissued shares. Subject to the provisions of the Act, the Company may enter into any contract for the purchase of all or any of its own shares. Further details of the Company's share capital can be found on page 173, while details of the Company's ultimate shareholders can be found on page 77.

Dividend policy for the appointed business

The Company's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

In assessing the dividend to be paid, the Directors are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants;
- Payment of a proposed dividend should not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital;
- An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders;
- An assessment is made of the impact that payment of the dividend may have on its commitments and obligations to customers and other stakeholders as a supplier of essential services, which includes customer commitments, environmental commitments, community commitments, employees and pension members; and
- An assessment of the long-term financial resilience of the Company.

Dividends paid will be adjusted both upwards and downwards relative to the Ofwat's 4% dividend yield guidance reflecting the company's performance in meeting its commitments and obligations to customers and other stakeholders. If a gross dividend is declared above Ofwat's 4% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

How we have applied our dividend policy in 2021/22

Our shareholders take seriously their commitments and obligations to customers and other stakeholders (including the environment, communities, employees and pension members) as a supplier of essential services. They also recognise the need to turnaround performance and the long-term nature of the Executive's plan to deliver this objective.

Our external shareholders did not receive a dividend in the 2021/22 financial year, the fifth consecutive year, underlining their commitment to re-investing cash flow to delivering improved performance for customers. Notwithstanding this, TWUL's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

The Board made an assessment, having regard to our updated dividend policy, whether it was appropriate to make dividend distributions in 2021/22. The table below sets out the key factors that the Board considered when making this assessment.

Directors' report continued

Dividend policy consideration	Conclusions
Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants.	Based on our going concern assessment outlined on page 122, we believe Thames Water has the ability pay a dividend whilst allowing the business to maintain sufficient liquidity and compliance with our covenants. However, in light of continued high levels of capital investment and high forecast levels of gearing, the Board concluded to not pay a dividend to our external shareholders, whilst paying a distribution in October 2021 to service the debt obligations of our ultimate holding company, Kemble Water Finance Limited, and group related costs.
Payment of a proposed dividend should not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital.	The payment of internal dividends to service the debt obligations of our ultimate holding company, Kemble Water Finance Limited ("KWF"), plays a key role in maintaining access to equity capital provided by shareholders by underpinning lender and credit rating agency confidence. Consequently, there is a risk that not paying a dividend could negatively impact planned refinancing activity, the Group's credit rating outlook and the capacity of KWF to raise incremental equity capital that is factored into TWUL's business plan to pay down debt and manage gearing covenant headroom. Consequently, the Board concluded that it was both responsible and reasonable to approve a payment of a dividend solely to service holding company debt in October 2021. However, the Board concluded that a final dividend payment for the year ended 31 March 2022 to service holding company debt could not be justified given the level of surplus liquidity, particularly at a time when financial resilience is under scrutiny. To help maintain long term financial resilience, the Board also concluded to not pay external distributions to shareholders throughout the year. These decisions considered the Group's current capital structure and was consistent with its legal and regulatory obligations to ensure that TWUL is a financially resilient business with ready access to debt and equity capital.
An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders.	The Board assessed overall company performance in the round. In considering the company's performance against the final determination for AMP7 the Board specifically noted that whilst overall performance in 2021/22 was aligned with expectations, it was still short of where we want it to be. The Board noted that ODI rewards stood at £11.1m (£3.3m in 2020/21), but penalties stood at £45.9m (£32.5 in 2020/21). This was largely due to internal sewer flooding[1] and blockages arising from extreme weather, as well as our C-MeX outturn for the year (where we remain 17th out of 17) despite a significant year on year reduction in complaints. The Board also noted the inflationary pressure that currently exists in the UK, including the exceptional increase in energy prices in 2021/22 and the pressure on real incomes. The Board therefore concluded to restrict external distributions to shareholders whilst maintaining some internal distributions.

1 It should be noted that the ODI penalties include the impact of the London flooding of July 2021, a 1 in 200-year weather event. If this was excluded the penalty would be c.£20m less.

Dividend policy consideration	Conclusions
An assessment is made of the impact that payment of the dividend may have on its commitments and obligations to customers and other stakeholders as a supplier of essential services, which includes customer commitments, environmental commitments, community commitments, employees and pension members.	The Board also considered the impact of dividend payments in the 2021/22 financial year on our 8-year turnaround plan, the revised business plan, and our commitments and obligations to customers and other stakeholders. These plans have been designed to significantly improve Thames Water's operational performance, deliver on its regulatory obligations, improve river heath, increase resilience and deliver better outcomes for its customers, communities and the environment.
An assessment of the long-term financial resilience of the Company.	Based on our long term viability statement, outlined on pages 64 – 67, we believe Thames Water has the ability pay a dividend and this would not be expected to impair our long term viability. The Board considered its current credit ratings and ratings outlook, forecast compliance with debt covenants and long term liquidity forecasts. In particular, it noted that it had been assigned a CreditWatch negative outlook by S&P in December 2021 and that forecast covenant metrics had declined in the year. It also noted increasing high levels of capital investment planned for the rest of the current AMP7 regulatory price control period. To support delivery of our new business plan and increasing levels of investment, an initial £500 million of new equity will be subscribed by shareholders in March 2023. The Executive team is working with shareholders on plans to provide a further £1.0 billion of equity funding, which will be subject to certain conditions, to drive Thames Water's turnaround over the remainder of the current regulatory period, and establish a solid foundation for Thames Water's long term growth. The Executive team will continue to reflect the ongoing turnaround in its next business plan for the five-year regulatory period starting in 2025. A focus of that business plan will be to maximise the likelihood that Thames Water receives a PR24 regulatory determination that supports the turnaround. As part of this, Thames Water shareholders acknowledge that further shareholder support may be required to improve financial resilience. Considering the factors, the Board concluded to restrict external distributions to shareholders whilst maintaining some internal distributions.

Having regard to all the factors outlined above, the Board concluded that it was not appropriate to declare an external dividend to shareholders for 2021/22, the fifth year in succession.

An internal distribution in 2021/22 was made to service the debt obligations of our ultimate holding company, Kemble Water Finance Limited ("KWF") and group related costs. £37 million was paid on 4 October 2021 for solely this purpose.

Directors' report continued

The total interest paid by KWF in 2021/22 was £67 million, £35 million was funded by the dividend payment after taking into account £2 million of group related costs and the remainder was paid from cash reserves within KWF.

The Board concluded that it was both reasonable and responsible to approve the payment of the internal dividend, which represents a yield of 1.2%, (materially below Ofwat's guidance) having regard to the Group's revised dividend policy, current capital structure, and was consistent with its legal and regulatory obligations to ensure that Thames Water Utilities Limited is a financially resilient business with ready access to debt and equity capital.

Political donations

The Company has an agreed policy to not make any political donations. No political donations were made during the year (2020/21: £nil).

Charitable donations

Charitable donations of £3.0 million were made by the Company during the year (2021: £3.8 million).

Material financial instruments

Financial risk management and information on financial instruments is covered in note 19 on page 164 of the financial statements.

Significant post-year end events

Post balance sheet events are disclosed in note 26 on page 163 of the financial statements.

Future developments

The development of the business is set out in the Strategic Report.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business. The development and application of new techniques and technology is an important part of the Company's activities. The Company is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management. In addition, we carry out research and development in-house, including solutions to improve the resilience of our water supplies, developing insight into the deterioration of critical assets, novel approaches to tackle leakage and pollutions from our water and wastewater networks respectively, and wastewater treatment processes to allow us to meet increasingly stringent regulatory requirements. We have identified a number of opportunities to scale our research and development activities with the support of funding from Ofwat's innovation competitions.

Expenditure on research and development totalled £11.7 million for the year (2020/21: £11.2 million). Included within research and development is £6.9 million (2020/21 £6.9 million) collected from customers as a contribution to Ofwat's innovation fund, which was established to help build up the water industry's innovation capacity.

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Branches

The Company does not have any branches outside of the UK.

Recruitment, employment and training of disabled people

We are proud to be the first water company to be awarded Disability Confident Leader status, which we achieved in July 2019. This is a testament to our approach to attracting and retaining people with disabilities and long-term health conditions. We provide an automatic interview for people with disabilities who meet the essential criteria, and utilise alternative formats and reasonable adjustments at every stage, such as the use of British Sign Language interpreters.

Throughout 2021/22 we have continued to raise awareness, educate, improve accessibility and nurture a culture of inclusion. This has included adaptation to deliver training virtually, using auto captions, voice overs and alternative formats. We have additionally updated our access to work standards to make the process more seamless for candidates.

Our 'Hear for you' survey showed 68% employee engagement among those with disabilities or long-term health conditions (2020/21: 73%).

Employee engagement

Over 80% of employees took part in our annual survey which reported an overall engagement score of 69% (2020/21: 75%). This demonstrates that our employees are willing to express how they are feeling about working at Thames Water – both the good aspects and what we can do to improve. Employees commented favourably on health and safety and diversity and inclusion. They also considered that their working environment enables them to perform effectively in their oles.

We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year. Ian Pearson continues to act as designated Non-Executive Director for Workforce Engagement, to take accountability for ensuring that workforce issues are appropriately considered by the Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities. This year, Ian held virtual employee engagement sessions and was able to get back onto sites to meet colleagues in person, providing employees with informal opportunities to meet with and be listened to by Board members. You can read more information on our workforce engagement programme on page 40.

Our Executive team reviews feedback from a variety of sources including our 'Hear for you' survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as internal Yammer communications and local feedback channels. Further details on our overall people strategy can be found in the Strategic Report on page 36.

Relationships with suppliers, customers and other business partners

For further information about our broader stakeholder engagement programme, please see pages 41 – 42. The Company's Section 172 Statement on pages 68 – 70, and the Board engagement table on page 89 contain details of how Directors specifically have taken into account and engaged with the needs of suppliers, customers and business partners.

Directors' report continued

Going concern

The consolidated financial statements for the twelve months ended 31 March 2022, set out on pages 127 – 201, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

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

On 29 June 2022, the Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. Given the equity commitment of £500 million has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the Directors believe it reasonable that the £500 million of equity support can be taken into account for the going concern assessment.

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 31 March 2022, such liquidity consisted of £426 million of cash and cash equivalents, access to £1.80 billion of revolving credit facilities of which £1.43 billion was undrawn, £100 million 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 a more 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, cost of living concerns 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 and chemical prices and adverse weather. The impact on operational cashflows is reduced by mitigants involving active working capital management and the release of contingencies embedded with the Business Plan which have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and forecasts sufficient liquidity headroom for a period of at least 12 months from the date of signing of the financial statements.

The Directors have also considered the consequences of a temporary Trigger Event, a feature of the Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the Group's ability to trade. The cash lockup preserves the value of the Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the Group has significant bank facilities which the Directors believe are sufficient to fund its programme and meet its obligations for the duration of a temporary Trigger Event over the assessment period.

Based on the above, the Board is satisfied that the Group has adequate resources, for a period of at least 12 months from the date of approval of the 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.

Operational greenhouse gas emissions and energy management

Thames Water calculates their Greenhouse Gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually and is reflective of carbon reporting and emissions guidance from the Department of Environment, Food and Rural Affairs (Defra). Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO_2e").

The CAW calculations follow the Greenhouse Gas (GHG) Protocol's Carbon Reporting Standard. Under the GHG Protocol there are two distinct methods to account for Scope 2 emissions. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

1. Location-based. This method reflects the average emissions intensity of the grid on which energy consumption occurs (using a grid-average emission factor data).
2. Market-based. This method reflects emissions from electricity that companies have purposefully chosen, and it derives emission factors from contractual instruments.

As Thames Water sources renewable electricity accredited with renewable 'Guarantees of Origin' through a contract with our supplier, Thames Water uses a market-based accounting approach to report their Scope 2 emissions. The market-based approach has been used to determine Thames Water's operational plans and strategies for carbon management and performance reporting on our journey to meet Net Zero. For transparency, we have also disclosed the location-based data within this report for comparison.

The Covid-19 pandemic and the resulting restrictions introduced in 2020 across the UK had impacted the water industry in various aspects, leading to an 8% reduction in our net operational emissions in 2020/21. Now that we have entered post-pandemic recovery, we have seen a marginal increase of emissions across the business in 2021/22. However our net emissions are 20.7 $kTCO_2e$ lower than pre-pandemic (2019/20). This represents a fall of 7%, when using a like-for-like methodology.

Our net operational emissions increased by 1.6 $kTCO_2e$ in 2021/22, from 268.2 $kTCO_2e$ in 2020/21 to 269.8 $kTCO_2e$ in 2021/22, a rise of 0.6% when using a like-for-like methodology.

Key trends

In 2021/22 we have continued to focus on reducing our greenhouse gas emissions and improving our energy performance:

- Total Gross operational emissions have increased by 0.8%.
- We reduced our gross operational emissions for water services by 2.5 $kTCO_2e$, a fall of 8%.
- We reduced our use of fossil fuels by 5%, from 29.9 $kTCO_2e$ to 28.3 $kTCO_2e$
- We reduced our total energy consumption by 24 GWh, from 1,605 GWh to 1,581 GWh and of that our total electricity consumption reduced by 16 GWh, from 1,265 GWh to 1,248 GWh
- We generated 24% of our electricity needs from on-site renewables
- We have increased our renewable generation from sludge by 13 GWh to 317 GWh
- We have increased our renewable heat generation from 158.5 GW to 179.8 GWh
- Together with our other renewables (wind and solar photovoltaics (PV)), we have increased our energy generation by 34 GWh.

Where we're not able to produce our own renewable electricity, we continue to source Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity through contracts with our suppliers.

Directors' report continued

Our carbon target

We have made a commitment to reduce our net carbon emissions from our operations to zero by 2030 and to then become net negative by 2040. We have already reduced our emissions by 68% compared to our 1990 baseline level. That is a 576 $kTCO_2e$ absolute reduction.

We continue to work towards our target of being a net negative carbon business. Some of the key aims as part of this target include maximizing the energy and resource recovery from our sewage sludge, the electrification of our fleet of vehicles and the increased efficiency of our assets.

Emissions

During 2021/22, our total gross operational emissions increased by 2.2 $kTCO_2e$ to 277.3 $kTCO_2e$. Although our total emissions have increased, we have continued to reduce our consumption of fossil fuels, resulting in a fall of 1.6 $kTCO_2e$ compared to last year.

Sludge production increased by 7% post-pandemic, resulting in an 8 $kTCO_2e$ increase of our Wastewater and Sludge Process and Fugitive emissions. Despite this, we have still achieved 3 $kTCO_2e$ reduction compared to 2019/20.

Our net operational emissions increased by 1.6 $kTCO_2e$ to 269.8 $kTCO_2e$, a rise of 0.6%. However, we have achieved numerous successes that have minimised the increase in emissions through a combination of actions including:

- We have reduced our gasoil consumption used for pumping and treatment by 2.5 $kTCO_2e$
- Our CHP engines have also exported more renewable electricity when we did not need it ourselves, which has generated an additional 0.6 $kTCO_2e$ carbon offset
- A 10% reduction in fossil fuel use in outsourced activities, saving 3 $kTCO_2e$
- Since Covid-19 restrictions eased, we have seen an increase in the amount of sludge being received around London. This has been caused largely by the population returning to work and an increase in tourism in the city.

With more sewage sludge to be treated, we have seen a marginal increase of 0.2 $kTCO_2e$ fossil fuel usage at the Sludge Powered Generator (SPG) at Beckon, our largest wastewater treatment site. However, by optimising the operation of the SPG, we have increased the renewable energy generated by 6 GWh in 2021/22.

We have also reduced the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat, and our emissions intensity.

1.Market based		
Water:	17 $kgCO_2e$ per Ml	down 1.8 $kgCO_2e$ per Ml (-10%)
Wastewater:	116.7 $kgCO_2e$ per Ml	down 4.7 $kgCO_2e$ per Ml (-4%)
2.Location-based		
Water:	129.7 $kgCO_2e$ per Ml	down 13.4 $kgCO_2e$ per Ml (-9%)
Wastewater:	161.28 $kgCO_2e$ per Ml	down 14.2 $kgCO_2e$ per Ml (-8%)

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions)
- Scope 2 (Indirect energy use emissions)
- Scope 3 (Emissions from outsourced services and business travel)
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

	Market-based		Location -based	
	2021 $kTCO_2e$	2020 $kTCO_2e$	**2021 $kTCO_2e$**	2020 $kTCO_2e$
Scope 1	**231.6**	225.0	231.6	225.0
Direct emissions from burning of fossil fuels	**28.3**	29.9	28.3	29.9
Process and fugitive emission	**191.6**	183.5	191.6	183.5
Transport: Company owned or leased vehicles	**11.7**	11.6	11.7	11.6
Scope 2*	**–**	–	185.7	209.3
Purchased electricity	**–**	–	185.7	209.3
Scope 3	**45.7**	50.1	45.6	49.8
Business travel for company business	**1.0**	0.8	1.0	0.8
Outsourced activities	**28.3**	31.3	28.1	31.1
Purchased electricity –T&D	**16.4**	18.0	16.4	18.0
Gross	**277.3**	275.1	462.8	484.1
Net-offs	**-7.5**	-6.9	-5.0	-4.6
Net	**269.8**	268.2	457.8	*479.5

* Scope 2 – Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity purchased.

** 2020 location based net emissions re-stated due to change of methodology in CAW calculations

Energy

Supported by our ISO50001-certified Energy Management System, we have delivered energy efficiency improvements across both Water and Wastewater business units. We have reduced the net electricity intensity for each megalitre of water and wastewater we supply and treat.

Water:	523 kWh/Ml	down 0.2%
Wastewater:	220 kWh/Ml	down 13%

This was achieved through a series of actions including efficiencies and generation increases at several sites, notable examples being:

- At Crossness sewage treatment works, we have changed operation of the thermal hydrolysis plant (THP) plant to prioritise the use of biogas in the THP boilers. This has helped us reduce our fossil-fuel use at process level by 64% and save 2.2 $kTCO_2e$ carbon emissions. At the same time, we increased the renewable heat produced by the THP process by 8.3 GWh to 28 GWh.
- At Ufton Nervet water treatment works, we have installed a new electrical system – Variable Speed Drives – on the borehole and high lift pumps. VSD allows better control of pump flowrate, allowing site to cope with a dynamic demand more efficiently. The delivery of this investment saved approximately 437 MWh per year, which equates to the annual consumption of approximately 150 households.
- At Swinford Dam, we have installed new controls for the pumps, allowing them to autonomously switch between gravity and pumped flow, as well as maintaining a constant pressure to reduce the amount of throttling visible under the previous operation.
- The energy efficiency project saved an approximately 280 MWh per year, which is equivalent to the annual consumption of nearly 100 homes.

Directors' report continued

Corporate governance

The Company follows the requirements of the UK Corporate Governance Code and the Ofwat Board Leadership, Transparency and Governance Principles, as outlined in the Corporate Governance Report, from page 74. Details of the Company's internal control and risk management systems can be found in the Strategic Report on pages 54 – 63 and in the Audit, Risk and Reporting Committee report on pages 96 – 99.

AGM

The Company's Annual General Meeting will be held on 22 July 2022.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Sustainability Report 2021/22 and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Sustainability Report 2021/22 and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in 'Governance' confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Group and loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Disclosure of information to the auditors

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

Alastair Cochran
Chief Financial Officer
Thames Water Utilities Limited
Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB

Financial statements

Independent auditors' report to the members of Thames Water Utilities Limited

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water Utilities Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2022 and of the group's and company's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Sustainability Report 2021/22 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2022; the consolidated and company income statements, the consolidated and company statements of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 3 of the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. The group consists of two legal entities, Thames Water Utilities Limited and Thames Water Utilities Finance Plc, which are both reporting units. Both of the group's reporting components were subject to full scope audits for group consolidation purposes.

Climate Change

In planning our audit, we have considered the impact that the Group has on the environment through its operations and the impact the environment including the current and potential future impact of climate change has on the Group's business and its financial statements. Consistent with being one of the United Kingdom's largest suppliers of water and wastewater services, planning for, reacting to and assessing the impact of current and future changes in environmental factors for example the volume and intensity of rainfall and periods of drought is an inherent part of the Group's day to day activities. The Group has set out its Climate Change targets with the goal of achieving net zero by 2030. The majority of the Group's carbon emissions are incurred in the treatment of water and wastewater during the normal course of its operations, and the Group continues to develop its assessment of climate change. Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to the potential to exploit the by-products of the sewage treatment process, operational and supply chain decarbonisation and emerging regulatory requirements such as carbon taxes. Further information is provided on pages 49 to 53. While the Group has set out its Climate Positive targets and Science Based targets, the Group continues to assess and develop the consequences of this in terms of capital expenditure, the useful economic lives of current in use assets (and those currently under construction), the cost base and impacts on cash flows. The Group considered the net zero 2030 targets in the preparation of the financial statements, including in the evaluation of critical accounting estimates and judgements. The Group concluded that based on the current plans in place to achieve the 2030 net zero target this commitment did not have a material effect on the consolidated financial statements, as described on page 148 as at 31 March 2022.

As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks on the Group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets. We considered the group's climate change risk assessment and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We determined that no heightened audit risk arose in the year in respect of climate change. We have read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 49 to 53 and considered consistency with the financial statements and our audit knowledge.

Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matters

- Valuation of provision for expected credit losses on trade receivables (group and parent)
- Valuation of metered sales accrual (group and parent)
- Classification of costs between capital and operating expenditure (group and parent)
- Valuation of financial derivatives (group and parent)
- Valuation of retirement benefit obligation (group and parent)

Materiality

- Overall group materiality: £30,000,000 (2021: £30,000,000) based on 0.15% of total assets.
- Overall company materiality: £28,500,000 (2021: £28,500,000) based on 0.13% of total assets.
- Performance materiality: £22,500,000 (2021: £22,500,000) (group) and £21,375,000 (2021: £21,375,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Valuation of the metered sales accrual is a new key audit matter this year. The impact of COVID-19, which was a key audit matter last year, is no longer included because the immediate operational and financial impact of the pandemic to the Group is now better understood and the impact in terms of our audit approach is now integrated into the specific key audit matters individually. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of provision for expected credit losses on trade receivables (group and parent) The recoverability of customer debts is always a key issue for water companies as the calculation involves significant judgement and estimation. The provision for expected credit losses on trade receivables amounted to £150.5m (2021: £146.3m). Management primarily uses historical performance to determine the future collectability of trade receivables. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. Their model takes the closing household debtors balance and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains will be uncollectable, which forms the expected credit loss debt provision. The provision includes an additional overlay in the current year, consistent with prior year, to reflect the impact of macroeconomic factors, such as the cost of living crisis. This involves a high degree of estimation uncertainty. Management have also considered plausible downside scenarios in assessing the impact of macroeconomic factors on the receivable balance. Refer to page 98 of the Audit, Risk and Reporting Committee report and note 15 of the financial statements.	We evaluated the model used to calculate the core provision and confirmed its consistency with prior years, specifically that the primary inputs relate to the previous year's cash collection by ageing category applied to the ageing category as at 31 March 2022, with an overlay added to address the potential future credit loss related to factors over and above past performance. In the current year, this primarily related to the cost of living crisis. We consider the construct of the model appropriate and in line with the requirements of IFRS 9. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We re-performed the calculations used in the model, to ensure the accuracy of these calculations. We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to validate the aging classifications used in the model. We assessed management's considerations in respect of macroeconomic factors such as the cost of living crisis, and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of macroeconomic factors on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed sensitivity analysis on the downside scenarios considered by management, which included a greater impact on future cash collection driven by the impact of the cost of living crisis. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on the outcome of management's assessment. We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for expected credit losses and the impact of macroeconomic factors on trade receivables. Overall we consider that the provision and disclosure for expected credit losses as at 31 March 2022 is reasonable.

Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matter	How our audit addressed the key audit matter
Valuation of metered sales accrual (group and parent) The metered sales accrual (MSA) for household properties amounted to £183.8m (2021: £176.7m) and represents the sales accrual for customers who have not been billed for their usage up until 31 March 2022. The valuation of the accrual depends on the volume of water and wastewater consumed between the date of the last bill and the year end, applied to the tariff rates effective for that period. The estimated water consumption for measured customers is primarily based on historical consumption data. The billing system calculates the accrual using the latest meter read data available in the billing system. Management also apply a manual adjustment to the system generated accrual to adjust the accrual for system limitations, for example lack of a recent meter read. Management consider factors such as consumption data from Smart meters, and also historic consumption levels along with considering macroeconomic drivers such as COVID-19 driven changes in consumption patterns in forming the final MSA. The manual adjustment requires increased levels of judgement from management in determining the most appropriate consumption rate to be used in their calculation. Incorrect estimates of water consumption could lead to a misstatement of revenue recognised for the year. The key audit matter is focussed on the judgements made by management in estimating consumption and the resulting manual adjustments which generate the MSA estimate. Refer to page 98 of the Audit, Risk and Reporting Committee report and note 15 of the financial statements.	We obtained and understood management's calculation for determining the level of adjustment applied to reflect actual consumption from customers in the year. We have re-performed management's calculation and tested its mathematical accuracy. We have performed a retrospective review of bills raised during 2021/22 related to the 2020/21 MSA balance to assess management's forecasting accuracy. We consider management's forecasting to be accurate. We have performed substantive analytical procedures comparing the increase in the number of metered properties, consumption and tariff changes to the increase in the overall MSA balance including the overlay adjustment. This did not result in a materially different amount to that recognised by management. We assessed and validated the average daily consumption (ADC) inputs being used by management and whether these were appropriate in the context of all available data points such as smart meter consumption data and actual meter read information of non-smart meters. By using the billing listings we formed a range of reasonable adjustment values based on the alternative data points, and confirmed the management ADC rate fell within this range. We have validated the meter read values within the billing listings we used by agreeing a sample of reads back to the corresponding invoice. From our procedures performed, we concluded that management's estimates in relation to the MSA as at 31 March 2022 are reasonable.

Key audit matter	How our audit addressed the key audit matter
Classification of costs between capital and operating expenditure (group and parent) Additions to Assets under construction (AUC) during the period amounted to £1,233.8m (2021: £1,021.4m). Within this is £226.7m (2021: £219.8m) of own works capitalised and £114.8m (2021: £69.7m) of borrowing costs incurred with the remainder being external costs. There is a high degree of judgement applied when allocating costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Refer to page 98 of the Audit, Risk and Reporting Committee report and note 10 of the financial statements.	We have tested the controls regarding the assessment by management of whether a project is either operating or capital in nature. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements. We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately. We tested the borrowing costs calculation and the appropriateness of qualifying projects involved. Our procedures over own works capitalised included: We tested the control process over assessing the level of spend incurred by each cost centre that should be capitalised. We obtained management's assessments of what spend by cost centre should be capitalised and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias. We performed sample testing at a cost centre level and challenged management as to the nature of these costs and whether they meet the capitalisation criteria. Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2022 and assumptions used in calculating relevant costs to be capitalised to be appropriate.

Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matter	How our audit addressed the key audit matter
Valuation of financial derivatives (group and parent) The group derivative position as at 31 March 2022 was an asset of £192.1m (2021: £163.4m) and a liability of £2,341.7m (2021: £1,469.9m). The net derivative fair value as at 31 March 2022 was a liability of £2,149.6m (2021: £1,306.5m). The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities. Refer to page 98 of the Audit, Risk and Reporting Committee report and note 19 of the financial statements.	Our procedures included: Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Engaging with our valuations team who have performed independent testing of the pre and post-credit risk adjusted valuations for the full derivative population. Performing procedures to assess the validity of assumptions and calculations management have made in performing the credit risk component of fair value. Performing an analysis of the directional movement in the pre-credit risk adjusted derivative position relative to movements in inflation exchange rates and interest rates. Testing management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation methodology and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.
Valuation of retirement benefit obligation (group and parent) Valuation of total scheme liabilities £2,584.1m (2021: £2,721.0m). The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates and mortality expectations) could have a material impact on the calculation of the liability. The pension liability and disclosures are also an area of interest to key stakeholders. Refer to page 98 of the Audit, Risk and Reporting Committee report and note 23 of the financial statements.	We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used (e.g., discount, inflation rates and mortality assumptions) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; and considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end. The last formal triennial valuation took place as at 31st March 2019 and this has been used in the calculation of the defined benefit obligation although the actuary has refined their calculation for information received from the scheme actuary. This information comes in the form of the underlying cashflows from the triennial valuation. In order to get comfortable with this approach and conclude that the accounting liabilities are reasonable, we have performed an independent roll forward from the valuation results to the accounting results and were able to agree to within materiality levels. Overall, we concur that the methodology and assumptions used by management at 31 March 2022 are reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Both legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes: Thames Water Utilities Limited due to holding the significant proportion of the group's total assets and all its trade and Thames Water Utilities Finance Plc due to holding a significant amount of the group's external debt. All audit procedures were led by the Group audit team located in the United Kingdom.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£30,000,000 (2021: £30,000,000).	£28,500,000 (2021: £28,500,000).
How we determined it	0.15% of total assets	0.13% of total assets
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group (see company rationale), accordingly group materiality is also based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.15% of total group assets was deemed to be most appropriate.	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Thames Water Utilities Limited is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we assess that aligned to the key focus of the Group on the maintenance and investment in the infrastructure it owns and operates, that the asset base is the appropriate benchmark. For PIE entities a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.13% of total company assets was deemed to be most appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £25.5 million and £28.5 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £22,500,000 (2021: £22,500,000) for the group financial statements and £21,375,000 (2021: £21,375,000) for the company financial statements.

Independent auditors' report to the members of Thames Water Utilities Limited continued

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit, Risk and Reporting Committee that we would report to them misstatements identified during our audit above £3.0 million (group audit) (2021: £3.0 million) and £2.85 million (company audit) (2021: £2.85 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models supporting the forecasts used by management to support their going concern assumption and reconciling these to Board approved budgets.
- Understanding the key assumptions management have applied in developing their base case and downside scenarios where it was assessed there was sufficient headroom to the event of default threshold. These can be split as those that are more judgemental in nature and those that are less judgemental. For those less judgemental assumptions such as revenue growth, we verified this to published tariffs for FY23 in compliance with Ofwat's policies. For those more judgemental assumptions such as power costs which is a largely non-discretionary cost subject to volatility, we understood the basis on which management had made these assumptions. We challenged various aspects of management's base case and downside scenarios, including how management have created their plausible but severe downside case as a combination of various individual scenarios. We concluded that the base case was reasonable and the downside case appropriately plausible but severe.
- Performing a comparison of budget versus actual for the year ended 31 March 2022 and understanding where variances had arisen. Through this testing we obtained reasonable assurance over management's ability to forecast accurately. The most significant operating cashflow variances noted were in relation to power costs incurred driven by the global volatility in power costs in the year ended 31 March 2022.
- Developing our own scenario based on taking the FY22 operating cashflow and adjusting for those positive cashflow movements we considered to be less judgemental. We then considered the level of additional spend that would need to be incurred in excess of the FY22 actuals for a breach to occur on the PMICR covenant assuming no mitigating actions from management. From this assessment we concluded that it was unlikely that expenditure could be at a level to lead to a covenant breach.
- Verifying liquidity forecasts to the Board approved budget and testing that contractual debt principal and interest payments had been appropriately included within the forecasts. We considered the headroom of expected cash outflows in the going concern period against available liquidity, identifying a reasonable level of expenditure to allow for unexpected spend.
- Obtaining and understanding the terms of the Group's financing and credit facilities, the Whole Business Securitisation, and in particular the financial covenants that the Group must adhere to. We have verified the existence of the facilities in place on which management has based its liquidity forecast for a period of in excess of 12 months from the date of the approval of the 31 March 2022 financial statements (the going concern period).
- Obtaining covenant compliance certificates, confirming that all the key covenants that impact the continued access to finance have been considered over the relevant time periods and verifying the mathematical accuracy, and testing inputs back to either the year end financial numbers or for forecasted information to the Board approved budget.
- Obtaining the latest credit ratings for the TWUL group and verifying that the Group maintained an investment grade rating and therefore taking reasonable assurance that the Group should still be able to access capital markets as required.
- Assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Independent auditors' report to the members of Thames Water Utilities Limited continued

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section of the Annual Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit, Risk and Reporting Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations, Listing rules and Pension legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year or those that would directly impact operating cashflows to create additional headroom for covenant compliance, specifically journals to increase revenue, decrease the bad debt provision and reclassify costs from the income statement to property, plant and equipment. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and inquiries of management, the internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgements, including challenging management in relation to how they have considered climate risk in such critical estimates. In particular we challenged the significant accounting estimates and judgements in relation to the Key Audit Matters as set out in our report along with provisions and contingent liabilities as detailed in notes 21 and 25 respectively. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where available along with considering the appropriateness of the related disclosures in the financial statements;

Independent auditors' report to the members of Thames Water Utilities Limited continued

- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Performing unpredictable procedures by sampling non-standard payments, the set up of new suppliers, vendor detail changes and reviewing of journal entries from unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Reporting Committee, we were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2019 to 31 March 2022.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

5 July 2022

Consolidated income statement

For the year ended 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Revenue	2	2,092.0	84.9	2,176.9	2,032.9	73.8	2,106.7
Operating expenses excluding impairment losses on financial and contract assets[1]	3	(1,833.2)	–	(1,833.2)	(1,703.0)	–	(1,703.0)
Impairment losses on financial and contract assets	3,15	(10.1)	(0.1)	(10.2)	(36.5)	(0.2)	(36.7)
Total operating expenses		(1,843.3)	(0.1)	(1,843.4)	(1,739.5)	(0.2)	(1,739.7)
Other operating income		95.7	–	95.7	121.8	–	121.8
Operating profit		344.4	84.8	429.2	415.2	73.6	488.8
Finance income	5	128.8	–	128.8	187.7	–	187.7
Finance expense	5	(513.3)	–	(513.3)	(395.8)	–	(395.8)
Net losses on financial instruments	6	(895.5)	–	(895.5)	(522.2)	–	(522.2)
(Loss)/profit on ordinary activities before taxation		(935.6)	84.8	(850.8)	(315.1)	73.6	(241.5)
Tax (charge)/credit on (loss)/profit on ordinary activities	7	(106.4)	(16.1)	(122.5)	57.0	(14.0)	43.0
(Loss)/profit for the year		(1,042.0)	68.7	(973.3)	(258.1)	59.6	(198.5)

1 Underlying operating expenses for the year ended 31 March 2022 includes £nil (31 March 2021: £16.3 million) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 3.

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 page 140.

Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
(Loss)/profit for the year		(1,042.0)	68.7	(973.3)	(258.1)	59.6	(198.5)
Other comprehensive (expense)/income							
Will not be reclassified to the income statement:							
Net actuarial loss on pension schemes	23	(22.9)	–	(22.9)	(195.0)	–	(195.0)
Deferred tax credit on net actuarial loss	20	11.8	–	11.8	43.1	–	43.1
Impact of tax rate change in current year in respect of actuarial losses	20	31.1	–	31.1	–	–	–
May be reclassified to the income statement:							
Cash flow hedge transferred to income statement	19	31.1	–	31.1	37.5	–	37.5
Deferred tax charge on cash flow hedge including impact of tax rate change in current year	20	(4.6)	–	(4.6)	(7.1)	–	(7.1)
Other comprehensive income/(expense) for the year		46.5	–	46.5	(121.5)	–	(121.5)
Total comprehensive (expense)/income for the year		(995.5)	68.7	(926.8)	(379.6)	59.6	(320.0)

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 page 140.

Consolidated statement of financial position

As at 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Non-current assets							
Intangible assets	9	284.8	–	284.8	276.3	–	276.3
Property, plant and equipment[1]	10	16,949.8	–	16,949.8	16,302.3	–	16,302.3
Investment property[1]	11	50.0	–	50.0	50.0	–	50.0
Right-of-use assets	12	45.8	–	45.8	41.6	–	41.6
Derivative financial assets	19	169.2	–	169.2	151.1	–	151.1
Intercompany loans receivable	13	1,693.4	–	1,693.4	1,693.4	–	1,693.4
Prepayments	15	–	308.8	308.8	–	228.9	228.9
Insurance and other receivables	15	45.6	–	45.6	50.7	–	50.7
Pension asset	23	12.0	–	12.0	57.9	–	57.9
		19,250.6	308.8	19,559.4	18,623.3	228.9	18,852.2
Current assets							
Inventories	14	13.0	–	13.0	14.9	–	14.9
Intercompany loans receivable	13	8.4	–	8.4	3.7	–	3.7
Contract assets	15	251.0	8.5	259.5	239.5	5.8	245.3
Trade receivables	15	301.9	14.0	315.9	298.1	12.0	310.1
Prepayments	15	36.9	–	36.9	38.4	–	38.4
Other receivables and amounts owed by group undertakings	15	36.4	1.0	37.4	30.3	0.8	31.1
Derivative financial assets	19	22.9	–	22.9	12.3	–	12.3
Cash and cash equivalents	16	419.8	5.2	425.0	490.9	3.6	494.5
		1,090.3	28.7	1,119.0	1,128.1	22.2	1,150.3
Current liabilities							
Contract liabilities	17	(125.1)	(2.0)	(127.1)	(121.9)	(2.1)	(124.0)
Trade and other payables	17	(649.2)	(49.2)	(698.4)	(602.7)	(31.4)	(634.1)
Borrowings	18	(749.2)	–	(749.2)	(1,124.9)	–	(1,124.9)
Lease liabilities	12	(6.2)	–	(6.2)	(7.5)	–	(7.5)
Derivative financial liabilities	19	(103.0)	–	(103.0)	–	–	–
		(1,632.7)	(51.2)	(1,683.9)	(1,857.0)	(33.5)	(1,890.5)
Net current liabilities		(542.4)	(22.5)	(564.9)	(728.9)	(11.3)	(740.2)

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Non-current liabilities							
Contract liabilities	17	(831.8)	–	(831.8)	(757.3)	–	(757.3)
Borrowings	18	(12,547.5)	–	(12,547.5)	(11,643.3)	–	(11,643.3)
Lease liabilities	12	(57.1)	–	(57.1)	(52.9)	–	(52.9)
Derivative financial liabilities	19	(2,238.7)	–	(2,238.7)	(1,469.9)	–	(1,469.9)
Deferred tax	20	(1,046.4)	–	(1,046.4)	(973.2)	–	(973.2)
Provisions for liabilities and charges	21	(185.0)	–	(185.0)	(143.7)	–	(143.7)
Pension deficit	23	(257.3)	–	(257.3)	(277.1)	–	(277.1)
		(17,163.8)	–	(17,163.8)	(15,317.4)	–	(15,317.4)
Net assets		1,544.4	286.3	1,830.7	2,577.0	217.6	2,794.6
Equity							
Called up share capital	22	29.0	–	29.0	29.0	–	29.0
Share premium	22	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	22	(33.2)	–	(33.2)	(59.7)	–	(59.7)
Revaluation reserve	22	820.1	–	820.1	903.1	–	903.1
Retained earnings	22	628.5	286.3	914.8	1,604.6	217.6	1,822.2
Total equity		1,544.4	286.3	1,830.7	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 31 March 2022, with the prior period comparative at 31 March 2021 also reclassified. Please refer to Note 10 Property, Plant and Equipment for further information.

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 page 140.

The consolidated financial statements (which include the accompanying accounting policies and notes) for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 5 July 2022 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended

	Note	Called up 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 year			–	–	–	(198.5)	**(198.5)**
Cash flow hedges transferred to income statement	19	–	–	37.5	–	–	**37.5**
Deferred tax charge on cash flow hedge	20	–	–	(7.1)	–	–	**(7.1)**
Net actuarial loss on pension scheme	23	–	–	–	–	(195.0)	**(195.0)**
Deferred tax credit on net actuarial loss	20	–	–	–	–	43.1	**43.1**
Total comprehensive expense		–	–	30.4	–	(350.4)	**(320.0)**
Transfer of depreciation[1]		–	–	–	(38.4)	38.4	**–**
Deferred tax on depreciation transfer[1]		–	–	–	7.2	(7.2)	**–**
Dividends paid	8	–	–	–	–	(32.9)	**(32.9)**
31 March 2021		29.0	100.0	(59.7)	903.1	1,822.2	**2,794.6**
Loss for the year		–	–	–	–	(973.3)	**(973.3)**
Cash flow hedge transferred to income statement	19	–	–	31.1	–	–	**31.1**
Deferred tax charge on cash flow hedge including impact of tax rate change	20	–	–	(4.6)	–	–	**(4.6)**
Net actuarial loss on pension scheme	23	–	–	–	–	(22.9)	**(22.9)**
Deferred tax credit on net actuarial loss	20	–	–	–	–	11.8	**11.8**
Impact of tax rate change in current year in respect of net actuarial loss	20	–	–	–	–	31.1	**31.1**
Total comprehensive expense		–	–	26.5	–	(953.3)	**(926.8)**
Transfer of depreciation[1]		–	–	–	(21.5)	21.5	**–**
Deferred tax on depreciation transfer[1]		–	–	–	(61.5)	61.5	**–**
Dividends paid	8	–	–	–	–	(37.1)	**(37.1)**
31 March 2022		29.0	100.0	(33.2)	820.1	914.8	**1,830.7**

1 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax (including the impact of the tax rate change in the current year) on the fair value uplift on assets.

Consolidated statement of cash flows

For the year ended 31 March

	Note	**2022 Underlying £m**	**2022 BTL £m**	**2022 Total £m**	2021 Underlying £m	2021 BTL £m	2021 Total £m
Net cash generated by operating activities[1]	28	1,191.4	1.6	1,193.0	931.2	1.0	932.2
Investing activities:							
Proceeds from short-term investments		–	–	–	300.0	–	300.0
Purchase of property, plant and equipment		(1,271.7)	–	(1,271.7)	(1,050.2)	–	(1,050.2)
Purchase of intangible assets		(72.3)	–	(72.3)	(54.8)	–	(54.8)
Proceeds from sale of property, plant and equipment		1.3	–	1.3	10.6	–	10.6
Interest received		113.2	–	113.2	199.9	–	199.9
Repayment of loans by parent company		–	–	–	58.8	–	58.8
Net cash used in investing activities		(1,229.5)	–	(1,229.5)	(535.7)	–	(535.7)
Financing activities:							
New loans raised[2]		3,585.4	–	3,585.4	1,574.4	–	1,574.4
Repayment of borrowings[3]		(3,321.5)	–	(3,321.5)	(1,846.1)	–	(1,846.1)
Repayment of lease principal		(9.9)	–	(9.9)	(11.4)	–	(11.4)
Derivative settlement[4]		20.6	–	20.6	(15.3)	–	(15.3)
Interest paid		(271.5)	–	(271.5)	(321.3)	–	(321.3)
Net fees received/(paid)		1.0	–	1.0	(7.8)	–	(7.8)
Dividends paid		(37.1)	–	(37.1)	(32.9)	–	(32.9)
Net cash generated by financing activities		(33.0)	–	(33.0)	(660.4)	–	(660.4)
Net (decrease)/increase in cash and cash equivalents		(71.1)	1.6	(69.5)	(264.9)	1.0	(263.9)
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		419.8	5.2	425.0	490.9	3.6	494.5

1 Net cash generated by operating activities for the year ended 31 March 2022 includes £nil (31 March 2021: £69.7 million of) payments that are considered to be exceptional. This exceptional outflow was related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying net cash generated by operating activities would be £1,000.9 million for the year ended 31 March 2021. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2022 would be £1,168.3 million, which would have included a cash payment of £24.7 million.

2 New loans raised of £3,585.4 million includes £2,430.0 million of drawdowns relating to revolving credit facilities including £1,770.0 million Class A and £660.0 million Class B. The remaining amount includes £958.0 million (net of fees) relating to bond issuances and £197.4 million (net of fees) relating to loans raised.

3 Repayment of borrowings of £3,321.5 million includes £2,273.5 million of repayments relating to revolving credit facilities including £1,770.0 million Class A and £503.5 million Class B. The remaining amount includes £527.0 million loan repayments and £521.0 million bond repayments.

4 Derivative settlement of £20.6 million, a cash inflow, relates to settlement of cross currency swaps. £15.3 million, a cash outflow in prior year, 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 the 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 140.

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

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

As at 31 March 2022, the Group includes the Company and Thames Water Utilities Finance Plc ("TWUF") as its sole subsidiary.

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 and Company only financial statements have been 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.

Basis of Preparation

The consolidated and Company only financial statements 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.

Going concern

The consolidated financial statements for the twelve months ended 31 March 2022, set out on pages 134 – 180, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

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

On 29 June 2022, the Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. Given the equity commitment of £500 million has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the Directors believe it reasonable that the £500 million of equity support can be taken into account for the going concern assessment.

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 31 March 2022, such liquidity consisted of £426 million of cash and cash equivalents, access to £1.80 billion of revolving credit facilities of which £1.43 billion was undrawn, £100 million 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 a more 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, cost of living concerns 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 and chemical prices and adverse weather. The impact on operational cashflows is reduced by mitigants involving active working capital management and the release of contingencies embedded with the Business Plan which have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and forecasts sufficient liquidity headroom for a period of at least 12 months from the date of signing of the financial statements.

The Directors have also considered the consequences of a temporary Trigger Event, a feature of the Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the Group's ability to trade. The cash lockup preserves the value of the Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the Group has significant bank facilities which the Directors believe are sufficient to fund its programme and meet its obligations for the duration of a temporary Trigger Event over the assessment period.

Based on the above, the Board is satisfied that the Group has adequate resources, for a period of at least 12 months from the date of approval of the 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.

Accounting policies continued

Basis of Consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company and its sole subsidiary. A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns.

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

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.

As part of the construction of the Thames Tideway Tunnel, buildings are acquired by the Group and will be recognised within Land and Buildings within Property, Plant and Equipment. These will be disposed of in future financial periods once construction is completed.

Revenue recognition

The core principle of IFRS 15 "Revenue from Contracts with Customers" requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. The Company has a variety of customers including, household customers (Directly billed or Indirectly billed by other Water Only Companies ("WOCs")) and non-household customers (retailers and NAVs "New Appointments and Variations").

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable at the time of billing based on historical experience is excluded from revenue, as it does not fall within the IFRS 15 criteria. This is to ensure that revenue is recorded at the amount which the Company expects to receive for providing its services to customers.

The Company considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions. For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the performance obligation is satisfied. When the Company identifies the occupants, the bill is sent out in the customer's name if known or if not in the name of the occupier. If the Company has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Where a bill is cancelled and the property is made empty, for measured customers, the revenue cancellation is recognised immediately. Where the property is not empty, the cancelled bill will be replaced with an unbilled accrual. For unmeasured customers, the amount cancelled is recorded within contract liabilities (deferred income) and follows the apportionment stated. Upon rebilling, for measured customers the billed value is recognised immediately and for unmeasured customers the amount is recorded in contract liabilities (deferred income) and follows the apportionment stated in the paragraph above.

Revenue includes amounts that the Company billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the previous BTL arrangement section.

Refer to page 147 for significant accounting estimates and judgements concerning revenue recognition.

Other operating income

The Company considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. The service connections charge levied includes the cost of excavating, connecting and reinstating (if needed) the new supply, including the installation of a stop valve, boundary box and external water meter as well as any associated pipework between the connection and the boundary box. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Deferred service connections income is recorded within contract liabilities (deferred income). Typically amounts received will be fully recognised within a year following receipt.

Requisitions & Diversions income is recognised over time in other operating income using the input method by estimating complete satisfaction of the performance obligation and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions and diversions income is recorded within contract liabilities (deferred income). These income streams encompass a wide variety of schemes, from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

Contributions received for infrastructure charges (which meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure) are initially held within contract liabilities (deferred income). The Company considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Company to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Company recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

Accounting policies continued

Interest income
Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Interest expense
Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the consolidated income statement.

Contract assets
Contract assets are presented in the statement of financial position when the Group's right to consideration is met in advance of billing. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the "Trade and other receivables (excluding prepayments)" section for more information.

Contract liabilities
Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

Net gains/(losses) on financial instruments
The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net losses/gains on financial instruments. The following are also recognised in the income statement as net losses/gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/(losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 143 for more details.

Taxation
Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the consolidated statement of other comprehensive income.

Current tax
Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax positions
Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome.

Accounting policies continued

Intangible assets

Separately acquired intangible assets, and internally generated intangible assets once commissioned, are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5-10

Assets in development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Property, plant and equipment

Property, Plant and Equipment ("PP&E") is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Within Land and Buildings are assets acquired in relation to the Thames Tideway Tunnel project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed in line with the agreement with Ofwat.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value on a straight-line basis over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows:

	Years
Network assets:	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
Non-network assets:	
Land and buildings:	
Buildings	15-60
Operational structures	30-100
Plant and equipment:	
Other operational assets	7-40
Fixtures & fittings	5-7
Vehicles	4-5
Computers	3-5
Fixed and mobile plant	4-60

Investment property

Investment property comprises of one building originally purchased in relation to the Thames Tideway Tunnel project to perform necessary works relating to the construction and integration of the tunnel into our network; however, the floor space in this building is being offered to external parties under short term leases and, therefore, the property meets the definition of Investment Property. Investment Property is accounted for under the cost method of IAS 40.

BTL arrangement

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at the sum of BTL prepayment and the present value of the future minimum contract payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

Accounting policies continued

Impairment of non-financial assets continued

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Investment in subsidiary undertaking

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company Income Statement only. An impairment review is performed on an annual basis.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

Trade receivables are measured at their transaction price on initial recognition and subsequently recognised net of provisions for expected credit loss. Other receivables such as loans or insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. Write-offs are recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable where those assets may be subject to significant increase in credit risk for example due to the impact of cost of living increases. The Group's assessment for calculating expected credit losses is explained below. In addition, Management has considered the impact of cost of living increases, and has created a provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case. The provision booked at March 2021 contained an allowance in relation to the expected impact of the economic uncertainty created by Covid-19. This has now been released.

(i) Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on actual performance in the year and age of debt. The amount that remains will be uncollectable and therefore needs to be covered by a bad debt provision. Debt that is older than 5 years is fully provided for. The model considers the impact on provisions for billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors; for instance, debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses. Refer to pages 147 – 148 for explanations of judgement applied.

Directly Billed Write Off Policy

The bad debt write off policy has remained unchanged and has been consistently applied in the current year. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- Where the value of the debt makes it uneconomic to pursue – all debts of less than £5 are written off;
- Where the age of the debt exceeds the statute of limitations – all debts of greater than 6 years old are written off, taking into account usual business rules;
- Where county court proceedings and attempts to recover the debt by debt collection agencies (multiple in some cases) have proved unsuccessful including where the customer does not have any assets or has insufficient assets on which to levy execution; and
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

For debt to be written off there must be a legitimate charge against the debtor and no reasonable expectation of recovery.

(ii) WOCs

A provision is also made against debts held by Water Only Companies ("WOCs") who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we use an average of two data points when calculating the provisions – WOC Statutory Accounts and TW directly billed ("DB") provision rates – taking a single data point is not appropriate as collection rates, write-off and provisioning policies, differ from company to company. Where provision rates have been provided by the WOCs this has been used as it accurately reflects the provision required to cover future write-offs. In addition, Management has considered the impact of cost of living increases, and has created a provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case. The provision booked at March 2021 contained an allowance in relation to the expected impact of the economic uncertainty created by Covid-19, this has now been released .

We consider current performance and any information available to create the provision we then make management judgements in respect of future credit losses, in accordance with the requirements of IFRS 9.

(iii) BTL

The arrangement with BTL means the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognising revenue within the Group and associated bad debt. The bad debt methodology is consistent with directly billed customers.

(iv) Non-Household

The Group has assessed the risk of credit losses for non-household customers to be low and therefore no bad debt provision has been made. The Group has assessed specific debts held in respect of non-household customers which are subject to query by those customers, and made a revenue loss provision on those debts within accrued income based on historical collections experience or on latest negotiations related to specific invoice queries.

Accounting policies continued

Intercompany loans receivable
Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

For loans repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. The Group has considered the recoverability of the intercompany receivables as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany receivables, the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

Trade and other payables (excluding other taxation and social security)
Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Cash and cash equivalents
Cash and cash equivalents – cash at bank and in hand are held at amortised cost and include cash on hand and deposits held at call with financial institutions. Cash and cash equivalents – money market funds are held at fair value through profit or loss.

Included within cash and cash equivalents – money market funds are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Short-term investments
Short-term investments are held at amortised cost and include term deposits which are not readily convertible into cash.

Interest bearing borrowings including those issued to other group companies
Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest-bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. In case of exchange or modification of interest-bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Inventories
Inventories are stated at the lower of cost and net realisable value ("NRV").

Prepayments
Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use.

Retirement and other employment benefits
Defined benefit schemes
The Group operates two, independently administered, defined benefit pension schemes, both of which are closed to new employees. One of these schemes, Thames Water Pension Scheme ("TWPS"), was closed to future accrual as of 31 March 2021. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit)/surplus.

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of other comprehensive income in the period in which they arise.

Accounting policies continued

Defined benefit schemes continued

The Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Group considers that under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

Defined contribution schemes

The Group operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS") managed through Aon MasterTrust from October 2020. Prior to that, DCSPS was managed through Standard Life Assurance Limited. From 1 April 2011 the DCSPS is the only scheme to which new employees of the Group are eligible. The assets of the DCSPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

Long-term incentive plans ("LTIP") and bonus

LTIP

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company's performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Company's performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

LTIP 2021/24 is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customer, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollutions. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

LTIP 2019/20 is a three-year LTIP scheme with a performance period from 1 April 2019 to 31 March 2022. The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan and 80% of the targets are focused on delivery of key customer outcomes including the delivery of leakage and environmental targets. This management incentive was accrued during the period based on management's assessment of performance against the targets set. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

Bonus

Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set and approved by the Remuneration Committee.

Provisions for liabilities and charges

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. The timing for the insurance claims is uncertain and therefore both the liability and receivable have been recognised as non-current.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2020 to 31 March 2025 is known as AMP7, and the prior period 1 April 2015 to 31 March 2020 was known as AMP6.

The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

Outcome delivery incentives ("ODIs") introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

The majority of our AMP7 performance commitments (PCs) have financial ODIs and are subject to either an in-period or an end-of-AMP revenue adjustment. For PCs with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For PCs with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 19.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

There are currently no active hedge accounting relationships.

Accounting policies continued

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments. The amounts recognised in the cash flow hedge reserve are recycled to the income statement as phased release over the where the related debt has been issued and has not matured. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently and in all circumstances an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Power prices forward contracts

Contracts are entered into to buy future power for a predetermined price. The power is for the Group's own use and the contract is not settled in cash and as such falls outside the scope of IFRS 9.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 19. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and 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 and the amount can be reliably measured.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency and the functional currency of the Company, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Leases

Recognition of leases

As a lessee

The Group's leasing activities consist of rentals payable for office properties and other land and buildings. Other rentals are short term or of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

Right-of-use asset

Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

Lease liability

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate "IBR". The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the income statement within 'finance expenses' so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature, however the Group has the ability to agree changes to the arrangement with the lessor if all parties agree.

Accounting policies continued

Lease liability continued
The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2%.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor
The Group has one material lease for which it is a lessor, which relates to the acquisition of a long leasehold of an office building, Camelford House. The primary purpose of acquiring the building was to provide access to a construction site as part of the construction of the Thames Tideway Tunnel. It is incidental to our business that the Group is acting as a lessor with income received. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

Exceptional items
Exceptional items are those charges or credits, and their associated tax effects, that are considered to be unusual by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals and provisions in relation to contractual settlements associated with significant disputes and claims.

Exceptional items recognised in the consolidated and Company only financial statements in the prior year related to transformation expenditure incurred from restructuring the business. These costs significantly changed how the Company operated and therefore are considered to be exceptional in nature and outside the ordinary course of business. The Group had additionally made a pension deficit repair payment of £69.7 million covering the financial periods from 2021/22 to 2024/25. This was treated as an exceptional cash flow in the previous year since this deficit repayment over the remaining AMP period is unusual by scale and of such significance that it would be beneficial to users of the financial statements to be disclosed separately in order to ensure our reporting cash flow movement reflects our ordinary business.

The Directors consider that any individual gain or loss on disposal of greater than £30.0 million would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances. These will be explained in the notes of the accounts on a case-by-case basis where relevant.

New accounting policies and financial reporting changes
The accounting policy below has been adopted this year in the preparation of these financial statements:

IFRIC Agenda Decision for IAS 38 – Software-as-a-Service
In April 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, Intangible Assets. Under this decision, the IFRIC concluded that customisation and configuration costs in relation to SaaS arrangements should typically be expensed unless they meet the criteria for recognising a separate asset under IAS 38. The impact of this is that customisation and configuration costs that were previously capitalised in respect of this decision should now be expensed. Whilst this is not a separate legislative instrument, the Agenda Decision is effectively considered mandatory when complying with IFRS.

Consistent with other organisations, the Group has historically capitalised all customisation and configuration costs including those which relate to the SaaS solutions. During the year, an exercise has been undertaken to identify SaaS capitalised projects with a positive net book value (most software assets are amortised over a useful economic life of 5-10 years). The nature and value of customisation and configuration costs within the largest 8 projects (66% coverage) has been analysed through review of purchase order information, documentation held on file and discussions with Digital technical experts.

The outcome of this assessment has been reflected for the financial year ended 31 March 2022.Management recognised a total operating expense adjustment amounting to £13.1m for previously capitalised costs (£6.0 million relating to 2021/22 and £7.1 million related to prior years) within the current year income statement as the impact relating to the previous years was not material.

Future standards and amendments
IBOR reform
The UK Financial Conduct Authority ("FCA") had concluded that the underlying market that the London Inter-Bank Offered Rate ("LIBOR") was derived from was no longer used in any significant volume and so the rates submitted by banks to sustain the LIBOR rate were often based (at least in part) on expert judgement rather than actual transactions. As a result, after the end of 2021, GBP LIBOR is no longer supported as a benchmark and GBP LIBOR has transitioned ("IBOR reform") to the new Sterling benchmark the Sterling Overnight Index Average ("SONIA").

Although Kemble Water Holdings Group is not regulated by the FCA, the Group is impacted by this industry-wide transition given the LIBOR-linked instruments we have outstanding. These were previously transacted with our counterparties, including banks and other investors, the majority of which are regulated by the FCA and so are required to amend contracts to accommodate the ending of the publication of LIBOR.

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.

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 enable the two benchmark rates to be economically equivalent on transition.

The Group 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.

Accounting policies continued

IBOR reform continued
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 31 March 2022, the Group had no designated hedge relationships and hedge accounting was not applied.

Refer to the IBOR reform section included in Note 19 Financial instruments on page 171 for details of all of the financial instruments that the Group holds at 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

As at 31 March 2022, LIBOR has been transitioned to SONIA on an economically equivalent basis for £4,170.8 million (notional) interest rate swaps, £720.0 million (notional) index-linked swaps, £100.0 million (notional) cross-currency swaps, £1,721.5 million revolving credit facilities, £550.0 million liquidity facilities and £484.3 million floating rate loans. 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.

IAS 12 – Income Taxes
Amendments have been proposed by the IASB to clarify how companies account for deferred tax on leases and decommissioning obligations. This is not effective until year ended 31 March 2023. We are considering the implications of these amendments.

Alternative performance measures
In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Company, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")
Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 9 and 10 respectively) and capital accruals.

Net debt
Net debt is presented in note 19 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the whole business securitisation covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised IFRS 9 transition costs, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 19.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt. Refer to page 144 for more information.

Regulatory Capital Value ("RCV")
The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Company needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing
Gearing is the percentage of the Company's covenant net debt to RCV and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")
PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Credit rating
The Company must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

Underlying
Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement.

As required by some of our financial covenants, we disclose our underlying performance separately.

Bazalgette Tunnel Limited ("BTL")
BTL represents the financial performance of the Group from the arrangement with BTL. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance. Refer to page 140 for more information on the BTL arrangement.

EBIT
Earnings before interest and taxation ("EBIT") is a performance metric used by management.

EBITDA
Earnings before interest, taxation, depreciation and amortisation ("EBITDA") is a key performance metric used by management. Previously EBIT was the key performance metric used, however as the Group's significant capital investment is considered within another key performance metric, "investment in assets", it was more appropriate to exclude the amounts relating to depreciation and amortisation in this metric. As interest expense and income and gains/losses on financial instruments are largely driven by external factors management deem it most appropriate to use EBITDA as a key performance metric. EBITDA has been reconciled to statutory loss before tax in note 1 Segmental Analysis.

Accounting policies continued

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2022 are contained in the sections below:

Revenue recognition

Accounting judgement – revenue recognition

Water and wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in underlying revenue for the current year of £57.1 million (2021: £49.9 million), with a corresponding decrease in receivables as shown in note 15.

Connections, requisitions and diversions

Management considers these types of income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer or other third party.

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and the Group will have a present right to payment for work performed to date.

The charges are standalone and are not reflective of the ongoing obligation to supply the occupants of the newly connected properties. Supply to the occupants is charged on a standalone basis. This supports the decision not to defer connections/requisitions charges beyond completion of the service to the developer.

Infrastructure charges

Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Accounting judgement and estimation – provision for expected credit losses

The directly billed model uses historical performance to determine the collectability of the debtors in the future. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The model takes the closing household debtors and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains will be uncollectable and will form bad debt provision. Using the 2021/22 performance ensures the most up to date information is used in determining the level of provision required. An adjustment was made in the model to remove any performance that will not repeat in the future. Last year the judgement focused on the impact of Covid-19 and the focus in the current year has been on the rising cost of living crisis.

Management has considered the future impact of increases in the cost of living on customers' ability to pay their water and wastewater bills and has increased the provision by £19.4 million across directly billed customers and WOCs. No adjustment has been made for non-household customers as management have assessed future cash flows and the risk of non-payment was not considered to be material. A similar assessment on external factors was performed in the prior year, and the provision increased by £9.0 million primarily as a result of the impact expected from Covid-19, this proportion of the provision has now been released during the current year given the easing of restrictions. The accounting treatment of revenue is unchanged by Covid-19 since it has not impacted how performance obligations are measured.

The Directly Billed customers accounting judgement was based on economic modelling through past observations and forecasted macroeconomic impacts. The results of the review indicate a significant decrease expected in the value of cash collection receipts during 2022 primary driven by inflationary and other price increases for consumers, the model calculated that on average customers will have 12.1% less disposable income as a result of increases in cost of living. A provision of £14.7 million has therefore been booked.

For WOCs the accounting judgement was made in line with the Directly Billed bad debt provision. Assuming a 12.1% decrease in forecasted cash collections, a provision of £4.7 million has been booked.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2022 was £150.5 million (2021: £146.3 million). The increase was due to an increase in both the WOCs (discussed above) and the Cancel Rebill Provisions. This is offset by a reduction in the Directly Billed customers provision due to an improvement in prior year debt collection rates following successful execution of our debt transformation programme.

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers is based on cash collection rates; for the WOCs it is an average of the information from their statutory accounts in relation to the level of bad debt provision held for billed and unbilled debtors and the provision rate applied to Directly billed customers. The sensitivity analysis is summarised below:

Accounting policies continued

Accounting judgement and estimation – provision for expected credit losses continued

Directly Billed

Scenario	£m	Outcome
Current year cash collection rates increase by 6% for 9 out of 12 months	(11.2)	Reduction in charge
Current year cash collection rates reduce by 6% for 9 out of 12 months	11.2	Increase in charge

WOCs

Scenario	£m	Outcome
Reduction in WOC provision rates by 6% for 9 out of 12 months	(4.5)	Reduction in charge
Increase in WOC provision rates by 6% for 9 out of 12 months	4.5	Increase in charge

Non-Household customers

Queries relating to de-registration of properties are provided for in full. We performed sensitivity analysis on the revenue loss provision based on the % of payments made on all remaining queries from the non-household market, held at year end. Management have assessed future cash flows and the risk of non-payment was not considered to be material.

Scenario	£m	Outcome
Increase in payment % by 10%	0.1	Increase in charge
Decrease in payment % by 10%	(0.1)	Reduction in charge

Property, plant and equipment and intangible assets

Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2022 were £1,271.7 million (2021: £1,050.2 million). Intangibles additions for the year ended 31 March 2022 were £72.3 million (2021: £54.8 million). Both figures include own works capitalised and capitalised borrowing costs.

Own works capitalised for the year ended 31 March 2022 of £226.7 million (2021: £219.8 million) includes employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangible assets for the year ended 31 March 2022, net of commissioning, were £115.3 million (2021: £69.7 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods.

An assessment of the impact of climate change on accounting estimates was performed. This included assessment of the delivery plan to reach net zero carbon by 2030. Initiatives include use of electric vehicles (and related infrastructure), producing renewable energy (biomethane) from wastewater for injection into the grid and use in powering our assets, generation of solar power and improved energy efficiency in operational processes. Procurement and construction of these investments will happen in future reporting periods and will replace assets which have reached the end of their useful lives. No impairment charges or changes in UELs were identified.

The total depreciation charge for the year ended 31 March 2022 was £623.7 million (2021: £559.3 million) and the total amortisation charge for the year was £55.6 million (2021: £51.9 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome for the year ended 31 March 2022
5 year increase in average remaining useful life	(83.6)	Decrease in total depreciation and amortisation charge in the year
5 year decrease in average remaining useful life	111.4	Increase in total depreciation and amortisation charge in the year

Provisions for other liabilities and charges

Accounting judgement – recognition of environmental and legal provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are related to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Environmental and legal provisions, which are detailed in note 21, total £53.6 million as at the year ended 31 March 2022 (2021: £22.9 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2022 totalled £185.0 million (2021: £143.7 million). There is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided or disclosed as a contingent liability.

Accounting policies continued

Retirement benefit obligations

Accounting estimate – actuarial assumptions

The Group operates two defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2019, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2019, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. The pension liability and net cost recognised under IAS 19 Employee Benefits are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and together represent a key source of estimation uncertainty. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- inflation.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the two schemes as at 31 March 2022 was £245.3 million (2021: £219.2 million), which includes a pension deficit of £257.3 million (2021: £277.1 million) for the TWPS scheme, offset by a pension surplus of £12.0 million (2021: £57.9 million) for the TWMIPS scheme. Refer to note 23 for more information on the key assumptions and sensitivities of the pension schemes.

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed

Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties. In cases where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level 2. The net total of derivative financial assets and liabilities as at 31 March 2022 was a liability of £2,149.6 million (31 March 2021 a liability of: £1,306.5 million). Refer to note 19 on page 167 for more information on the key assumptions and sensitivities of the financial instruments.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change in the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During 2019/20, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2022, £33.3 million (31 March 2021: £35.3 million) remained capitalised and £2.0 million had been recognised in the income statement (31 March 2021: £2.0 million). See note 19 to the consolidated financial statements "Financial Instruments" for more information.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement – principal vs. agent

BTL is the independent licenced utility company appointed by Thames Water to construct the Thames Tideway Tunnel. The appointment was subsequently approved by Ofwat in August 2015. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the Company's licence). Judgement has been exercised in assessing whether the Group is acting as principal or agent in its relationship with BTL.

Under IFRS 15 an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself, or to arrange for them to be provided by another party. The Group is deemed to have primary responsibility for providing the 'end to end' services relating to the disposal of waste from its wastewater customers from collection, transportation (through the existing infrastructure and the Thames Tideway Tunnel) to the processing in the Group's sewage treatment plants. The Group continues to charge its wastewater customers for the end-to-end waste management service and the BTL element will not be separately reflected in customer bills.

Additionally, the Group, as the sole future user of the Tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the Tunnel). These risks include reputational risks. Management therefore consider the Group is operating as principal in the relationship with BTL.

Notes to the consolidated financial statements

1. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Group.

In line with the Group's structure 'One Thames', all operational and support functions providing a safe and reliable water and wastewater service to customers 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 (Castle Water Limited) 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:

Year ended 31 March	2022 £m	2021 £m
Management revenue	2,148.8	2,082.5
Net operating expenses before depreciation and amortisation	(1,203.3)	(1,161.6)
Depreciation of property, plant and equipment	(617.5)	(551.9)
Amortisation of intangible assets	(51.7)	(49.9)
Other operating income	71.5	11.5
Management Earnings before Interest and Tax (EBIT)	**347.8**	**330.6**

Revenue – Management to statutory reconciliation

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

Year ended 31 March	2022 £m	2021 £m
Management revenue	2,148.8	2,082.5
Household BTL revenue	71.2	63.6
Non-household BTL revenue	14.0	10.5
Statutory reclassification of bad debt from operational expenditure[1]	(57.1)	(49.9)
Total statutory revenue	**2,176.9**	**2,106.7**

1 This relates to amounts billed that are not probable of being recovered and therefore excluded from IFRS 15 revenue. In the current year, £56.7 million relates to management revenue (2021: £49.6 million) and £0.4 million relates to BTL revenue (2021: £0.3 million).

EBITDA is a key performance metric used by management. Previously EBIT was the key performance metric used, however as the Group's significant capital investment is considered within another key performance metric, "investment in assets", it was more appropriate to exclude the amounts relating to depreciation and amortisation in this metric. As interest expense and income and gains/losses on financial instruments are largely driven by external factors management deem it most appropriate to use EBITDA as a key performance metric. EBITDA is reconciled to the Group's statutory operating profit and loss before tax below:

Year ended 31 March	2022 £m	2021 £m
Management EBITDA	**1,017.0**	**932.4**
IFRS 16 adjustment[1]	10.2	14.1
Statutory recognition of other operating income[2]	2.7	57.9
Statutory reclassification of pension costs[3]	9.9	17.7
Household BTL revenue[4]	71.2	63.6
Non-household BTL revenue[4]	14.0	10.5
Impairment of property, plant and equipment	(10.0)	–
Other statutory adjustments[5]	(0.8)	11.8
Statutory EBITDA	**1,114.2**	**1,108.0**
Depreciation of property, plant and equipment	(623.7)	(559.3)
Depreciation of right-of-use assets	(5.7)	(8.0)
Amortisation of intangible assets	(55.6)	(51.9)
Total statutory operating profit before finance income/expenses	**429.2**	**488.8**
Finance income	128.8	187.7
Finance expense	(513.3)	(395.8)
Net losses on financial instruments	(895.5)	(522.2)
Total statutory loss before tax	**(850.8)**	**(241.5)**

1 A financial liability is not recognised for the term of the lease and no right of use asset is recognised. Within the management numbers, the expense is recognised proportionally over the lease term rather than interest and depreciation.

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 Contributions made into the defined benefit pension schemes are recognised on an accruals basis. To ensure the accounting is in line with IAS 19, any accruals made for contributions are reversed and are recognised on a cash basis for statutory purposes.

4 The portion of BTL revenue related to our household and non-household customers.

5 These amounts relate to insurance, provisions and other statutory only adjustments not included in management numbers.

Notes to the consolidated financial statements continued

2. Revenue

Year ended 31 March	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Gross revenue	2,149.1	84.9	2,234.0	2,082.5	74.1	2,156.6
Charge for bad and doubtful debts	(57.1)	–	(57.1)	(49.6)	(0.3)	(49.9)
Total	**2,092.0**	**84.9**	**2,176.9**	**2,032.9**	**73.8**	**2,106.7**

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.

We have presented a further disaggregation of our revenue below:

Gross revenue for the year ended 31 March	2022 £m	2021 £m
Household market		
Water services	754.1	726.1
Wastewater services	870.7	871.5
Retail services	135.9	140.6
Total gross revenue from household market	**1,760.7**	**1,738.2**
Non-household market		
Water services	177.7	152.2
Wastewater services	165.3	147.0
Retail services	1.3	1.4
Total gross revenue from non-household market	**344.3**	**300.6**
Gross revenue from principal services[1]	2,105.0	2,038.8
Other appointed revenue[2]	20.9	20.3
Total appointed revenue	**2,125.9**	**2,059.1**
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)[3]	23.3	23.4
Total gross underlying revenue	**2,149.2**	**2,082.5**
Amounts billed for the Thames Tideway Tunnel	84.9	74.1
Total gross revenue	**2,234.1**	**2,156.6**

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).

Other operating income

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Year ended 31 March	2022 £m	2021 £m
Power income[1]	15.4	10.9
Requisitions and diversions charges	24.3	27.0
Service connections charges	18.4	18.2
Amortisation of deferred income recognised on adoption of assets at nil cost	4.1	3.7
Release from deferred income – infrastructure charges	5.3	5.3
Rental income[2]	8.6	30.0
Gain on sale of property, plant and equipment	1.4	8.4
Other income[3]	18.2	18.3
Total	**95.7**	**121.8**

1 Power income comprises income from the sale of internally generated electricity.

2 In the prior year we recognised £27.7 million of rental income relating to previous years which was previously held on the Balance Sheet. The rental income relates to a property purchased for the delivery of the Thames Tideway Tunnel. This building was acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed.

3 Other income includes £5.5 million relating to excess payments received from customers in the past and recognised during the current year (31 March 2021: £14.6 million).

Notes to the consolidated financial statements continued

2.1 Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

As at 31 March	Note	2022 £m	2021 £m
Contract assets			
Current			
Accrued revenue for services provided to metered customers		183.8	176.7
Accrued income for other activities[1]		75.7	68.6
Total current contract assets	15	259.5	245.3
Total contract assets		259.5	245.3
Contract liabilities			
Non-current			
Deferred revenue from infrastructure charges		529.2	517.3
Deferred revenue from other activities[2]		302.6	240.0
Total non-current contract liabilities	17	831.8	757.3
Current			
Advance payments received		73.9	75.4
Deferred revenue from infrastructure charges		5.5	5.3
Deferred revenue from other activities[2]		47.7	43.3
Total current contract liabilities	17	127.1	124.0
Total contract liabilities		958.9	881.3

1 Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 140).

2 Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

2.2 Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities. No amounts were recognised in the current financial year that relate to performance obligations satisfied, or partially satisfied, in previous periods.

Year ended 31 March	Note	2022 £m	2021 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:			
Advance payments received		75.4	78.2
Deferred revenue from infrastructure charges		5.3	5.3
Deferred revenue from other activities		43.3	40.6
Total	17	124.0	124.1

2.3 Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

Year ended 31 March	2022 £m	2021 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Service connections	8.9	6.0
Requisitions and diversions	165.4	206.6
Infrastructure charges	534.6	522.8
Other	5.2	4.3
Total	714.1	739.7

The Group considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Company considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate.

For water and wastewater services, the Group has a right to consideration from customers to an amount that corresponds directly with the value to the customer of the entity's performance completed to date, being the provision of such services. As such revenue is recognised to the amount the Group has a right to invoice. Therefore, as allowed by the practical expedient set out in IFRS 15, these revenues are not included in the table above.

Notes to the consolidated financial statements continued

3. Operating expenses

	2022			2021		
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Wages and salaries	344.0	–	344.0	302.7	–	302.7
Social security costs	35.1	–	35.1	33.3	–	33.3
Pension costs – defined benefit schemes	4.0	–	4.0	24.4	–	24.4
Pension costs – defined contribution schemes	27.1	–	27.1	15.2	–	15.2
Apprenticeship levy	1.6	–	1.6	1.5	–	1.5
Total employee costs	411.8	–	411.8	377.1	–	377.1
Power	175.7	–	175.7	132.0	–	132.0
Raw materials and consumables	54.6	–	54.6	53.0	–	53.0
Rates[1]	87.8	–	87.8	121.5	–	121.5
Research and development expenditure	11.7	–	11.7	11.2	–	11.2
Insurance	50.8	–	50.8	40.2	–	40.2
Legal and professional fees	20.8	–	20.8	40.3	–	40.3
Other operating costs[2]	551.7	–	551.7	512.0	–	512.0
Impairment of property, plant and equipment	10.0	–	10.0	–	–	–
Own works capitalised	(226.7)	–	(226.7)	(219.8)	–	(219.8)
Net operating expenses before depreciation and amortisation	1,148.2	–	1,148.2	1,067.5	–	1,067.5
Depreciation of property, plant and equipment	623.7	–	623.7	559.3	–	559.3
Depreciation of right-of-use assets	5.7	–	5.7	8.0	–	8.0
Amortisation of intangible assets	55.6	–	55.6	51.9	–	51.9
Net operating expenses excluding exceptional items	1,833.2	–	1,833.2	1,686.7	–	1,686.7
Exceptional costs[3]:						
Company reorganisation – severance	–	–	–	0.1	–	0.1
Associated programme management costs	–	–	–	16.2	–	16.2
Operating expenses excluding impairment losses on financial and contract assets	1,833.2	–	1,833.2	1,703.0	–	1,703.0
Impairment losses on financial and contract assets	10.1	0.1	10.2	36.5	0.2	36.7
Total operating expenses	1,843.3	0.1	1,843.4	1,739.5	0.2	1,739.7

1 Rates expense in the current period includes £24.2 million of rebates relating to reassessment of the business rates expense in the period 2017-2021 (2021: £nil).

2 Other operating costs primarily relate to costs for contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditure under IAS 16: Property, plant and equipment.

3 Exceptional costs of £16.3 million in prior year related to transformation expenditure incurred as a result of the significant restructuring of the business. These costs were 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 was deemed exceptional by nature. The tax impact of exceptional items was an increase in the tax credit in the income statement of £3.1 million) applying the 19% corporation tax rate.

Auditors' remuneration

Amounts payable to the Group's auditors are shown below in respect of the following services to the Group:

	2022 £'000	2021 £'000
Fees payable to the Group's auditors:		
Fees payable for the audit of the Group and Company financial statements	1,494.3	1,319.6
Fees payable for the audit of the subsidiary financial statements	96.0	94.0
Fees payable to the Group's auditors for other services:		
Audit related assurance services	710.9	753.8
Other assurance services	122.1	206.5
Total aggregate remuneration	2,423.3	2,373.9

Fees payable for the audit of the Group's financial statements in the current financial year exclude £12,000 (2021: £3,000) for out of pocket expenses incurred for delivery of the audit.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements for Ofwat.

4. Employees and Directors

Employees

All Company employees are based in the United Kingdom. No employees are employed by Thames Water Utilities Finance plc.

The average number of persons employed on a permanent basis by the Company (including Executive Directors) during the year, analysed by category, was as follows:

	2022 Number	2021 Number
Operations	3,638	3,420
Retail	1,534	1,452
Support services	1,307	1,139
Digital, strategy and transformation	395	379
Delivery office	208	135
Total persons employed by the Company	7,082	6,525

Notes to the consolidated financial statements continued

4. Employees and Directors continued

Directors emoluments

The Directors' emoluments were as follows:

	2022 £'000	2021 £'000
Salary and fees	2,169.0	1,951.0
Pension and pension allowances	174.0	159.0
Bonus	793.0	510.0
Payment on loss of office	111.0	–
Other benefits	728.0	481.0
Total aggregate emoluments	**3,975.0**	**3,101.0**

Included in the table above, is £2.2 million (2021: £1.5 million) for the Executive Directors for their services to the Company. In addition, the Executive Directors received total remuneration of £0.7 million (2021: £0.5 million) for their services to parent companies within the Kemble Water Holdings Group, these costs are borne by the Company and are not recharged to other group companies.

In the current and preceding financial years no amounts were accruing to any Directors under the Company's defined benefit scheme in respect of services to the Company. The Company contributed cash of £174,487 (2021: £119,000) as a pension supplement for three Directors (2021: two Directors). In the current and preceding years the Company made no contributions into the Company's defined contribution pension scheme in relation to the Directors.

Other benefits includes medical benefits, car allowances and other incentives.

Amounts disclosed in respect of the long-term incentive plan ("LTIP") are those where all performance and service conditions have been met. Detailed disclosures of items of remuneration, including those accruing under LTIPs can be found within the Directors' Remuneration Report on pages 100 – 119. Refer to note 29 for disclosure on Key management personnel.

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Company during the year were £1,536,000 (2021: £921,351). In addition, emoluments of £512,000 (2021: £307,117) were paid to the highest paid Director for services to other companies within the Kemble Water Holdings Group.

5. Finance income and expense

During the year ended 31 March 2022, the Group recognised finance income of £128.8 million (2021: £187.7 million) relating mainly to interest on swaps, intercompany loans receivable and other finance income on swaps.

Finance income

Year ended 31 March	2022 £m	2021 £m
Interest income on bank deposits	0.2	1.2
Interest income on intercompany loans receivable	8.3	13.1
Interest income on swaps	108.7	171.8
Other finance income on swaps[1]	11.2	0.9
Other interest income	0.4	0.7
Total finance income	**128.8**	**187.7**

1 Included within finance income is £11.2 million (31 March 2021: £nil) relating to fees received on the novation or restructure of index-linked swaps.

Finance expense

The Group also recognised finance expenses of £513.3 million (2021: £395.8 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and leases.

Year ended 31 March	Note	2022 £m	2021 £m
Interest in relation to bank and other loans:			
Interest expense		(388.3)	(409.0)
RPI accretion on loans		(229.6)	(50.2)
Interest in relation to defined benefit obligation:			
Net interest expense on defined benefit obligation	23	(4.7)	(1.9)
Interest in relation to leases:			
Leases	12	(3.2)	(3.4)
Fees:			
Other finance fees		(2.8)	(1.0)
Gross finance expense		**(628.6)**	**(465.5)**
Capitalised borrowing costs		115.3	69.7
Total finance expense		**(513.3)**	**(395.8)**

Notes to the consolidated financial statements continued

6. Net losses on financial instruments

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

Year ended 31 March	2022 £m	2021 £m
Net exchange (losses)/gains on foreign currency borrowings	(42.3)	145.7
Net losses arising on swaps where hedge accounting is not applied[1]	(822.1)	(630.4)
Loss on cash flow hedge transferred from equity[2]	(31.1)	(37.5)
Total	(895.5)	(522.2)

1 In the current period the net losses arising on swaps where hedge accounting is not applied primarily reflects higher RPI expectations and an appreciation of GBP against EUR and JPY, partially offset by depreciation of GBP against USD and CAD. The amount includes the fair value of £317.7 million (31 March 2021: £52.2 million) accreted on index linked swaps during the year.

2 Refer to note 19 Financial Instruments on page 170 for more information on the loss on cash flow hedge transferred from equity.

7. Tax charge/(credit) on (loss)/profit on ordinary activities

Year ended 31 March	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Current tax:						
Amounts (receivable)/payable in respect of group relief	(3.5)	16.1	12.6	(3.1)	14.0	10.9
Adjustments in respect of prior periods (group relief)	(1.7)	–	(1.7)	–	–	–
Current tax subtotal	(5.2)	16.1	10.9	(3.1)	14.0	10.9
Deferred tax:						
Origination and reversal of timing differences	(168.9)	–	(168.9)	(54.9)	–	(54.9)
Effect of corporation tax rate change	278.7	–	278.7	–	–	–
Adjustments in respect of prior periods	1.8	–	1.8	1.0	–	1.0
Deferred tax subtotal	111.6	–	111.6	(53.9)	–	(53.9)
Tax charge/(credit) on (loss)/profit on ordinary activities	106.4	16.1	122.5	(57.0)	14.0	(43.0)

The tax charge/(credit) for the year ended 31 March 2022 is higher (2021: lower credit) than the standard rate of corporation tax in the UK. The differences are explained below:

Year ended 31 March	2022 Underlying £m	2022 BTL £m	2022 Total £m	2022 Effective tax rate %	2021 Underlying £m	2021 BTL £m	2021 Total £m	2021 Effective tax rate %
(Loss)/profit on ordinary activities before taxation	(935.6)	84.8	(850.8)		(315.1)	73.6	(241.5)	
Tax at 19% (2021: 19%)	(177.7)	16.1	(161.6)	19.0%	(59.9)	14.0	(45.9)	19.0%
Effects of:								
Recurring items								
Depreciation on assets that do not qualify for tax relief	4.5	–	4.5		4.4	–	4.4	
Disallowable expenditure[1]	8.3	–	8.3		2.6	–	2.6	
Non-taxable income[2]	(5.4)	–	(5.4)		(4.5)	–	(4.5)	
Property disposals	–	–	–		(0.8)	–	(0.8)	
Impact of "super-deduction" allowance on capital expenditure[3]	(2.3)	–	(2.3)		–	–	–	
Other	0.2	–	0.2		–	–	–	
Tax (credit)/charge as adjusted for recurring items	(172.4)	16.1	(156.3)	18.4%	(58.2)	14.0	(44.2)	18.3%
Non-recurring items								
Impact of tax rate change	278.7	–	278.7		0.2	–	0.2	
Adjustments in respect of prior periods – current tax (group relief)	(1.7)	–	(1.7)		–	–	–	
Adjustments in respect of prior periods – deferred tax	1.8	–	1.8		1.0	–	1.0	
Total tax charge/(credit)	106.4	16.1	122.5	(14.4%)	(57.0)	14.0	(43.0)	17.8%

1 Disallowable expenditure primarily relates to fines included in operating expenses.

2 Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.

3 The government has introduced an accelerated capital allowance called a "super-deduction" which is available on some of the Company's capital expenditure. The allowance includes an additional 30% allowance in excess of expenditure on qualifying plant and machinery which results in a tax credit in the income statement. A super-deduction allowance will also be available on some of the Group's capital expenditure in the following period, and this is therefore shown as a recurring item.

Notes to the consolidated financial statements continued

7. Tax charge/(credit) on (loss)/profit on ordinary activities continued

The Group is not currently in a cash tax paying position with HMRC (although it does pay for group relief), primarily due to capital allowances on capital expenditure, tax deductions for borrowing costs and group relief which has arisen on interest expenses in holding companies. The differences between (loss)/profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below:

	2022			2021		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	(935.6)	84.8	(850.8)	(315.1)	73.6	(241.5)
Tax at 19% (2021: 19%)	(177.7)	16.1	(161.6)	(59.9)	14.0	(45.9)
Effects of:						
Depreciation on assets that do not qualify for relief	4.5	–	4.5	4.4	–	4.4
Disallowable expenditure	8.3	–	8.3	2.6	–	2.6
Non-taxable income	(5.4)	–	(5.4)	(4.5)	–	(4.5)
Property disposals	–	–	–	(0.8)	–	(0.8)
Capital allowances for the year lower than/(higher than) depreciation[4]	81.6	–	81.6	(12.7)	–	(12.7)
Capitalised borrowing costs allowable for tax[5]	(21.9)	–	(21.9)	(13.3)	–	(13.3)
Losses on financial derivatives[6]	110.9	–	110.9	89.9	–	89.9
Pension cost charge in excess of/(lower than) pension contributions[7]	0.6	–	0.6	(17.1)	–	(17.1)
Other short term timing differences	(4.4)	–	(4.4)	8.3	–	8.3
Adjustments to tax charge in respect of prior periods – current tax (group relief)	(1.7)	–	(1.7)	–	–	–
Current tax (credit)/charge for the year	(5.2)	16.1	10.9	(3.1)	14.0	10.9

4 Capital allowances claimed in the current year are lower than depreciation because of a reduction in taxable profits caused by an increase in accounting losses for the year.

5 Capitalised borrowing costs are eligible for a full tax deduction in the year.

6 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.

7 The Group made higher pension contributions in the prior year as a result of the additional pension deficit repair payment, which received tax relief. The Group reduced its claim for capital allowances accordingly so that current tax was not affected; as a result, no tax amounts were booked to OCI in respect of the pension deficit repair payment.

Uncertain tax positions

At 31 March 2022 the total value of uncertain tax positions was £nil (2021: £nil).

Tax credited directly to other comprehensive income

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

Year ended 31 March	2022 £m	2021 £m
Deferred tax:		
Tax credit on net actuarial loss in year	11.8	43.1
Impact of tax rate change in current year in respect of net actuarial losses	31.1	–
	42.9	43.1
Deferred tax:		
Tax charge on cash flow hedges in year	(5.9)	(7.1)
Impact of tax rate change in current year in respect of cash flow hedges	1.3	–
	(4.6)	(7.1)
Total tax credited directly to other comprehensive income	38.3	36.0

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements, except for deferred tax on timing differences which are expected to unwind by 31 March 2023 which continues to be provided at the current rate of 19% (35% for the deferred tax on the surplus on the TWMIPS pension scheme). The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income as shown above.

Notes to the consolidated financial statements continued

8. Dividends

During the year ended 31 March 2022, the Company paid total dividends of £37.1 million (2021: £32.9 million) to its immediate parent Thames Water Utilities Holdings Limited.

The dividend paid during the year ended 31 March 2022 was used to fund interest obligations and activities of other companies within the Kemble Water Holdings Group and was distributed as follows:

Year ended 31 March	2022 £m	2021 £m
Distribution to external shareholders:		
External dividend distributions	–	–
	–	–
Other distributions:		
Kemble Water Finance Limited debt service costs	35.1	31.5
Distribution to Thames Water Limited	2.0	1.4
	37.1	32.9
Total	37.1	32.9

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2021: £nil).

Dividends paid to Kemble Water Finance Limited ("KWF") were used to enable it 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 were used to fund activities of that company.

External shareholders above is referring to shareholders of Kemble Water Holdings Limited ("Kemble").

Further information on dividend payments can be found in Our Chief Financial Officer's Review on page 46.

9. Intangible assets

	Software £m	Assets in development £m	Total £m
Cost:			
At 1 April 2020	458.7	26.8	485.5
Additions	–	54.8	54.8
Transfers between categories	35.9	(35.9)	–
Disposals	(89.0)	–	(89.0)
At 31 March 2021	405.6	45.7	451.3
Additions	–	72.3	72.3
Transfers between categories	78.5	(78.5)	–
Disposals	(12.6)	–	(12.6)
At 31 March 2022	471.5	39.5	511.0
Accumulated amortisation:			
At 1 April 2020	(212.1)	–	(212.1)
Amortisation charge	(51.9)	–	(51.9)
Disposals	89.0	–	89.0
At 31 March 2021	(175.0)	–	(175.0)
Amortisation charge	(55.6)	–	(55.6)
Disposals	4.4	–	4.4
At 31 March 2022	(226.2)	–	(226.2)
Net book value:			
At 31 March 2022	245.3	39.5	284.8
At 31 March 2021	230.6	45.7	276.3

The amount of borrowing costs capitalised as intangible assets is £0.5 million (31 March 2021: £nil). The effective rate of borrowing costs for the financial year ended 31 March 2022 was 6.63%.

During the year, £12.6 million has been included within disposals, for assets with book value amounting to £8.1 million relating to customisation and configuration costs that had been previously capitalised. These costs were subsequently reclassified as operating expense in line with the IFRIC Second Agenda Decision involving Software-as-a-Service arrangements.

The gross carrying amount of intangible assets that was fully amortised at 31 March 2022 amounted to £114.5 million (31 March 2021: £60.9 million).

Notes to the consolidated financial statements continued

10. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network Assets £m	Assets under construction £m	**Total £m**
Cost:					
At 1 April 2020	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	–	0.6	37.3	1,233.8	**1,271.7**
Transfers between categories[2]	236.0	641.0	647.4	(1,524.4)	**–**
Disposals	(1.5)	(145.6)	(22.8)	–	**(169.9)**
At 31 March 2022	**3,969.6**	**8,851.6**	**9,061.7**	**2,428.1**	**24,311.0**
Accumulated 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	(72.0)	(404.0)	(147.7)	–	**(623.7)**
Disposals	1.5	144.2	23.7	–	**169.4**
At 31 March 2022	**(1,168.7)**	**(5,165.1)**	**(1,027.4)**	**–**	**(7,361.2)**
Net book value:					
At 31 March 2022	**2,800.9**	**3,686.5**	**8,034.3**	**2,428.1**	**16,949.8**
At 31 March 2021[1]	2,636.9	3,450.3	7,496.4	2,718.7	**16,302.3**

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.

2 Included within Transfer between categories in the year are capitalised costs classified to Land and Buildings (£128.8 million), Plant & Equipment (£213.2 million) and Network Assets (£236.9 million) asset categories, with a total balance of £578.7 million, which should have been commissioned in the prior year. The related depreciation charge to these assets, amounting to £19.3 million, are also presented in the current year of these financial statements.

£114.8 million of borrowing costs were capitalised in the period (2021: £69.7 million). The effective annual capitalisation rate for borrowing costs was 6.6% (2021: 3.3%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2022 amounted to £2.7 billion (31 March 2021: £2.6 billion).

During the year the group disposed of £169.9 million (31 March 2021: £nil) of property, plant and equipment assets which relate to assets with a nil Net Book Value.

As at 31 March 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. The Company has chosen to account for this under the cost method of IAS 40 with a carrying value of £50.0 million.

In the current year financial statements, to facilitate greater transparency, the building aforementioned, with carrying value of £50.0 million, has 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 stated £50.0 million.

Based on an expectation that this property will be disposed of in the next few years the recoverable amount and residual value of this property as at 31 March 2022 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 year ended 31 March 2022 is £5.3 million (31 March 2021: £5.8 million). The rental expense incurred by the Company in relation to this property in the year ended 31 March 2022 is £2.8 million (31 March 2021: £1.6 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.

A £10.0 million impairment was recognised during the year within Assets Under Construction, as a credit to additions, due to a plant that will require additional investment to operate as intended by management. The corresponding impairment loss was recognised in the income statement.

Notes to the consolidated financial statements continued

11. Investment property

	Total £m
Cost:	
At 1 April 2020	50.0
At 31 March 2021	50.0
At 31 March 2022	50.0
Accumulated depreciation:	
At 1 April 2020	–
At 31 March 2021	–
At 31 March 2022	–
Net book value at 31 March 2021	50.0
Net book value at 31 March 2022	50.0

As at 31 March 2021, Land and Buildings within the Property, plant and equipment note included £50.0 million relating to investment property. See note 10 Property, plant and equipment for further information.

The value was determined in the prior period through consultation with an independent professional valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. In the current period no external consultation was performed in management's assessment that the fair value was materially unchanged.

12. Leases

(i) Amounts recognised in the statement of financial position

Right-of-use assets

As at	31 March 2022 £m	31 March 2021 £m
Land and buildings	45.8	41.6
Total	45.8	41.6

Additions to right-of-use assets during the year ended 31 March 2022 were £10.0 million which arose as a result of lease modifications (31 March 2021: £0.7 million).

Lease liabilities

As at	31 March 2022 £m	31 March 2021 £m
Current	(6.2)	(7.5)
Non-current	(57.1)	(52.9)
Total	(63.3)	(60.4)

(ii) Amounts recognised in the income statement

For the year ended	31 March 2022 £m	31 March 2021 £m
Depreciation charge of right-of-use assets	5.7	8.0
Interest expense included in finance costs	3.2	3.4
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	9.0	6.6
Total	17.9	18.0

The total cash outflow for leases during the year ended 31 March 2022 was £9.9 million (31 March 2021: £10.9 million).

The total leases repayments expected over the next year are £6.1 million (31 March 2021: £7.5 million), over the next 1-5 years are £20.7 million (31 March 2021: £16.5 million) and over more than 5 years are £36.5 million (31 March 2021: £36.4 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

13. Intercompany loans receivable

The carrying amounts of the Group's intercompany loans receivable are considered to be approximate to their fair values. The fair values and carrying values of the Group's intercompany loans receivable are set out in the tables below.

	2022		2021	
As at 31 March	Book value £m	Fair value £m	Book value £m	Fair value £m
Amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	1,693.4	1,693.4	1,693.4	1,693.4
Interest receivable on amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	8.4	8.4	3.7	3.7
Total	1,701.8	1,701.8	1,697.1	1,697.1
Disclosed within non-current assets	1,693.4	1,693.4	1,693.4	1,693.4
Disclosed within current assets	8.4	8.4	3.7	3.7

The above intercompany loan is unsecured. These balances have not been included within the Group's net debt and covenant calculations.

The intercompany loan receivable from Thames Water Utilities Holdings Limited ("TWUHL") is repayable on demand. Amounts owed by group undertakings have been disclosed in non-current assets as Directors do not expect to seek or require repayment for at least the next 12 months. Interest on the loan is charged at LIBOR plus 0.35% margin (2021: LIBOR plus 0.35% margin). Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany loans receivable and the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

During 2022, the Company earned £8.3 million of interest income related to the intercompany loan (2021: £13.1 million). £8.4 million of interest remained outstanding from TWUHL at 31 March 2022 (2021: £3.7 million).

The terms of the intercompany loan will be impacted by the GBP LIBOR transition plan. Refer to IBOR reform section on pages 145 – 146 for more information.

Notes to the consolidated financial statements continued

14. Inventories

As at 31 March	2022 £m	2021 £m
Raw materials and consumables	13.0	14.9
Total	13.0	14.9

15. Trade and other receivables

	2022			2021		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments	–	308.8	308.8	–	228.9	228.9
Insurance claims receivable	35.4	–	35.4	44.9	–	44.9
Other receivables	10.2	–	10.2	5.8	–	5.8
	45.6	308.8	354.4	50.7	228.9	279.6
Current:						
Gross trade receivables	448.7	17.7	466.4	441.2	15.2	456.4
Less expected credit losses provision	(146.8)	(3.7)	(150.5)	(143.1)	(3.2)	(146.3)
Net trade receivables	301.9	14.0	315.9	298.1	12.0	310.1
Amounts owed by group undertakings	0.5	–	0.5	0.7	–	0.7
Prepayments	36.9	–	36.9	38.4	–	38.4
Other receivables	35.9	1.0	36.9	29.6	0.8	30.4
	375.2	15.0	390.2	366.8	12.8	379.6
Current:						
Contract assets	251.0	8.5	259.5	239.5	5.8	245.3
	626.2	23.5	649.7	606.3	18.6	624.9
Total	671.8	332.3	1,004.1	657.0	247.5	904.5

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertainties of macroeconomic factors including the rise in costs of living.

Non-current prepayments at 31 March 2022 includes £308.8 million (2021: £228.9 million) of prepayment relating 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. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

Contract assets at 31 March 2022 includes £183.8 million (2021: £176.7 million) of services provided to metered customers. Included within this amount is a provision of £4.6 million for bad debt (31 March 2021: £7.1 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2022 £m	2021 £m
At 1 April	(146.3)	(187.8)
Charge for bad and doubtful debts – charged against revenue[1]	(67.4)	(41.0)
Charge for bad and doubtful debts – included within operating expenses	(10.2)	(36.7)
Amounts written off (utilised)	73.4	119.2
Total at 31 March	(150.5)	(146.3)

1 Included within this is a £10.3 million increase (2021: £8.9 million decrease) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The increase of the provision in the current financial year is debited to gross revenue. The remaining amount relates to the £57.1 million (2021: £49.9 million) charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	311.3	318.3
1 – 2 years	87.0	73.0
2 – 3 years	34.1	33.6
More than 3 years	34.0	31.5
Total	466.4	456.4

The ageing of gross BTL receivables is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	12.8	11.4
1 – 2 years	3.6	2.6
2 – 3 years	1.3	1.2
Total	17.7	15.2

BTL receivables relates to the value of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Notes to the consolidated financial statements continued

15. Trade and other receivables continued

Expected credit loss split by ageing is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	84.4	74.5
1 – 2 years	25.3	29.5
2 – 3 years	12.1	15.4
More than 3 years	28.7	26.9
Total	**150.5**	146.3

Ageing of impaired BTL receivables is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	2.6	2.0
1 – 2 years	0.8	0.8
2 – 3 years	0.3	0.4
Total	**3.7**	3.2

16. Cash and cash equivalents

	2022			2021		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	13.5	–	13.5	2.4	–	2.4
Money market funds	406.3	5.2	411.5	488.5	3.6	492.1
Total	**419.8**	**5.2**	**425.0**	490.9	3.6	494.5

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

17. Trade and other payables

	2022			2021		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities	831.8	–	831.8	757.3	–	757.3
Current:						
Trade payables – operating	248.4	–	248.4	232.1	–	232.1
Other taxation and social security	8.9	–	8.9	8.3	–	8.3
Amounts (receivable)/payable in respect of group relief	(10.6)	36.2	25.6	(1.0)	20.1	19.1
Accruals	325.6	–	325.6	290.6	–	290.6
Amounts owed to Bazalgette Tunnel Limited	–	13.0	13.0	–	11.3	11.3
Other payables	76.9	–	76.9	72.7	–	72.7
	649.2	49.2	698.4	602.7	31.4	634.1
Current:						
Contract liabilities	125.1	2.0	127.1	121.9	2.1	124.0
	774.3	51.2	825.5	724.6	33.5	758.1
Total	**1,606.1**	**51.2**	**1,657.3**	1,481.9	33.5	1,515.4

Current contract liabilities at 31 March 2022 includes £74.0 million (2021: £75.4 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2022 includes £534.6 million (2021: £522.7 million) of deferred infrastructure charges and £290.4 million of deferred income for nil cost "adopted" assets (2021: £227.8 million).

Other payables at 31 March 2022 includes £45.9 million (2021: £38.9 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value as outlined in the "Comparison of fair value of financial instruments with their carrying amounts" section of Note 19 Financial Instruments.

Notes to the consolidated financial statements continued

18. Borrowings

As at 31 March	2022 £m	2021 £m
Secured bank loans and private placements	3,441.1	3,504.2
Bonds	9,691.0	9,087.4
Amounts owed to group undertakings	5.5	5.5
	13,137.6	12,597.1
Interest payable on borrowings	159.1	171.1
Total	13,296.7	12,768.2
Disclosed within non-current liabilities	12,547.5	11,643.3
Disclosed within current liabilities	749.2	1,124.9
Total	13,296.7	12,768.2

Secured bank loans refers to 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, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Breakdown of secured bank loans and private placements

As at 31 March	2022 £m	2021 £m
THAMES WATER UTILITIES LIMITED		
£75.0m 1.350% index-linked loan due 2021 [e), (h]	–	92.9
£215.0m 0.460% index-linked loan due 2023 [a), (h]	278.7	258.4
£215.0m 0.380% index-linked loan due 2032 [a), (b), (h]	192.8	195.0
£100.0m 3.261% index-linked loan due 2043 [a), (d), (h]	145.6	135.0
£100.0m 0.790% index-linked loan due 2025 [a), (e), (h]	123.4	114.4
£125.0m 0.598% index-linked loan due 2026 [a), (e), (h]	153.4	142.3
£70.0m Class B 3.867% fixed rate loan due 2026 [a]	70.0	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 [a]	50.0	50.0
£20.0m Class B floating rate loan due 2026 [a), (k]	20.0	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 [a]	38.7	38.6
$55.0m 3.380% private placement due 2023 [a), (f]	41.8	39.9
$285.0m 3.570% private placement due 2025 [a), (f]	216.5	206.5
£216.0m 2.450% private placement due 2028 [a]	215.6	215.5
£210.0m 2.550% private placement due 2030 [a]	209.4	209.4
£40.0m 2.620% private placement due 2033 [a]	39.9	39.8
£150.0m floating rate loan due 2024 [a), (k]	149.8	149.7
£125.0m floating rate loan due 2024 [a), (k), (l]	124.7	124.6
£50.0m floating rate loan due 2022 [a), (l]	50.0	49.9
£63.1m floating rate loan due 2027 [a), (k), (m]	62.9	62.9
£63.1m floating rate loan due 2029 [a), (k), (m]	62.9	62.9
£63.1m floating rate loan due 2031 [a), (k]	62.9	62.8
THAMES WATER UTILITIES FINANCE PLC		
£214.3m Class B floating rate loan due 2021 [c]	–	214.3
£150.0m Class B floating rate loan due 2023 [c), (i]	–	150.0
£150.0m Class B floating rate loan due 2023 [c), (i]	–	150.0
$106.0m 4.070% private placement due 2026 [a), (f]	80.5	76.8
$131.0m 4.270% private placement due 2029 [a), (f]	99.3	94.7
€50.0m 2.100% private placement due 2030 [a), (f]	42.1	42.4
$150.0m 3.870% private placement due 2022 [f]	–	108.9
$200.0m 4.020% private placement due 2024 [f]	152.1	145.2
$250.0m 4.220% private placement due 2027 [f]	190.1	181.4
£200.0m Class B floating rate loan due 2026 [a]	197.3	–
£220.7m Class B floating rate loan due 2022 [c), (g), (k]	220.7	–
£75.0m Class B floating rate loan due 2022 [g), (j), (k]	75.0	–
£75.0m Class B floating rate loan due 2022 [g]	75.0	–
Total secured bank loans and private placements	3,441.1	3,504.2

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both Standard and Poor's and Moody's and the Group's GRESB score.
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(g) In March 2022, the £370.7 million Class B revolving credit facilities were drawn in full. In April 2022, these Class B drawdowns were fully repaid.
(h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(i) In June 2021, the Group early repaid two £150.0 million floating rate loans that were due to mature in 2023.
(j) The interest margin of this loan is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both Standard and Poor's and Moody's.
(k) During the year, these loans have transitioned to SONIA (Sterling Overnight Index Average) from Libor (London Inter-Bank Offered Rate).
(l) These loans contain a circular economy adjustment that reduces the interest rate if certain key performance indicators are met.
(m) In April 2022, the Group early repaid the £63.1 million floating rate loan that was due to mature in 2027 and made a part-prepayment of £11.9 million of the £63.1 million (now £51.2 million) floating rate loan that matures in 2029.

Notes to the consolidated financial statements continued

18. Borrowings continued

Breakdown of bonds

As at 31 March	2022 £m	2021 £m
THAMES WATER UTILITIES FINANCE PLC		
£225.0m 6.590% fixed rate due 2021	–	225.0
£175.0m 3.375% index-linked due 2021 [(b), (d)]	–	295.2
£330.0m 6.750% fixed rate due 2028 [(b)]	328.1	327.9
£200.0m 6.500% fixed rate due 2032 [(b), (c)]	198.2	198.0
£600.0m 5.125% fixed rate due 2037 [(b), (c)]	596.8	596.7
£300.0m 1.680% index-linked due 2053 [(b), (d)]	472.4	454.7
£300.0m 1.681% index-linked due 2055 [(b), (d)]	472.4	454.7
€113.0m 2.300% CPI index-linked bond due 2022 [(a), (c)]	109.2	104.7
£300.0m 5.750% Class B Fixed rate bond due 2030 [(b), (e)]	299.2	298.9
£300.0m 4.375% fixed rate bond due 2034 [(b)]	296.3	296.1
¥20.0bn 3.280% fixed rate bond due 2038 [(a), (b), (c)]	125.2	131.2
£50.0m 3.853% index-linked bond due 2040 [(g)]	72.8	67.5
£500.0m 5.500% fixed rate bond due 2041 [(b)]	490.6	490.3
£50.0m 1.980% index-linked bond due 2042 [(d)]	76.6	71.3
£55.0m 2.091% index-linked bond due 2042 [(b), (d)]	81.7	75.8
£40.0m 1.974% index-linked bond due 2045 [(b), (d)]	47.2	45.2
£300.0m 4.625% fixed rate bond due 2046 [(b)]	293.6	293.5
£100.0m 1.846% index-linked bond due 2047 [(d)]	153.3	142.5
£200.0m 1.819% index-linked bond due 2049 [(b), (d)]	306.2	284.7
£200.0m 1.771% index-linked bond due 2057 [(b), (d)]	306.1	284.6
£350.0m 1.760% index-linked due 2062 [(b), (d)]	535.7	498.1
£500.0m 4.000% fixed rate due 2025 [(b)]	497.7	497.1
£40.0m 0.750% index-linked loan due 2034 [(b), (d)]	48.9	45.3
£45.0m 0.721% index-linked loan due 2027 [(b), (d)]	54.9	50.9
£300.0m 3.500% fixed rate loan due 2028 [(b)]	297.6	297.3
£400.0m 7.738% fixed rate bond due 2058 [(b)]	418.0	418.7
£250.0m 1.875% fixed rate bond due 2024 [(b)]	249.3	248.9
£250.0m 2.625% fixed rate bond due 2032 [(b)]	247.9	247.7
£300.0m 2.375% Class B fixed rate bond due 2023 [(b)]	299.6	299.3
£250.0m 2.875% Class B fixed rate bond due 2027 [(b)]	248.0	247.6
CAD 250.0m 2.875% fixed rate bond due 2024 [(a), (b)]	151.5	143.2
£350.0m 2.375% fixed rate bond due 2040 [(b)]	346.1	345.9
£40.0m 2.442% fixed rate bond due 2050 [(b)]	39.9	39.9
£84.7m 0.875% fixed rate bond due 2023 [(b)]	84.5	84.6
€500.0m 0.190% fixed rate bond due 2023 [(a), (b)]	421.3	424.6
$57.0m 2.060% fixed rate bond due 2030 [(a), (b)]	43.2	41.3
$40.0m 1.604% fixed rate bond due 2027 [(a), (b)]	30.4	29.1
€575.0m 0.875% fixed rate bond due 2028 [(a), (b)]	482.6	–
€575.0m 1.250% fixed rate bond due 2032 [(a), (b)]	478.3	–
Fees [(f)]	(10.3)	(10.6)
Total bonds	**9,691.0**	9,087.4

All bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(b) These bonds are shown net of issuance costs.
(c) The Group has entered into swap agreements that convert this debt into GBP (£) RPI-linked debt.
(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").
(e) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value. Our current expectation is that the call option will be exercised.
(f) These fees have been shown in the table above to reflect that they relate to RPI-linked bonds issued in 2007.
(g) This is a Limited Price Index ("LPI") bond. Accretion is calculated using an adjusted UK Retail Price Index.

Amounts Owed to Group Undertakings

As at 31 March	2022 £m	2021 £m
THAMES WATER LIMITED		
£0.3m floating rate loan due 2043	0.3	0.3
THAMES WATER UTILITIES HOLDINGS LIMITED		
£5.2m floating rate loan due 2043	5.2	5.2
Total amounts owed to group undertakings	**5.5**	5.5

Notes to the consolidated financial statements continued

19. Financial instruments

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Group are as follows:

Financial assets:

As at 31 March	2022 £m	2021 £m
Fair value through profit or loss		
Cross currency swaps	82.1	63.5
Interest rate swaps	34.1	16.2
Index-linked swaps	75.9	83.7
Cash and cash equivalents – money market funds	411.5	492.1
	603.6	655.5
Amortised cost		
Intercompany loans receivable	1,701.8	1,697.1
Other receivables (excluding prepayments)	45.6	50.7
Trade and other receivables (excluding prepayments)	353.3	341.2
Cash and cash equivalents – cash at bank and in hand	13.5	2.4
	2,114.2	2,091.4
Total	2,717.8	2,746.9

Financial liabilities:

As at 31 March	2022 £m	2021 £m
Fair value through profit or loss		
Cross currency swaps	(125.1)	(113.6)
Interest rate swaps	(140.8)	(166.6)
Index-linked swaps	(2,075.8)	(1,189.7)
	(2,341.7)	(1,469.9)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	(689.5)	(625.8)
Borrowings	(13,296.7)	(12,768.2)
Lease liabilities	(63.3)	(60.4)
	(14,049.5)	(13,454.4)
Total	(16,391.2)	(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 to 3 based on the degree to which the fair value is observable.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed

Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate 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 2. The table below sets out the valuation basis of financial instruments (excluding money market funds which are classified as level 1) held at fair value through profit or loss as at 31 March 2022:

	Level 2[1]	
As at 31 March	2022 £m	2021 £m
Financial assets – derivative financial instruments		
Cross currency swaps	82.1	63.5
Interest rate swaps	34.1	16.2
Index-linked swaps	75.9	83.7
	192.1	163.4
Financial liabilities – derivative financial instruments		
Cross currency swaps	(125.1)	(113.6)
Interest rate swaps	(140.8)	(166.6)
Index-linked swaps	(2,075.8)	(1,189.7)
	(2,341.7)	(1,469.9)
Net total	(2,149.6)	(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 of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties.

Notes to the consolidated financial statements continued

19. Financial instruments continued

During the year, £31.1 million (31 March 2021: £37.5 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 136. The amounts recognised on cash flow hedge reserve are recycled to income statement as phased release over the relevant hedging period and where the related debt has been issued and has not matured.

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 31 March 2022, £33.3 million (31 March 2021: £35.3 million) remained capitalised and £2.0 million had been recognised in the income statement (31 March 2021: £2.0 million).

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:

	2022		2021	
As at 31 March	**Book value £m**	**Fair value £m**	Book value £m	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	**78.5**	**78.5**	51.2	51.2
Interest rate swaps	**34.1**	**34.1**	16.2	16.2
Index-linked swaps	**56.6**	**56.6**	83.7	83.7
Other receivables (excluding prepayments)	**45.6**	**45.6**	50.7	50.7
	1,908.2	**1,908.2**	1,895.2	1,895.2
Current				
Cash and cash equivalents	**425.0**	**425.0**	494.5	494.5
Intercompany loans receivable[1]	**8.4**	**8.4**	3.7	3.7
Trade and other receivables (excluding prepayments)	**353.3**	**353.3**	341.2	341.2
Derivative financial instruments				
Cross currency swaps	**3.6**	**3.6**	12.3	12.3
Index-linked swaps	**19.3**	**19.3**	–	–
	809.6	**809.6**	851.7	851.7
Total	**2,717.8**	**2,717.8**	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.

Financial liabilities:

	2022		2021	
As at 31 March	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	**(2,961.7)**	**(3,230.5)**	(3,072.0)	(3,433.5)
Bonds	**(9,580.3)**	**(12,610.5)**	(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	**(120.1)**	**(120.1)**	(113.6)	(113.6)
Interest rate swaps	**(140.8)**	**(140.8)**	(166.6)	(166.6)
Index-linked swaps	**(1,977.8)**	**(1,977.8)**	(1,189.7)	(1,189.7)
	(14,786.2)	**(18,085.2)**	(13,113.2)	(16,588.8)
Current				
Borrowings				
Secured bank loans and private placements	**(479.4)**	**(480.2)**	(432.2)	(438.6)
Bonds	**(110.7)**	**(113.2)**	(521.6)	(507.7)
Interest payable	**(159.1)**	**(159.1)**	(171.1)	(171.1)
Derivative financial instruments				
Cross currency swaps	**(5.0)**	**(5.0)**	–	–
Index-linked swaps	**(98.0)**	**(98.0)**	–	–
Trade and other payables (excluding other taxation and social security)	**(689.5)**	**(689.5)**	(625.8)	(625.8)
	(1,541.7)	**(1,545.0)**	(1,750.7)	(1,743.2)
Total	**(16,327.9)**	**(19,630.2)**	(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, foreign currency values are then translated at the spot rate.

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 consolidated financial statements continued

19. Financial instruments continued

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (Thames Water Utilities Finance plc (TWUF) and TWUHL) guarantee the funding activity of the Company, and the Company and TWUHL guarantee the funding activity of TWUF, which raises debt finance in external debt markets through the issuance of secured bonds and the entry into loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

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

As at 31 March	2022 £m	2021 £m
Secured bank loans and private placements	(3,441.1)	(3,504.2)
Bonds	(9,691.0)	(9,087.4)
Lease liability	(63.3)	(60.4)
Amounts owed to group undertakings	(5.5)	(5.5)
Interest payable on borrowings	(159.1)	(171.1)
	(13,360.0)	(12,828.6)
Cash and cash equivalents	425.0	494.5
Net debt (statutory basis)	(12,935.0)	(12,334.1)
Reconciliation to net debt (covenant basis)		
Interest payable on borrowings	159.1	171.1
Amounts owed to group undertakings	5.5	5.5
Unamortised debt issuance costs and discount	(79.7)	(72.9)
Relevant derivative financial liabilities (Accretion and FX)	(583.9)	(293.3)
Unamortised IFRS 9 transition adjustment	23.8	24.5
Cash (not relevant)/relevant for covenant	0.8	2.1
Net debt (covenant basis)	(13,409.4)	(12,497.1)
Equity attributable to owners of the Group	1,830.7	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 is added for covenants (which is based on cash and investments whereas the accounting definition adjusts for other items). Amounts owed to group undertakings include loans from immediate parent Thames Water Utilities Holdings Limited £5.2 million (2021: £5.2 million) and from the parent of the immediate parent Thames Water Limited £0.3 million (2021: £0.3 million).

Notes to the consolidated financial statements continued

19. Financial instruments continued

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

	2022			2021		
As at 31 March	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m
Opening balance	(12,768.2)	(1,306.5)	(60.4)	(13,125.6)	(686.6)	(70.3)
Non-current	(11,643.3)	(1,318.8)	(52.9)	(11,327.9)	(671.6)	(62.4)
Current	(1,124.9)	12.3	(7.5)	(1,797.7)	(15.0)	(7.9)
Cash flows						
New loans raised	(3,585.4)	–	–	(1,574.4)	–	–
Repayment of borrowings	3,321.5	–	–	1,846.1	–	–
Repayment of lease principal	–	–	9.9	–	–	11.4
Derivative settlement[1]	–	(20.6)	–	–	15.3	–
Interest paid[2]	386.6	–	–	390.7	–	–
Interest received[3]	–	(108.9)	–	–	(176.6)	–
	122.7	(129.5)	9.9	662.4	(161.3)	11.4
Non-cash changes						
Interest accrued/Fees amortised	(380.0)	108.5	–	(401.3)	171.8	–
Foreign exchange movement	(42.3)	–	–	145.8	–	–
Indexation	(229.6)	–	–	(50.2)	–	–
Unamortised IFRS 9 transition adjustment	0.7	–	–	0.7	–	–
Fair value changes	–	(822.1)	–	–	(630.4)	–
Lease additions	–	–	(9.6)	–	–	1.9
Interest accrued for IFRS 16 leases	–	–	(3.2)	–	–	(3.4)
	(651.2)	(713.6)	(12.8)	(305.0)	(458.6)	(1.5)
Closing balance	(13,296.7)	(2,149.6)	(63.3)	(12,768.2)	(1,306.5)	(60.4)
Non-current	(12,547.5)	(2,069.5)	(57.1)	(11,643.3)	(1,318.8)	(52.9)
Current	(749.2)	(80.1)	(6.2)	(1,124.9)	12.3	(7.5)

1 Derivative settlement of £20.6 million relates to the settlement of cross currency swaps. £15.3 million, in the prior year, relates to index-linked swaps where accretion is payable periodically.

2 Interest paid of £386.6 million (2021: £390.7 million) includes £115.3 million of capitalised borrowing costs (2021: £69.7 million) and excludes £0.2 million of bank charges (2021: £0.3 million).

3 Interest received of £108.9 million (2021: £176.6 million) excludes £3.6 million of interest received on an intercompany loan with holding company Thames Water Utilities Holdings Limited (2021: £21.2 million), £0.2 million interest received on bank deposits (2021: £1.4 million) and £0.5 million other interest income (2021: £0.7 million).

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk.

As at 31 March 2022:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	5,591.7	357.7	7,748.3	**13,697.7**

As at 31 March 2021:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	4,950.9	303.5	7,611.6	**12,866.0**

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

	Weighted average interest rate		Weighted average period until maturity	
As at 31 March	**2022 %**	2021 %	**2022 Years**	2021 Years
Fixed	**3.7**	4.1	**10.3**	11.0
Index-linked	**8.1**	2.5	**17.3**	17.5

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 170.

Notes to the consolidated financial statements continued

19. Financial instruments continued

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2022. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	2022 +1% £m	2022 -1% £m	2021 +1% £m	2021 -1% £m
Profit	477.0	(560.8)	408.6	(482.6)
Equity	477.0	(560.8)	408.6	(482.6)

(ii) Exchange rate sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2022. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2022 +10% £m	2022 -10% £m	2021 +10% £m	2021 -10% £m
Profit	(25.6)	(11.2)	(22.2)	(3.9)
Equity	(25.6)	(11.2)	(22.2)	(3.9)

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates on financial instruments at 31 March 2022. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2022 +1% £m	2022 -1% £m	2021 +1% £m	2021 -1% £m
Profit	(911.0)	771.0	(881.3)	768.0
Equity	(911.0)	771.0	(881.3)	768.0

(b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, its loan to its immediate parent entity Thames Water Utilities Holdings Limited, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. For household customers, due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2022, no collateral was held (2021: nil).

The following table summarises amounts held as cash at bank and in hand and in money market funds by credit rating of counterparties.

As at 31 March	2022 £m	2021 £m
AAA	411.5	492.1
A	13.5	2.4
Total	**425.0**	494.5

Note: funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2022 £m	2021 £m
AA-	27.8	15.6
A+	147.0	139.2
A	17.3	8.6
Total	**192.1**	163.4

Notes to the consolidated financial statements continued

19. Financial instruments continued

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings are disclosed in note 18.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2022 £m	2021 £m
Within one year	590.1	953.8
Between one and two years	1,653.9	212.2
Between two and three years	634.4	1,928.2
Between three and four years	669.6	606.3
Between four and five years	728.1	835.6
After more than five years	8,861.5	8,061.0
Total	13,137.6	12,597.1

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March Undiscounted amounts payable	2022 £m	2021 £m
Within one year	1,694.2	1,999.0
Between one and two years	2,087.1	610.1
Between two and three years	1,032.7	2,342.7
Between three and four years	1,244.8	979.7
Between four and five years	888.6	1,208.4
After more than five years	21,142.7	18,839.9
Total	28,090.1	25,979.8

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March Undiscounted amounts payable	2022 £m	2021 £m
Within one year	41.2	135.1
Between one and two years	(60.6)	58.5
Between two and three years	(226.6)	(45.3)
Between three and four years	50.0	(124.4)
Between four and five years	85.7	59.2
After more than five years	(2,272.6)	(1,584.4)
Total	(2,382.9)	(1,501.3)

Cash flow hedges

The Group had designated a number of contracts which qualified, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 144.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2022, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the relevant hedging period.

During the year, £31.1 million (31 March 2021: £37.5 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 136. The amount recycled of £31.1 million related to the phased release of cash flow hedge reserve where the related debt has been issued and has not matured.

Notes to the consolidated financial statements continued

19. Financial instruments continued

The Group's cash flow hedge reserve disclosed on the 'Statement of changes in equity' on page 136 relate to forward starting interest rate swaps which have commenced.

Cash flow hedge reserve	£m
At 1 April 2020	(90.1)
Cash flow hedge transferred to income statement	37.5
Deferred tax charge on cash flow hedges	(7.1)
At 31 March 2021	(59.7)
Cash flow hedge transferred to income statement	31.1
Deferred tax charge on cash flow hedges including impact of tax rate change	(4.6)
At 31 March 2022	**(33.2)**

The following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

As at 31 March	2022 £m	2021 £m
Quantitative		
Cash flow hedge transferred to income statement	31.1	37.5

As at 31 March	2022	2021
Qualitative		
Line item affected in income statement due to reclassification	Net losses on financial instruments	Net (losses)/gains on financial instruments

The table below shows phasing of amounts to be reclassed to the income statement from the cash flow hedge reserve, which relates to the Group's forward starting interest rate swaps which have commenced:

As at 31 March	2022 £m	2021 £m
Interest rate swaps		
Within one year	(21.1)	(31.1)
Between one and two years	(18.7)	(21.1)
Between two and three years	(2.8)	(18.7)
Between three and four years	–	(2.8)
Between four and five years	–	–
After more than five years	–	–
Total	(42.6)	(73.7)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as an early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2022 and 31 March 2021. The column 'net amounts' shows the impact on the consolidated statement of financial position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the Consolidated statement of financial position				
As at 31 March 2022	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	192.1	–	192.1	(126.8)	65.3
	192.1	–	192.1	(126.8)	65.3
Financial liabilities					
Derivative financial instruments	(2,341.7)	–	(2,341.7)	126.8	(2,214.9)
	(2,341.7)	–	(2,341.7)	126.8	(2,214.9)
Total	(2,149.6)	–	(2,149.6)	–	(2,149.6)
As at 31 March 2021					
Financial assets					
Derivative financial instruments	163.4	–	163.4	(131.6)	31.8
	163.4	–	163.4	(131.6)	31.8
Financial liabilities					
Derivative financial instruments	(1,469.9)	–	(1,469.9)	131.6	(1,338.3)
	(1,469.9)	–	(1,469.9)	131.6	(1,338.3)
Total	(1,306.5)	–	(1,306.5)	–	(1,306.5)

Notes to the consolidated financial statements continued

19. Financial instruments continued

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 31 March 2022		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	–	(199.8)	–	(199.8)
Amortised cost				
Intercompany loans receivable[2]	1,693.4	–	1,693.4	–
Borrowings[3]	–	(899.3)	–	(899.3)
Total assets and liabilities exposed to GBP LIBOR	**1,693.4**	**(1,099.1)**	1,693.4	(1,099.1)

1 Consists of £199.8 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.

2 In May/June 2022, the interest rates in respect of £1,693.4 million of intercompany loans receivable were transitioned from LIBOR to SONIA. Refer to Note 13 Intercompany loans receivable for a breakdown of these intercompany loans. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

3 Included in the £899.3 million of borrowings in the table above is £893.8 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The remaining £5.5 million includes 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. In June 2022, the interest rates in respect of these £5.5 million loans were transitioned from LIBOR to SONIA. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

20. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Cash flow hedges £m	Other £m	**Total £m**
At 1 April 2020	(1,198.1)	6.7	114.2	14.1	**(1,063.1)**
Credit/(charge) to income statement	(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 statement including impact of tax rate change	(293.6)	(15.2)	200.9	(3.7)	**(111.6)**
Credit/(charge) to other comprehensive income including impact of tax rate change[1]	–	42.9	(4.6)	–	**38.3**
Other	0.1	–	–	–	**0.1**
At 31 March 2022	(1,518.9)	60.1	393.3	19.1	**(1,046.4)**

1 The credit of £42.9 million to other comprehensive income in respect of retirement benefits comprises a credit of £11.8 million on the net actuarial loss in the year and a credit of £31.1 million for the impact of the tax rate change in the year. The charge of £4.6 million to other comprehensive income in respect of the cash flow hedge reserve comprises a charge of £5.9 million on the cash flow hedge transferred to income statement less a credit of £1.3 million for the impact of the tax rate change in the year.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are reflected in these financial statements, except for deferred tax on timing differences which are expected to unwind by 31 March 2023 which continues to be provided at the current rate of 19%, and except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

As at 31 March	**2022 £m**	2021 £m
Deferred tax assets	**472.5**	252.2
Deferred tax liabilities	**(1,518.9)**	(1,225.4)
Net deferred tax liabilities	**(1,046.4)**	(973.2)

Notes to the consolidated financial statements continued

20. Deferred tax continued

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is provided on the retirement benefit obligations booked in the accounts. The £60.1 million deferred tax asset at 31 March 2022 is the net of an asset of £64.3 million (25% of the deficit on the TWPS pension scheme of £257.3 million) less a liability of £4.2 million (35% of the surplus on the TWMIPS pension scheme of £12.0 million). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- Cash flow hedges: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

21. Provisions for liabilities and charges

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Environmental and legal provisions £m	Other provisions £m	**Total £m**
At 1 April 2021	71.1	16.1	11.4	22.9	22.2	**143.7**
Utilised during the period	(24.8)	(2.9)	(0.2)	(11.1)	(1.6)	**(40.6)**
Additional provisions recognised	28.5	–	0.5	41.8	21.6	**92.4**
Unused amounts reversed	1.1	0.5	(0.4)	–	(11.7)	**(10.5)**
At 31 March 2022	75.9	13.7	11.3	53.6	30.5	**185.0**

The insured liability provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 15. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. Due to the uncertain timing of these costs, the Group considers it appropriate to classify these as non-current.

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our outsourced property advisor. During the year one additional site has been included, two leases were extended and the provision for two sites were utilised as the lease ended in the current financial year.

Environmental and other legal provisions relate to legal claims including environmental and commercial matters. During the current financial year, there has been an additional charge of £41.8 million recognised, this represents a reassessment of historic provisions and new provisions recorded during the period. Environmental matters are in relation to the Company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016.

Other provisions relate to other claims and regulatory obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations. Unused amounts reversed relate to previously recognised provisions which were reassessed during the year and it was concluded there is no longer an obligation for these.

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. Timing of settlement of provisions is uncertain and therefore amounts provided have been classified as non-current.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is a risk that the final outcome of legal claims could be materially different to amounts provided.

The Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

Notes to the consolidated financial statements continued

22. Called up share capital and other reserves

Called up share capital

As at 31 March	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Authorised, allotted, called up and fully paid:						
29,050,000 ordinary shares of £1 each (2021: 29,050,000 ordinary shares of £1 each)	29.0	–	29.0	29.0	–	29.0

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

As at 31 March	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Share premium	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	(33.2)	–	(33.2)	(59.7)	–	(59.7)
Revaluation reserve	820.1	–	820.1	903.1	–	903.1
Retained earnings	628.5	286.3	914.8	1,604.6	217.6	1,822.2
Total	1,515.4	286.3	1,801.7	2,548.0	217.6	2,765.6

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

23. 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 £27.1 million (2021: £15.2 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 £3.5 million of outstanding contributions (2020: £nil) at the year-end recognised in the statement of financial position. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit pension schemes: • Thames Water Pension Scheme ("TWPS"); and • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both 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 £8.7 million (2021: £26.3 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 £22.9 million (2021: loss of £195.0 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 £12.0 million (2021: £57.9 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £257.3 million (2021: £277.1 million) is recognised in the statement of financial position for the TWPS scheme. As at 31 March 2022, the net pension deficit is £245.3 million (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.

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2022 these related payments amounted to £nil (2021: £0.2 million).

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 pension 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). The next triennial valuation based on the 31 March 2022 position is currently under progress. Under UK regulations, the Group has 15 months to complete the triennial valuation from the valuation date of 31 March 2022.

This triennial funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2019 to 31 March 2022. The 2019 funding valuation had been updated to an accounting valuation as at 31 March 2022 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 Employee Benefits and shown in this note to the financial statements.

Amounts recognised in the financial statements in respect of the defined benefit pension schemes

Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

	2022		2021	
Year ended	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Current service cost	–	1.5	19.0	1.5
Past service cost including curtailments	–	–	0.4	0.1
Scheme administration expenses	1.3	1.2	1.8	1.6
Net interest cost/(income)	5.8	(1.1)	4.1	(2.2)
Total	7.1	1.6	25.3	1.0

The reduction in the Thames Water Pension Scheme ("TWPS") service cost is a result of the scheme closing to future accrual as of 31 March 2021.

The net expense is recognised in the following captions within the income statement:

	2022		2021	
Year ended	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Operating expenses	1.3	2.7	21.2	3.2
Net finance expense/(income)	5.8	(1.1)	4.1	(2.2)
Total	7.1	1.6	25.3	1.0

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

As at 31 March	2022 £m	2021 £m
Actual return less expected return on pension scheme assets	(122.4)	32.4
Experience (loss)/gain arising on scheme liabilities	(84.6)	100.8
Gain/(loss) arising due to change in financial assumptions	179.4	(341.2)
Gain arising due to change in demographic assumptions	4.7	13.0
Total actuarial loss	(22.9)	(195.0)
Cumulative actuarial losses recognised	(507.8)	(484.9)

Statement of financial position

The net pension liability recognised within the statement of financial position is as follows:

	2022			2021		
As at 31 March	TWPS £m	TWMIPS £m	Total £m	TWPS £m	TWMIPS £m	Total £m
Fair value of scheme assets	1,640.1	698.7	2,338.8	1,730.9	770.9	2,501.8
Present value of defined benefit obligations	(1,897.4)	(686.7)	(2,584.1)	(2,008.0)	(713.0)	(2,721.0)
(Deficit)/surplus	(257.3)	12.0	(245.3)	(277.1)	57.9	(219.2)
Net pension deficit			(245.3)			(219.2)

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

Reconciliation of defined benefit plan assets and liabilities

The movements in the present value of the defined benefit obligations were as follows:

	2022		2021	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	2,008.0	713.0	1,804.4	711.3
Current service cost	–	1.5	19.0	1.5
Past service cost including curtailments	–	–	0.4	0.1
Interest cost	41.6	13.9	41.8	16.2
Contributions from scheme members	–	–	0.1	–
Benefits paid	(55.2)	(39.2)	(56.0)	(45.4)
Termination benefits	–	–	0.2	–
Actuarial (gains)/losses	(97.0)	(2.5)	198.1	29.3
At 31 March	**1,897.4**	**686.7**	2,008.0	713.0

The movements in the fair value of scheme assets were as follows:

	2022		2021	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,730.9	770.9	1,595.3	805.8
Interest income on scheme assets	35.8	15.0	37.7	18.4
Contributions by sponsoring employers	3.4	2.1	114.4	2.3
Contributions from scheme members	–	–	0.1	–
Administration costs paid from scheme assets	(1.3)	(1.2)	(1.8)	(1.6)
Benefits paid	(55.2)	(39.2)	(56.0)	(45.4)
Contributions for termination benefits	–	–	0.2	–
(Losses)/gains on assets above interest	(73.5)	(48.9)	41.0	(8.6)
At 31 March	**1,640.1**	**698.7**	1,730.9	770.9

Analysis of assets

	2022				2021			
As at 31 March	Quoted £m	Unquoted £m	Total £m	Total (%)	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	41.7	–	41.7	1.8	36.8	–	36.8	1.5
Rest of World	422.2	–	422.2	18.0	486.3	–	486.3	19.4
Bonds								
Government – UK	72.3	–	72.3	3.1	25.6	–	25.6	1.0
Government – Rest of World	101.8	–	101.8	4.4	92.0	–	92.0	3.7
Corporates – UK	49.6	–	49.6	2.1	50.3	0.2	50.5	2.0
Corporates – Rest of World	256.8	–	256.8	11.0	277.2	1.4	278.6	11.1
Property								
UK	–	–	–	–	7.1	–	7.1	0.3
Rest of world	–	–	–	–	1.1	–	1.1	–
Alternative assets								
Liability driven instruments	1,140.9	–	1,140.9	48.7	1,297.8	–	1,297.8	51.9
Other (including derivatives)	155.7	–	155.7	6.7	86.5	–	86.5	3.5
Cash	97.8	–	97.8	4.2	139.5	–	139.5	5.6
Total market value of assets	2,338.8	–	2,338.8	100.0	2,500.2	1.6	2,501.8	100.0

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Redington. 51.9% of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

In the current period, Index Linked Gilts amount to £532.7 million and Fixed Interest Gilts amount to £1,493.0 million of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

IAS 19 Assumptions

The approach used to set the IAS 19 assumptions is detailed below:

	Approach to set the assumptions
Discount rate	As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2022.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS with an adjustment made for an inflation risk premium.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	Both defined benefit schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

Financial assumptions

The main assumptions used by the actuaries in the valuation of these schemes are as follows:

	2022		2021	
As at 31 March	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	3.65%	3.85%	3.25%	3.30%
Price inflation – CPI (Pre 2030)	1.00%	1.00%	1.00%	1.00%
Price inflation – CPI (Post 2030)	0.10%	0.10%	0.10%	0.10%
Rate of increase to pensions in payment – RPI	3.65%	3.85%	3.25%	3.30%
Rate of increase to pensions in payment – CPI (Pre 2030)	1.00%	1.00%	1.00%	1.00%
Rate of increase to pensions in payment – CPI (Post 2030)	0.10%	0.10%	0.10%	0.10%
Discount rate	2.80%	2.75%	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.

	2022		2021	
As at 31 March	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	27.7	26.8	27.6	26.8
Female	29.8	29.1	29.7	29.0
Life expectancy from age 60 currently age 40:				
Male	28.3	27.9	28.3	27.9
Female	30.9	30.2	30.8	30.2

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, discount rate risk, inflation risk and longevity risk.

	Definition of risk
Investment risk	Assumptions are made about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long-term then additional contributions will need to be made to the schemes in order to fund the payment of future benefits.
Discount rate risk	A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings.
Inflation risk	The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. Additionally, the Company's contributions to the schemes are based on assumptions about the future levels of inflation, therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit.
Longevity risk	An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities.

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

	2022		2021	
As at 31 March	**TWPS £m**	**TWMIPS £m**	TWPS £m	TWMIPS £m
Change in assumptions resulting in a (decrease)/increase in liabilities				
Change in discount rate (+ 1% p.a.)	**(345.0)**	**(85.0)**	(360.0)	(90.0)
Change in rate of inflation (- 1% p.a.)	**(235.0)**	**(65.0)**	(250.0)	(65.0)
Change in life expectancy (+ 1 year)	**75.0**	**35.0**	80.0	40.0

Future expected cash flows

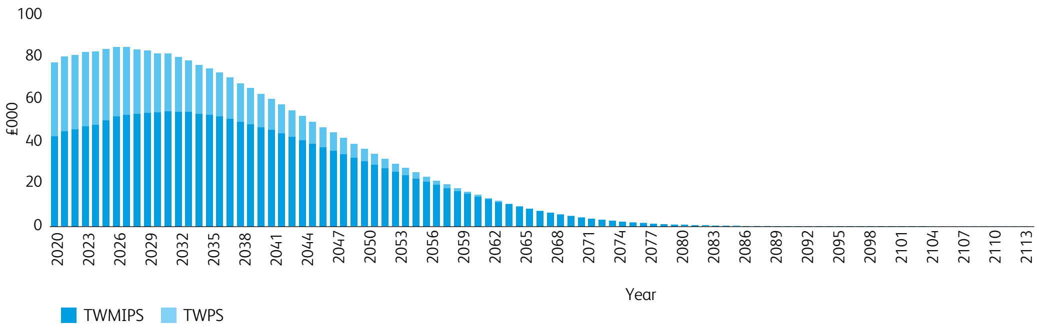
The Group made a pension deficit repair payment of £69.7 million on 30 March 2021 covering the financial periods from 2021/22 to 2024/25, which was treated as an exceptional cash flow in the previous year. The Group made a payment of £28.3 million on 1 April 2020 in relation to 2020/21. The average duration of the benefit obligation at the end of the year is 19 years for TWPS and 13 years for TWMIPS (2021: 18 years for TWPS and 11 years for TWMIPS).

In December 2020, the funding valuation as at 31 March 2020 was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	69.7	–	–	–	17.9	17.9	17.9

The expected cash flows payable from the schemes are presented in the graph below:

Expected benefit payments (£ millions)



The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2019. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

24. Capital commitments

As at 31 March	**2022 £m**	2021 £m
Property, plant and equipment	**652.8**	404.9
Intangible assets	**21.2**	10.0
Total contracted for but not provided	**674.0**	414.9

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments have increased during the year due to more investment being made in our infrastructure to help mitigate the challenge of ensuring resilience in our network from the impact of climate change and population growth.

Notes to the consolidated financial statements continued

25. 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 investigations being separately led by Ofwat and the Environment Agency into compliance with conditions of environmental permits and sewer overflows. This impacts all Sewerage Companies in England and Wales per obligations set under Instruments of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The Group is providing information requested to support with these ongoing investigations. The outcome of these investigations and the existence of any possible future financial obligations, or other consequences, is unable to be determined at this time.

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 as described in note 18. 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.

26. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- leases not in the scope of IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Group is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary, Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed ("STID"). Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt on a post swap basis as at 31 March 2022 was £13.8 billion (2021: £12.9 billion).

27. Post balance sheet events

On 29 June 2022, the Thames Water Utilities Limited Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water Utilities Limited in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. This equity commitment of £500 million has been approved by shareholders' investment committees and is not subject to any performance-related conditions. Such funds, when drawn, are expected to be cascaded from Kemble Water Holdings Limited to Thames Water Utilities Limited via intermediate holding companies.

In April/May 2022, the Group further strengthened its financing position, through Thames Water Utilities Limited entering into a total of £300.0 million loan facilities, consisting of £150.0 million Class B due April 2029, £100.0 million Class A due May 2029 and £50.0 million Class B due August 2025. These facilities are currently undrawn. A £63.1 million Class A facility due March 2027 and £11.9 million of a Class A facility due March 2029 were repaid early in April 2022. £370.7 million Class B Revolving Credit Facilities were also repaid in April 2022.

In May/June 2022, the interest rates in respect of £1,693.4 million intercompany loans receivable and £5.5 million of intercompany borrowings were transitioned from LIBOR to SONIA. Since 31 March 2022, a total of £375.0 million has been drawn from the Class A Revolving Credit Facility.

Notes to the consolidated financial statements continued

28. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2022			2021		
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	**(1,042.0)**	**68.7**	**(973.3)**	(258.1)	59.6	(198.5)
Less finance income	**(128.8)**	**–**	**(128.8)**	(187.7)	–	(187.7)
Add finance expense excluding interest on lease liabilities	**510.1**	**–**	**510.1**	392.4	–	392.4
Add interest expense on lease liabilities	**3.2**	**–**	**3.2**	3.4	–	3.4
Add net losses on financial instruments	**895.5**	**–**	**895.5**	522.2	–	522.2
Add/(less) taxation on (loss)/profit on ordinary activities	**106.4**	**16.1**	**122.5**	(57.0)	14.0	(43.0)
Operating profit	**344.4**	**84.8**	**429.2**	415.2	73.6	488.8
Depreciation on property, plant and equipment	**623.7**	**–**	**623.7**	559.3	–	559.3
Amortisation of intangible assets	**55.6**	**–**	**55.6**	51.9	–	51.9
Depreciation of right of use asset	**5.7**	**–**	**5.7**	8.0	–	8.0
Gain on sale of property, plant and equipment	**(1.4)**	**–**	**(1.4)**	(8.4)	–	(8.4)
Write-off of property, plant and equipment and intangible assets	**10.0**	**–**	**10.0**	–	–	–
Difference between pension charge and cash contribution[1]	**(1.5)**	**–**	**(1.5)**	(92.3)	–	(92.3)
Decrease/(increase) in inventory	**1.9**	**–**	**1.9**	(1.3)	–	(1.3)
(Increase)/decrease in trade and other receivables	**(8.0)**	**(82.1)**	**(90.1)**	10.9	(71.1)	(60.2)
Increase in contract assets	**(11.5)**	**(2.7)**	**(14.2)**	(4.6)	(4.3)	(8.9)
Increase/(decrease) in trade and other payables	**57.7**	**1.7**	**59.4**	(55.0)	1.0	(54.0)
Increase/(decrease) in contract liabilities	**77.7**	**(0.1)**	**77.6**	48.1	1.8	49.9
Group relief paid	**(4.2)**	**–**	**(4.2)**	–	–	–
Increase/(decrease) in provisions	**41.3**	**–**	**41.3**	(0.6)	–	(0.6)
Net cash generated by operating activities[1]	**1,191.4**	**1.6**	**1,193.0**	931.2	1.0	932.2

1 Operating cash flows for the year ended 31 March 2022 includes £nil (31 March 2021: £69.7 of) payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying operating cash flows would have been £1,000.9 million for the year ended 31 March 2021. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2022 would be £1,168.3 million, which would have included a cash payment of £24.7 million.

Movement in cash and cash equivalents

Year ended 31 March	**2022 £m**	2021 £m
Unrestricted cash movement	**11.1**	(1.7)
Movement in money market funds	**(80.6)**	(262.2)
Total	**(69.5)**	(263.9)

29. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'Transactions with associates and the non-appointed business' disclosure in the Annual Performance Report, published on our website.

Trading transactions

	2022		2021	
Year ended 31 March	**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	**2,004**	**–**	1,936	–
Immediate parent				
Thames Water Utilities Holdings Limited	**8,270**	**–**	13,105	–
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**124**	**–**	45	–
Thames Water Commercial Services Limited	**20**	**–**	62	–
Thames Water Property Services Limited	**168**	**233**	180	193
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	**–**	**15**	–	24
Total	**10,586**	**248**	15,328	217

During the year the group paid it's immediate parent company, Thames Water Utilities Holdings Limited, a dividend of £37.1 million (2021: £32.9 million).

Notes to the consolidated financial statements continued

29. 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:

As at 31 March	2022 Amounts owed to the Group £'000	2022 Amounts owed by the Group £'000	2021 Amounts owed to the Group £'000	2021 Amounts owed by the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	–	–	5	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	–	–	1,014	–
Immediate parent				
Thames Water Utilities Holdings Limited	1,693,422	25,636	1,693,422	5,800
Total	**1,693,422**	**25,636**	1,694,441	5,800

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No 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 Team during the year.

The remuneration of the Directors is included within the amounts disclosed below. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 100 – 119.

Year ended 31 March	2022 £'000	2021 £'000
Fees	581	578
Salary	3,821	2,946
Pension and pension allowance	349	304
Bonus	2,093	1,556
Payment on loss of office	346	591
Other benefits	981	457
Total	**8,171**	6,432

Information regarding transactions with post-employment benefits plans is included in note 23.

Other benefits includes medical benefits, car allowances and other incentives.

30. Intermediate and ultimate parent Company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and is the smallest group to consolidate these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

Kemble Water Holdings Limited is owned by 9 shareholders, of which the largest is Ontario Municipal Employees Retirement System (OMERS) with 31.777% holding.

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.Copies of the financial statements for all entities may be obtained from The Group Secretary's Office at this address.

Company income statement

For the year ended 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Revenue	2	2,092.0	84.9	2,176.9	2,032.9	73.8	2,106.7
Operating expenses excluding impairment losses on financial and contract assets[1]	31	(1,833.0)	–	(1,833.0)	(1,703.1)	–	(1,703.1)
Impairment losses on financial and contract assets	3,15	(10.1)	(0.1)	(10.2)	(36.5)	(0.2)	(36.7)
Total operating expenses		(1,843.1)	(0.1)	(1,843.2)	(1,739.6)	(0.2)	(1,739.8)
Other operating income	2	95.7	–	95.7	121.8	–	121.8
Operating profit		344.6	84.8	429.4	415.1	73.6	488.7
Finance income	32	122.5	–	122.5	138.2	–	138.2
Finance expense	32	(575.5)	–	(575.5)	(413.3)	–	(413.3)
Net losses on financial instruments	33	(743.8)	–	(743.8)	(360.4)	–	(360.4)
(Loss)/profit on ordinary activities before taxation		(852.2)	84.8	(767.4)	(220.4)	73.6	(146.8)
Tax (charge)/credit on (loss)/profit on ordinary activities	34	(153.0)	(16.1)	(169.1)	39.5	(14.0)	25.5
(Loss)/profit for the year		(1,005.2)	68.7	(936.5)	(180.9)	59.6	(121.3)

1 Underlying operating expenses for the year ended 31 March 2022 includes £nil (31 March 2021: £16.3 million of) costs that are considered to be exceptional. A summary of exceptional costs is included within note 3.

The Company 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 page 140.

Company statement of other comprehensive income

For the year ended 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
(Loss)/profit for the year		(1,005.2)	68.7	(936.5)	(180.9)	59.6	(121.3)
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial loss on pension schemes	23	(22.9)	–	(22.9)	(195.0)	–	(195.0)
Deferred tax credit on net actuarial loss	42	11.8	–	11.8	43.1	–	43.1
Impact of tax rate change in current year in respect of net actuarial losses	42	31.1	–	31.1	–	–	–
May be reclassified to the income statement:							
Cash flow hedge transferred to income statement	41	31.1	–	31.1	37.5	–	37.5
Deferred tax charge on cash flow hedge including impact of tax rate change in current year	42	(4.6)	–	(4.6)	(7.1)	–	(7.1)
Other comprehensive income/(expense) for the year		46.5	–	46.5	(121.5)	–	(121.5)
Total comprehensive (expense)/income for the year		(958.7)	68.7	(890.0)	(302.4)	59.6	(242.8)

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 140.

Company statement of financial position

As at 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Non-current assets							
Intangible assets	9	**284.8**	**–**	**284.8**	276.3	–	276.3
Property, plant and equipment[1]	10	**16,949.8**	**–**	**16,949.8**	16,302.3	–	16,302.3
Investment property[1]	11	**50.0**	**–**	**50.0**	50.0	–	50.0
Investment in subsidiary undertakings	35	**207.7**	**–**	**207.7**	207.7	–	207.7
Right of use assets	12	**45.8**	**–**	**45.8**	41.6	–	41.6
Derivative financial assets	41	**111.5**	**–**	**111.5**	102.6	–	102.6
Intercompany loans receivable	36	**1,993.4**	**–**	**1,993.4**	1,993.4	–	1,993.4
Prepayments	37	**–**	**308.8**	**308.8**	–	228.9	228.9
Insurance, amounts owed to group undertakings and other receivables	37	**41.5**	**–**	**41.5**	46.3	–	46.3
Pension asset	23	**12.0**	**–**	**12.0**	57.9	–	57.9
		19,696.5	**308.8**	**20,005.3**	19,078.1	228.9	19,307.0
Current assets							
Inventories	14	**13.0**	**–**	**13.0**	14.9	–	14.9
Intercompany loans receivable	36	**43.5**	**–**	**43.5**	34.5	–	34.5
Contract assets	37	**251.0**	**8.5**	**259.5**	239.5	5.8	245.3
Trade receivables	37	**301.6**	**14.0**	**315.6**	298.1	12.0	310.1
Prepayments	37	**36.9**	**–**	**36.9**	38.4	–	38.4
Amounts owed to group undertakings and other receivables	37	**40.8**	**1.0**	**41.8**	34.9	0.8	35.7
Derivative financial assets	41	**3.6**	**–**	**3.6**	–	–	–
Cash and cash equivalents	38	**418.7**	**5.2**	**423.9**	488.5	3.6	492.1
		1,109.1	**28.7**	**1,137.8**	1,148.8	22.2	1,171.0
Current liabilities							
Contract liabilities	39	**(125.1)**	**(2.0)**	**(127.1)**	(121.9)	(2.1)	(124.0)
Trade and other payables	39	**(699.3)**	**(49.2)**	**(748.5)**	(640.9)	(31.4)	(672.3)
Borrowings	40	**(974.3)**	**–**	**(974.3)**	(1,289.5)	–	(1,289.5)
Lease liabilities	12	**(6.2)**	**–**	**(6.2)**	(7.5)	–	(7.5)
Derivative financial liabilities	41	**(58.4)**	**–**	**(58.4)**	–	–	–
		(1,863.3)	**(51.2)**	**(1,914.5)**	(2,059.8)	(33.5)	(2,093.3)
Net current liabilities		**(754.2)**	**(22.5)**	**(776.7)**	(911.0)	(11.3)	(922.3)

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Non-current liabilities							
Contract liabilities	39	**(831.7)**	**–**	**(831.7)**	(757.3)	–	(757.3)
Borrowings	40	**(12,862.5)**	**–**	**(12,862.5)**	(11,977.1)	–	(11,977.1)
Lease liabilities	11	**(57.1)**	**–**	**(57.1)**	(52.9)	–	(52.9)
Derivative financial liabilities	41	**(1,597.2)**	**–**	**(1,597.2)**	(937.3)	–	(937.3)
Deferred tax	42	**(1,184.1)**	**–**	**(1,184.1)**	(1,058.5)	–	(1,058.5)
Provisions for liabilities and charges	21	**(185.0)**	**–**	**(185.0)**	(143.7)	–	(143.7)
Pension deficit	23	**(257.3)**	**–**	**(257.3)**	(277.1)	–	(277.1)
		(16,974.9)	**–**	**(16,974.9)**	(15,203.9)	–	(15,203.9)
Net assets		**1,967.4**	**286.3**	**2,253.7**	2,963.2	217.6	3,180.8
Equity							
Called up share capital	43	**29.0**	**–**	**29.0**	29.0	–	29.0
Share premium	43	**100.0**	**–**	**100.0**	100.0	–	100.0
Cash flow hedge reserve	43	**(33.2)**	**–**	**(33.2)**	(59.7)	–	(59.7)
Revaluation reserve	43	**820.1**	**–**	**820.1**	903.1	–	903.1
Retained earnings	43	**1,051.5**	**286.3**	**1,337.8**	1,990.8	217.6	2,208.4
Total equity		**1,967.4**	**286.3**	**2,253.7**	2,963.2	217.6	3,180.8

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 31 March 2022, with the prior period comparative at 31 March 2021 also reclassified. Please refer to Note 10 Property, Plant and Equipment for further information.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 140.

The company only financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 5 July 2022 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Company statement of changes in equity

For the year ended

	Note	Called up 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	2,483.3	3,456.5
Loss for the year		–	–	–	–	(121.3)	(121.3)
Cash flow hedge transfer to the income statement	41	–	–	37.5	–	–	37.5
Deferred tax charge on cash flow hedge	42	–	–	(7.1)	–	–	(7.1)
Net actuarial loss on pension scheme	23	–	–	–	–	(195.0)	(195.0)
Deferred tax credit on net actuarial loss		–	–	–	–	43.1	43.1
Total comprehensive income		–	–	30.4	–	(273.2)	(242.8)
Transfer of depreciation[1]		–	–	–	(38.4)	38.4	–
Deferred tax on depreciation transfer[1]		–	–	–	7.2	(7.2)	–
Dividends paid	8	–	–	–	–	(32.9)	(32.9)
At 1 April 2021		29.0	100.0	(59.7)	903.1	2,208.4	3,180.8
Loss for the year		–	–	–	–	(936.5)	(936.5)
Cash flow hedge transfer to the income statement	41	–	–	31.1	–	–	31.1
Deferred tax charge on cash flow hedge including impact of tax rate change	42	–	–	(4.6)	–	–	(4.6)
Net actuarial loss on pension scheme	23	–	–	–	–	(22.9)	(22.9)
Deferred tax credit on net actuarial loss	42	–	–	–	–	11.8	11.8
Impact of tax rate change in current year in respect of net actuarial losses	42	–	–	–	–	31.1	31.1
Total comprehensive income/(expense)		–	–	26.5	–	(916.5)	(890.0)
Transfer of depreciation[1]		–	–	–	(21.5)	21.5	–
Deferred tax on depreciation transfer[1]		–	–	–	(61.5)	61.5	–
Dividends paid	8	–	–	–	–	(37.1)	(37.1)
31 March 2022		29.0	100.0	(33.2)	820.1	1,337.8	2,253.7

1 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax (including the impact of the tax rate change in the current year) on the fair value uplift on assets.

Company statement of cash flows

For the year ended 31 March

	Note	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Net cash generated by operating activities[1]	47	1,209.4	1.6	1,211.0	973.6	1.0	974.6
Investing activities:							
Proceeds from short-term investments		–	–	–	300.0	–	300.0
Purchase of property, plant and equipment		(1,271.7)	–	(1,271.1)	(1,050.2)	–	(1,050.2)
Purchase of intangible assets		(72.3)	–	(72.3)	(54.8)	–	(54.8)
Proceeds from sale of property, plant and equipment		1.3	–	1.3	10.6	–	10.6
Interest received		103.3	–	103.3	142.8	–	142.8
Repayment of loans by parent company		–	–	–	58.8	–	58.8
Net cash used in investing activities		(1,239.4)	–	(1,239.4)	(592.8)	–	(592.8)
Financing activities:							
New loans raised		3,590.6	–	3,590.6	1,575.3	–	1,575.3
Repayment of borrowings		(3,306.1)	–	(3,306.1)	(1,846.1)	–	(1,846.1)
Repayment of lease principal		(9.9)	–	(9.9)	(11.4)	–	(11.4)
Interest paid		(273.5)	–	(273.5)	(322.6)	–	(322.6)
Fees paid		(3.8)	–	(3.8)	(7.8)	–	(7.8)
Dividends paid		(37.1)	–	(37.1)	(32.9)	–	(32.9)
Net cash used in financing activities		(39.8)	–	(39.8)	(645.5)	–	(645.5)
Net (decrease)/increase in cash and cash equivalents		(69.8)	1.6	(68.2)	(264.7)	1.0	(263.7)
Net cash and cash equivalents at beginning of period		488.5	3.6	492.1	753.2	2.6	755.8
Net cash and cash equivalents at end of period		418.7	5.2	423.9	488.5	3.6	492.1

1 Net cash generated by operating activities for the year ended 31 March 2022 includes £nil (31 March 2021: £69.7 million) of payments that are considered to be exceptional. The exceptional outflow was related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying net cash generated by operating activities would have been £1,043.3 million for the year ended 31 March 2021. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2022 would be £1,186.3 million, which would have included a cash payment of £24.7 million.

2 New loans raised of £3,590.6 million represents amounts raised by TWUF and on lent to the Company and includes £2,430.0 million of drawdowns relating to revolving credit facilities, including £1,770.0 million Class A and £660.0 million Class B. The remaining £1,160.6 million relates to £963.2 million (net of fees) bond issuances and £197.4 million (net of fees) loans raised by TWUF and on lent to the Company.

3 Repayment of borrowings of £3,306.1 million mainly represents amounts repaid to TWUF and includes £2,273.5 million of repayments relating to revolving credit facilities, including £1,770.0 million Class A and £503.5 million Class B. The remaining £1,032.6 million includes £917.6 million relating to amounts repaid to TWUF and £115.0 million was repaid to external counterparties.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies on page 140.

Notes to the company financial statements

31. Operating expenses

The Company's total operating expenses for the year end 31 March 2022 are £1,843.2 million (31 March 2021: £1,739.8 million). This is lower than the Group's total operating expenses total for the year by £0.2 million (31 March 2021: higher by £0.1 million).

32. Finance income and expense

During the year ended 31 March 2022, the Company recognised finance income of £122.5 million (2021: £138.2 million) relating mainly to interest on swaps, intercompany loans and other finance income on swaps.

Finance income

Year ended 31 March	2022 £m	2021 £m
Interest income on bank deposits	0.2	1.2
Interest income on intercompany loans receivable	14.3	19.8
Interest income on swaps	98.6	116.5
Other finance income on swaps	9.0	–
Other interest income	0.4	0.7
Total finance income	**122.5**	138.2

Finance expense

The Company also recognised finance expenses of £575.5 million (2021: £413.3 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and leases.

Year ended 31 March	Note	2022 £m	2021 £m
Interest in relation to bank and other loans:			
Interest expense		(45.0)	(44.9)
RPI accretion on loans		(70.9)	(11.8)
Interest in relation to intercompany borrowings:			
Interest expense		(359.3)	(373.5)
RPI accretion on loans		(205.1)	(46.5)
Interest in relation to defined benefit obligation			
Net interest expense on defined benefit obligation	23	(4.7)	(1.9)
Interest in relation to leases			
Leases	12	(3.2)	(3.4)
Fees			
Other finance fees		(2.6)	(1.0)
Gross finance expense		**(690.8)**	(483.0)
Capitalised borrowing costs		115.3	69.7
Total finance expense		**(575.5)**	(413.3)

33. Net losses on financial instruments

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

Year ended 31 March	2022 £m	2021 £m
Net exchange (losses)/gains on foreign currency borrowings	(5.7)	45.0
Net losses arising on swaps where hedge accounting is not applied[1]	(707.0)	(367.9)
Loss on cash flow hedge transferred from equity[2]	(31.1)	(37.5)
Total	**(743.8)**	(360.4)

1 In the current period the net losses arising on swaps where hedge accounting is not applied primarily reflects higher RPI expectations. The amount includes the fair value of £271.5 million (31 March 2021: £44.2 million) accreted on index linked swaps during the year.

2 Refer to note 41 Financial Instruments on page 196 for more information on the loss on cash flow hedge transferred from equity.

34. Tax charge/(credit) on (loss)/profit on ordinary activities

	2022			2021		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Current tax:						
Amounts (receivable)/payable in respect of group relief	(9.3)	16.1	6.8	(14.8)	14.0	(0.8)
Adjustments in respect of prior periods (group relief)	(1.7)	–	(1.7)	–	–	–
Current tax subtotal	(11.0)	16.1	5.1	(14.8)	14.0	(0.8)
Deferred tax:						
Origination and reversal of timing differences	(147.7)	–	(147.7)	(25.6)	–	(25.6)
Effect of corporation tax rate change	309.9	–	309.9	–	–	–
Adjustments in respect of prior periods	1.8	–	1.8	0.9	–	0.9
Deferred tax subtotal	164.0	–	164.0	(24.7)	–	(24.7)
Tax charge/(credit) on (loss)/profit on ordinary activities	**153.0**	**16.1**	**169.1**	(39.5)	14.0	(25.5)

Notes to the company financial statements continued

34. Tax charge/(credit) on (loss)/profit on ordinary activities continued

The tax charge/(credit) for the year ended 31 March 2022 is higher (2021: lower credit) than the standard rate of corporation tax in the UK. The differences are explained below:

	2022				2021			
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	**Effective tax rate %**	Underlying £m	BTL £m	Total £m	Effective tax rate %
(Loss)/profit on ordinary activities before taxation	**(852.2)**	**84.8**	**(767.4)**		(220.4)	73.6	(146.8)	
Tax at 19% (2021: 19%)	**(161.9)**	**16.1**	**(145.8)**	**19.0%**	(41.9)	14.0	(27.9)	19.0%
Effects of:								
Recurring items								
Depreciation on assets that do not qualify for tax relief	**4.5**	**–**	**4.5**		4.4	–	4.4	
Disallowable expenditure[1]	**7.8**	**–**	**7.8**		2.1	–	2.1	
Non-taxable income[2]	**(5.3)**	**–**	**(5.3)**		(4.4)	–	(4.4)	
Property disposals	**–**	**–**	**–**		(0.9)	–	(0.9)	
Impact of "super-deduction" allowance on capital expenditure[3]	**(2.3)**	**–**	**(2.3)**		–	–	–	
Other	**0.2**	**–**	**0.2**		0.3	–	0.3	
Tax (credit)/charge as adjusted for recurring items	**(157.0)**	**16.1**	**(140.9)**	**18.4%**	(40.4)	14.0	(26.4)	18.0%
Non-recurring items								
Impact of tax rate change	**309.9**	**–**	**309.9**		–	–	–	
Adjustments in respect of prior periods – current tax (group relief)	**(1.7)**	**–**	**(1.7)**		–	–	–	
Adjustments in respect of prior periods – deferred tax	**1.8**	**–**	**1.8**		0.9	–	0.9	
Total tax charge/(credit)	**153.0**	**16.1**	**169.1**	**(22.0)%**	(39.5)	14.0	(25.5)	17.4%

1 Disallowable expenditure primarily relates to fines included in operating expenses.

2 Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.

3 The government has introduced an accelerated capital allowance called a "super-deduction" which is available on some of the Company's capital expenditure. The allowance includes an additional 30% allowance in excess of expenditure on qualifying plant and machinery which results in a tax credit in the income statement. A super-deduction allowance will also be available on some of the Company's capital expenditure in the following period, and this is therefore shown as a recurring item.

The Company is not currently in a cash tax paying position with HMRC, primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs, although it does (receive)/pay amounts for group relief sold to/bought from group companies. The differences between profit/(loss) on ordinary activities before taxation at the standard tax rate and the current tax charge/(credit) for the year are set out below.

	2022			2021		
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	**(852.2)**	**84.8**	**(767.4)**	(220.4)	73.6	(146.8)
Tax at 19% (2021: 19%)	**(161.9)**	**16.1**	**(145.8)**	(41.9)	14.0	(27.9)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.5**	**–**	**4.5**	4.4	–	4.4
Disallowable expenditure	**7.8**	**–**	**7.8**	2.1	–	2.1
Non-taxable income	**(5.3)**	**–**	**(5.3)**	(4.4)	–	(4.4)
Property disposals	**–**	**–**	**–**	(0.9)	–	(0.9)
Capital allowances for the year lower than/(higher than) depreciation[4]	**81.6**	**–**	**81.6**	(12.6)	–	(12.6)
Capitalised borrowing costs allowable for tax[5]	**(21.9)**	**–**	**(21.9)**	(13.3)	–	(13.3)
Losses on financial derivatives[6]	**89.7**	**–**	**89.7**	60.7	–	60.7
Pension cost charge in excess of/(lower than) pension contributions[7]	**0.6**	**–**	**0.6**	(17.2)	–	(17.2)
Other short term timing differences	**(4.4)**	**–**	**(4.4)**	8.3	–	8.3
Adjustments in respect of prior periods – current tax (group relief)	**(1.7)**	**–**	**(1.7)**	–	–	–
Current tax (credit)/charge for the year	**(11.0)**	**16.1**	**5.1**	(14.8)	14.0	(0.8)

4 Capital allowances claimed in the current year are lower than depreciation because of a reduction in taxable profits caused by an increase in accounting losses for the year.

5 Capitalised borrowing costs are eligible for a full tax deduction in the year.

6 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.

7 The Company made higher pension contributions in the prior year as a result of the additional pension deficit repair payment, which received tax relief. The Company reduced its claim for capital allowances accordingly so that current tax was not affected; as a result, no tax amounts were booked to OCI in respect of the pension deficit repair payment.

Notes to the company financial statements continued

34. Tax charge/(credit) on (loss)/profit on ordinary activities continued

Uncertain tax positions

At 31 March 2022 the total value of uncertain tax positions was £nil (2021: £nil).

Tax credited directly to other comprehensive income

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

Year ended 31 March	2022 £m	2021 £m
Deferred tax:		
Tax credit on net actuarial loss in year	11.8	43.1
Impact of tax rate change in current year on net actuarial losses	31.1	–
	42.9	43.1
Deferred tax:		
Tax charge on cash flow hedges in year	(5.9)	(7.1)
Impact of tax rate change in current year on cash flow hedges	1.3	–
	(4.6)	(7.1)
Total tax credited directly to other comprehensive income	38.3	36.0

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements, except for deferred tax on timing differences which are expected to unwind by 31 March 2023 which continues to be provided at the current rate of 19% (35% for the deferred tax on the surplus on the TWMIPS pension scheme). The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income as shown above.

35. Investment in subsidiary undertaking

The Company has no interest in joint ventures or associates. The Company had the following investment in a subsidiary undertaking as at 31 March 2022 and 31 March 2021:

Entity	Holding	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights & shares held
Thames Water Utilities Finance plc	Direct	Finance Company	United Kingdom	£1 Ordinary	100%

The subsidiary undertaking is wholly owned by the Company.

The address of the registered office of Thames Water Utilities Finance plc is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

36. Intercompany loans receivable

As at 31 March	2022 Book value £m	2022 Fair value £m	2021 Book value £m	2021 Fair value £m
Amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	1,693.4	1,693.4	1,693.4	1,693.4
Thames Water Utilities Finance plc	300.0	300.0	300.0	300.0
Total principal owed	1,993.4	1,993.4	1,993.4	1,993.4
Interest receivable on amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	8.4	8.4	3.7	3.7
Thames Water Utilities Finance plc	35.1	35.1	30.8	30.8
Total interest receivable	43.5	43.5	34.5	34.5
Total	2,036.9	2,036.9	2,027.9	2,027.9
Disclosed within non-current assets	1,993.4	1,993.4	1,993.4	1,993.4
Disclosed within current assets	43.5	43.5	34.5	34.5

The above intercompany loans are unsecured. These balances have not been included within the Company's net debt and covenant calculations.

The intercompany loan receivable from TWUHL is repayable on demand. Amounts owed by group undertakings have been disclosed in non-current assets as Directors do not expect to seek or require repayment for at least the next 12 months. Interest on the loan is charged at LIBOR plus 0.35% margin (2021: LIBOR plus 0.35% margin). Paragraph B5.5.38 of IFRS 9 states that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. As the loan is repayable on demand, the expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. The Group has considered the recoverability of the intercompany loans receivable as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany loans receivable and the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

The Company recognises two intercompany loans receivable from TWUF plc for a total principal amount of £300.0 million, consisting of £200.0 million and £100.0 million loans. The interest is charged at LIBOR plus 2% margin (2021: LIBOR plus 2% margin) and LIBOR plus 1.55% margin (2021: LIBOR plus 1.55% margin) respectively. There are also corresponding borrowings payable to TWUF plc of a total principal amount of £300.0 million, see note 40, which is also made up of two loans for £200.0 million and £100.0 million. The intercompany loans receivable therefore net off with the borrowings on a notional basis and therefore the Directors do not consider there is any need to book an impairment provision and expect to materially recover the intercompany amount.

The terms of the intercompany loans may be impacted by the GBP LIBOR transition plan. Refer to IBOR reform section on pages 145 – 146 for more information.

Notes to the company financial statements continued

37. Trade and other receivables

As at 31 March	2022 Underlying £m	2022 BTL £m	2022 Total £m	2021 Underlying £m	2021 BTL £m	2021 Total £m
Non-current:						
Prepayments	–	308.8	308.8	–	228.9	228.9
Amounts owed by group undertakings	0.3	–	0.3	1.1	–	1.1
Insurance claims receivable	35.4	–	35.4	45.1	–	45.1
Other receivables	5.8	–	5.8	0.1	–	0.1
	41.5	308.8	350.3	46.3	228.9	275.2
Current:						
Gross trade receivables	448.4	17.7	466.1	441.2	15.2	456.4
Less doubtful debt provision	(146.8)	(3.7)	(150.5)	(143.1)	(3.2)	(146.3)
Net trade receivables	301.6	14.0	315.6	298.1	12.0	310.1
Amounts owed by group undertakings	6.2	–	6.2	7.1	–	7.1
Prepayments	36.9	–	36.9	38.4	–	38.4
Other receivables	34.6	1.0	35.6	27.8	0.8	28.6
	379.3	15.0	394.3	371.4	12.8	384.2
Current:						
Contract assets	251.0	8.5	259.5	239.5	5.8	245.3
	630.3	23.5	653.8	610.9	18.6	629.5
Total	671.8	332.3	1,004.1	657.2	247.5	904.7

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 31 March 2022 includes £308.8 million (2021: £228.9 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Contract assets at 31 March 2022 includes £183.8 million (2021: £176.7 million) of services provided to metered customers. Included within this amount is £4.6 million of bad debt (31 March 2021: £7.1 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2022 £m	2021 £m
At 1 April	(146.3)	(187.8)
Charge for bad and doubtful debts – charged against revenue1	(67.4)	(41.0)
Charge for bad and doubtful debts – included within operating expenses	(10.2)	(36.7)
Excess credits recognised during the year	–	–
Amounts written off	73.4	119.2
Total at 31 March	(150.5)	(146.3)

1 Included within this is a £10.3 million increase (2021: £8.9 million decrease) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The increase of the provision in the current financial year is debited to gross revenue. The remaining amount relates to the £57.1 million (2021: £49.9 million) charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	311.3	318.3
1 – 2 years	87.0	73.0
2 – 3 years	34.1	33.6
More than 3 years	33.7	31.5
Total	466.1	456.4

The ageing of gross BTL receivables is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	12.8	11.4
1 – 2 years	3.6	2.6
2 – 3 years	1.3	1.2
Total	17.7	15.2

BTL receivables relates to the amount of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Notes to the company financial statements continued

37. Trade and other receivables continued

Expected credit loss split by ageing is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	84.4	74.5
1 – 2 years	25.3	29.5
2 – 3 years	12.1	15.4
More than 3 years	28.7	26.9
Total	150.5	146.3

Ageing of impaired BTL receivables is as follows:

As at 31 March	2022 £m	2021 £m
Up to 365 days	2.6	2.0
1 – 2 years	0.8	0.8
2 – 3 years	0.3	0.4
Total	3.7	3.2

38. Cash and cash equivalents

	2022			2021		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	12.4	–	12.4	–	–	–
Money market funds	406.3	5.2	411.5	488.5	3.6	492.1
Total	418.7	5.2	423.9	488.5	3.6	492.1

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

39. Trade and other payables

	2022			2021		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities	831.7	–	831.7	757.3	–	757.3
Current:						
Trade payables – operating	248.1	–	248.1	232.0	–	232.0
Amounts owed to group undertakings	69.0	–	69.0	54.1	–	54.1
Other taxation and social security	8.9	–	8.9	8.3	–	8.3
Amounts (receivable)/payable in respect of group relief	(27.9)	36.2	8.3	(15.9)	20.1	4.2
Accruals	325.4	–	325.4	290.6	–	290.6
Amounts owed to Bazalgette Tunnel Limited	–	13.0	13.0	–	11.3	11.3
Other payables	75.8	–	75.8	71.8	–	71.8
	699.3	49.2	748.5	640.9	31.4	672.3
Current:						
Contract liabilities	125.1	2.0	127.1	121.9	2.1	124.0
	824.4	51.2	875.6	762.8	33.5	796.3
Total	1,656.1	51.2	1,707.3	1,520.1	33.5	1,553.6

Current contract liabilities at 31 March 2022 includes £74.0 million (2021: £75.4 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2022 includes £534.6 million (2021: £522.7 million) of deferred infrastructure charges and £290.4 million of deferred income for nil cost “adopted” assets (2021: £227.8 million).

Amounts owed to group undertaking at 31 March 2022 of £69.0 million (2021: £54.1 million) primarily reflects £68.4 million (2021: £53.7 million) relating to interest received by the Company on behalf of TWUF plc in relation to restructured swaps.

Other payables at 31 March 2022 includes £45.9 million (2021: £38.9 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.

Notes to the company financial statements continued

40. Borrowings

As at 31 March	2022 £m	2021 £m
Secured bank loans and private placements	2,309.0	2,340.5
Amounts owed to group undertakings	11,281.2	10,679.4
	13,590.2	13,019.9
Interest payable on secured bank loans and private placements	6.6	6.0
Interest payable on amounts owed to group undertakings	240.0	240.7
	246.6	246.7
Total	13,836.8	13,266.6
Disclosed within non-current liabilities	12,862.5	11,977.1
Disclosed within current liabilities	974.3	1,289.5
Total	13,836.8	13,266.6

Secured bank loans refers to 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.

As at 31 March 2022, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £11,515.7 million (2021: £10,914.6 million) owed to TWUF. Financing costs arising in TWUF are directly recharged with an additional margin of ten basis points or one basis point, except for a subset of loans where financing costs are recharged under mirrored terms.
- £5.2 million (2021: £5.2 million) owed to Thames Water Utilities Holdings Limited.
- £0.3 million (2021: £0.3 million) owed to Thames Water Limited.

Maturity analysis with respect to borrowings is presented in note 41.

Breakdown of secured bank loans and private placements

As at 31 March	2022 £m	2021 £m
£75.0m 1.350% index-linked loan due 2021 [(d), (f)]	–	92.9
£215.0m 0.460% index-linked loan due 2023 [(a), (f)]	278.7	258.4
£215.0m 0.380% index-linked loan due 2032 [(a), (b), (f)]	192.8	195.0
£100.0m 3.261% index-linked loan due 2043 [(a), (c), (f)]	145.6	135.0
£100.0m 0.790% index-linked loan due 2025 [(a), (d), (f)]	123.4	114.4
£125.0m 0.598% index-linked loan due 2026 [(a), (d), (f)]	153.4	142.3
£70.0m Class B 3.867% fixed rate loan due 2026 [(a)]	70.0	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 [(a)]	50.0	50.0
£20.0m Class B floating rate loan due 2026 [(a), (g)]	20.0	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 [(a)]	38.7	38.6
$55.0m 3.380% private placement due 2023 [(a), (e)]	41.8	39.9
$285.0m 3.570% private placement due 2025 [(a), (e)]	216.5	206.5
£216.0m 2.450% private placement due 2028 [(a)]	215.6	215.5
£210.0m 2.550% private placement due 2030 [(a)]	209.4	209.4
£40.0m 2.620% private placement due 2033 [(a)]	39.9	39.8
£150.0m floating rate loan due 2024 [(a), (g)]	149.8	149.7
£125.0m floating rate loan due 2024 [(a), (g), (h)]	124.7	124.6
£50.0m floating rate loan due 2022 [(a), (h)]	50.0	49.9
£63.1m floating rate loan due 2027 [(a), (g), (i)]	62.9	62.9
£63.1m floating rate loan due 2029 [(a), (g), (i)]	62.9	62.9
£63.1m floating rate loan due 2031 [(a), (g)]	62.9	62.8
Total secured bank loans and private placements	2,309.0	2,340.5

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet repayment of £25.0 million.
(d) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(e) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.
(f) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(g) During the year, these loans have transitioned to SONIA (Sterling Overnight Index Average) from Libor (London Inter-Bank Offered Rate).
(h) These loans contain a circular economy adjustment that reduce the interest rate of the loans if certain key performance indicators are met.
(i) In April 2022, the Company early repaid the £63.1 million floating rate loan that was due to mature in 2027 and made a part-repayment of £11.9 million of the £63.1 million (now £51.2 million) floating rate loan that matures in 2029.

Notes to the company financial statements continued

40. Borrowings continued

Breakdown of amounts owed to group undertakings

These amounts are intercompany loans.

As at 31 March	2022 £m	2021 £m
THAMES WATER UTILITIES FINANCE PLC		
£225.0m 6.590% fixed rate due 2021 [(c)]	–	225.0
£175.0m 3.375% index-linked due 2021 [(b), (k)]	–	295.3
£330.0m 6.750% fixed rate due 2028 [(a), (b)]	328.1	327.9
£200.0m 6.500% fixed rate due 2032 [(b)]	198.2	198.0
£600.0m 5.125% fixed rate due 2037 [(b)]	596.8	596.7
£300.0m 1.680% index-linked due 2053 [(b), (k)]	472.3	454.8
£300.0m 1.681% index-linked due 2055 [(b), (k)]	472.3	454.8
£214.3m Class B floating rate loan due 2021 [(h), (j)]	–	214.3
£150.0m Class B floating rate loan due 2023 [(j), (l)]	–	150.0
£150.0m Class B floating rate loan due 2023 [(j), (l)]	–	150.0
£82.0m 2.9720% fixed rate due 2026 [(a)]	81.8	81.8
£101.3m 3.2300% fixed rate due 2029 [(a)]	101.0	101.0
£44.1m 3.1468% fixed rate due 2030 [(a)]	43.9	43.9
£100.0m 1.985% index-linked due 2022 [(a), (e), (k)]	135.1	125.4
£96.6m 4.146% fixed rate due 2022 [(a)]	–	96.6
£128.7m 4.300% fixed rate due 2024 [(a)]	128.8	128.8
£161.1m 4.534% fixed rate due 2027 [(a)]	161.0	161.0
£100.0m 1.790% index-linked due 2029 [(e), (k), (n)]	111.7	101.3
£300.0m 5.750% Class B Fixed rate due 2030 [(a), (b), (f)]	299.3	298.9
£300.0m 4.375% fixed rate due 2034 [(a), (b)]	296.3	296.1
¥20.0bn 3.280% fixed rate due 2038 [(a), (i)]	125.2	131.2
£200.0m 0.205% index-linked due 2039 [(a), (e), (k)]	224.8	204.1
£50.0m 3.853% index-linked due 2040 [(a), (d)]	72.8	67.5
£500.0m 5.500% fixed rate due 2041 [(a), (b)]	490.6	490.3
£50.0m 1.980% index-linked due 2042 [(a), (k)]	76.7	71.3
£55.0m 2.091% index-linked due 2042 [(a), (b), (k)]	81.7	75.8
£40.0m 1.974% index-linked due 2045 [(a), (b), (k)]	47.2	45.2
£300.0m 4.625% fixed rate due 2046 [(a), (b)]	293.9	293.7
£100.0m 1.846% index-linked due 2047 [(a), (k)]	153.3	142.5
£200.0m 1.819% index-linked due 2049 [(a), (b), (k)]	306.2	284.7
£200.0m 1.771% index-linked due 2057 [(a), (b), (k)]	306.2	284.5
£100.0m index-linked due 2060 [(a), (k)]	111.8	101.2
£350.0m 1.760% index-linked due 2062 [(a), (b), (k)]	535.7	498.1
£500.0m 4.000% fixed rate due 2025 [(a), (b)]	497.7	497.1
£40.0m 0.750% index-linked loan due 2034 [(a), (b), (k)]	48.9	45.3
£45.0m 0.721% index-linked loan due 2027 [(a), (b), (k)]	54.9	50.9
£300.0m 3.500% fixed rate loan due 2028 [(a), (b)]	297.6	297.3
£400.0m 7.738% fixed rate bond due 2058 [(a), (b)]	417.8	418.4
£250.0m 1.875% fixed rate bond due 2024 [(a), (b)]	249.3	248.9
£250.0m 2.625% fixed rate bond due 2032 [(a), (b)]	247.9	247.7
£300.0m 2.375% Class B fixed rate bond due 2023 [(a), (b)]	299.7	299.4
£250.0m 2.875% Class B fixed rate bond due 2027 [(a), (b)]	248.0	247.6
£143.6m 2.296% fixed rate bond due 2024 [(a), (b)]	143.4	143.3
£350.0m 2.375% fixed rate bond due 2040 [(a), (b)]	346.1	345.9
£40.0m 2.442% fixed rate bond due 2050 [(a), (b)]	39.9	39.9
£84.7m 0.875% fixed rate bond due 2023 [(a)]	84.5	84.5
£362.8m 0.987% fixed rate bond due 2023 [(a)]	362.6	362.5
£90.4m 1.009% fixed rate bond due 2023 [(a)]	90.4	90.4
£44.2m 1.619% fixed rate bond due 2030 [(a)]	44.1	44.1
£29.6m 1.233% fixed rate bond due 2027 [(a)]	29.6	29.6
£483.6m 2.218% fixed rate bond due 2028 [(a)]	481.4	–
£483.7m 2.483% fixed rate bond due 2032 [(a)]	481.5	–
£200.0m Class B floating rate loan due 2026 [(b)]	197.3	–
£220.7m Class B floating rate loan due 2022 [(h), (m)]	220.7	–
£75.0m Class B floating rate loan due 2022 [(h), (m)]	75.0	–
£75.0m Class B floating rate loan due 2022 [(h)]	75.0	–
Fees [(g)]	(10.3)	(10.6)
THAMES WATER LIMITED		
£0.3m floating rate loan due 2043	0.3	0.3
THAMES WATER UTILITIES HOLDINGS LIMITED		
£5.2m floating rate loan due 2043	5.2	5.2
Total amounts owed to group undertakings	**11,281.2**	**10,679.4**

All debt is Class A except where highlighted.

(a) Thames Water Utilities Finance plc charges the Company a margin of ten basis points in respect of the loans.

(b) These loans are shown net of issuance costs.

(c) Thames Water Utilities Finance plc charges the Company a margin of one basis point in respect of this loan.

(d) This is a Limited Price Index ("LPI") loan. Accretion is calculated using an adjusted UK Retail Price Index.

(e) These amounts have been swapped into RPI-linked debt within the financing subsidiary and the net proceeds lent to the Company.

(f) In September 2022 this Bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value. Our current expectation is that the call option will be exercised.

(g) These fees have been shown within the bonds section as they relate to RPI-linked debt issued in 2007.

(h) In March 2022, £370.7 million Class B revolving credit facilities were drawn. In April 2022, these Class B drawdowns were fully repaid.

(i) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.

Notes to the company financial statements continued

40. Borrowings continued

(j) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Company assigned by both Standard and Poor's and Moody's and the Group's GRESB score.

(k) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

(l) In June 2021, the Company early repaid two £150.0 million floating rate loans that were due to mature in 2023.

(m) During the year, these loans have transitioned to SONIA (Sterling Overnight Index Average) from Libor (London Inter-Bank Offered Rate).

(n) This intercompany loan has been disclosed as current as it is expected to be settled within 12 months.

41. Financial instruments

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

Financial assets:

As at 31 March	2022 £m	2021 £m
Fair value through profit or loss		
Cross currency swaps	24.3	17.1
Interest rate swaps	34.1	16.2
Index-linked swaps	56.7	69.3
Cash and cash equivalents – money market funds	411.5	492.1
	526.6	594.7
Amortised cost		
Intercompany loans receivable	2,036.9	2,027.9
Other receivables (excluding prepayments)	41.5	46.3
Trade and other receivables (excluding prepayments)	357.4	345.8
	2,435.8	2,420.0
Total	2,962.4	3,014.7

Financial liabilities:

As at 31 March	2022 £m	2021 £m
Fair value through profit or loss		
Cross currency swaps	(68.7)	(68.9)
Interest rate swaps	(140.8)	(166.6)
Index-linked swaps	(1,446.1)	(701.8)
	(1,655.6)	(937.3)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	(739.6)	(664.0)
Borrowings	(13,836.8)	(13,266.6)
Lease liabilities	(63.3)	(60.4)
	(14,639.7)	(13,991.0)
Total	(16,295.3)	(14,928.3)

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 Company's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of 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 2. The table below sets out the valuation basis of financial instruments (excluding money market funds which are classified as level 1) held at fair value through profit or loss as at 31 March 2022:

	Level 2[1]	
As at 31 March	2022 £m	2021 £m
Financial assets – derivative financial instruments		
Cross currency swaps	24.3	17.1
Interest rate swaps	34.1	16.2
Index-linked swaps	56.7	69.3
	115.1	102.6
Financial liabilities – derivative financial instruments		
Cross currency swaps	(68.7)	(68.9)
Interest rate swaps	(140.8)	(166.6)
Index-linked swaps	(1,446.1)	(701.8)
	(1,655.6)	(937.3)
Net total	(1,540.5)	(834.7)

1 The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index-linked swaps are measured using discounted cash flows of all the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Company and counterparties.

During the year, £31.1 million (31 March 2021: £37.5 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 183. The amount recycled of £31.1 million consisted of the phased release of cash flow hedge reserve over the relevant hedging period where the related debt has been issued and has not matured.

Notes to the company financial statements continued

41. Financial instruments continued

In November 2019, the maturity date of an index linked swap, with £200.0 million notional, was extended to 2038. The swap is measured at fair value through the income statement. The £15.8 million observed fair value movement on the restructure date could not be supported by observable inputs alone. In management's view the difference in value was due to unobservable factors and so has been capitalised and is recognised in the income statement over the extended maturity period on a straight line basis. As at 31 March 2022, £13.7 million (31 March 2021: £14.6 million) remained capitalised and £0.9 million had been recognised in the income statement (31 March 2021: £0.9 million). Unobservable factors include the counterparty's credit, capital, funding and trading charges.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's intercompany loans receivable, trade and other receivables, cash and cash equivalents, short-term investments and amounts owed to group undertaking are considered to be approximate to their fair values. The fair values and carrying values of the Company's other financial assets and financial liabilities are set out in the tables below.

Financial assets:

As at 31 March	2022 Book value £m	2022 Fair value £m	2021 Book value £m	2021 Fair value £m
Non-current				
Intercompany loans receivable[1]	**1,993.4**	**1,993.4**	1,993.4	1,993.4
Derivative financial instruments				
Cross currency swaps	**20.7**	**20.7**	17.1	17.1
Interest rate swaps	**34.1**	**34.1**	16.2	16.2
Index-linked swaps	**56.7**	**56.7**	69.3	69.3
Other receivables (excluding prepayments)[1]	**41.5**	**41.5**	46.3	46.3
	2,146.4	**2,146.4**	2,142.3	2,142.3
Current				
Cash and cash equivalents	**423.9**	**423.9**	492.1	492.1
Intercompany loans receivable[1]	**43.6**	**43.6**	34.5	34.5
Trade and other receivables (excluding prepayments)	**357.4**	**357.4**	345.8	345.8
Derivative financial instruments				
Cross currency swaps	**3.6**	**3.6**	–	–
	828.5	**828.5**	872.4	872.4
Total	**2,974.9**	**2,974.9**	3,014.7	3,014.7

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.

Financial liabilities:

As at 31 March	2022 Book value £m	2022 Fair value £m	2021 Book value £m	2021 Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	**(2,200.2)**	**(2,443.7)**	(2,231.5)	(2,532.7)
Amounts owed to group undertakings	**(10,662.3)**	**(14,175.6)**	(9,745.6)	(13,287.7)
Derivative financial instruments				
Cross currency swaps	**(68.7)**	**(68.7)**	(68.9)	(68.9)
Interest rate swaps	**(140.8)**	**(140.8)**	(166.6)	(166.6)
Index-linked swaps	**(1,387.7)**	**(1,387.7)**	(701.8)	(701.8)
	(14,459.7)	**(18,216.5)**	(12,914.4)	(16,757.7)
Current				
Borrowings				
Secured bank loans and private placements	**(108.8)**	**(109.5)**	(109.0)	(112.1)
Amounts owed to group undertakings	**(618.9)**	**(680.5)**	(933.8)	(974.2)
Interest payable	**(246.6)**	**(246.6)**	(246.7)	(246.7)
Trade and other payables (excluding other taxation and social security)	**(739.6)**	**(739.6)**	(664.0)	(664.0)
Derivative financial instruments				
Cross currency swaps	**(58.4)**	**(58.4)**	–	–
	(1,772.3)	**(1,834.6)**	(1,953.5)	(1,997.0)
Total	**(16,232.0)**	**(20,051.1)**	(14,867.9)	(18,754.7)

Amounts owed to group undertakings include bonds and private placements issued by subsidiary entities, which are publicly traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of secured bank loans and private placements is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread. The fair value of amounts owed to group undertakings represents the market value of the underlying debt instrument, associated derivative instrument and relevant margin on the intercompany loan. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity, discounted using a risk free rate plus the Group's credit spread.

Notes to the company financial statements continued

41. Financial instruments continued

Capital risk management

Capital risk primarily relates to whether the Company is adequately capitalised and financially solvent. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Company's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, along with TWUHL, guarantees the funding activity of TWUF which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. TWUF and TWUHL guarantee the debt obligations of the Company. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Group is included on page 166.

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

	2022			2021		
As at 31 March	**Borrowings £m**	**Net derivative financial liabilities £m**	**Lease liabilities £m**	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m
Opening balance	**(13,266.6)**	**(834.7)**	**(60.4)**	(13,506.6)	(465.7)	(70.3)
Non-current	**(11,977.1)**	**(834.7)**	**(52.9)**	(11,626.6)	(465.7)	(62.4)
Current	**(1,289.5)**	**–**	**(7.5)**	(1,880.0)	–	(7.9)
Cash flows						
New loans raised	**(3,590.6)**	**–**	**–**	(1,575.3)	–	–
Repayment of borrowings	**3,306.1**	**–**	**–**	1,846.6	–	–
Repayment of lease principal	**–**	**–**	**9.9**	–	–	11.4
Interest paid[1]	**388.6**	**–**	**–**	392.0	–	–
Interest received[2]	**–**	**(97.4)**	**–**	–	(117.6)	–
	104.1	**(97.4)**	**9.9**	663.3	(117.6)	11.4
Non-cash changes						
Interest accrued/Fees amortised	**(393.4)**	**98.6**	**–**	(410.8)	116.5	–
Foreign exchange movement	**(5.7)**	**–**	**–**	45.1	–	–
Indexation	**(275.8)**	**–**	**–**	(58.2)	–	–
Fair value changes	**–**	**(707.0)**	**–**	–	(367.9)	–
Lease additions	**–**	**–**	**(9.6)**	–	–	1.9
Interest accrued for IFRS 16 leases	**–**	**–**	**(3.2)**	–	–	(3.4)
Unamortised IFRS 9 transition adjustment	**0.6**	**–**	**–**	0.6	–	–
	(674.3)	**(608.4)**	**(12.8)**	(423.3)	(251.4)	(1.5)
Closing balance	**(13,836.8)**	**(1,540.5)**	**(63.3)**	(13,266.6)	(834.7)	(60.4)
Non-current	**(12,862.5)**	**(1,485.7)**	**(57.1)**	(11,977.1)	(834.7)	(52.9)
Current	**(974.3)**	**(54.8)**	**(6.2)**	(1,289.5)	–	(7.5)

1 Interest paid of £388.6 million (2021: £392.0 million) includes £115.3 million of capitalised borrowing costs (2021: £69.7 million) and excludes £0.2 million of bank charges (2021: £0.3 million).

2 Interest received of £97.4 million (2021: £117.6 million) excludes £3.6 million of interest received on an intercompany loan with holding company Thames Water Utilities Holdings Limited (2021: £21.2 million), £1.6 million of interest received on an intercompany loan with subsidiary Thames Water Utilities Finance plc (2021: £1.9 million) £0.2 million interest received on bank deposits (2021: £1.4 million) and £0.5 million other interest income (2021: £0.7 million).

Notes to the company financial statements continued

41. Financial instruments continued

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Company has taken to manage them is described below and overleaf.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Company's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk.

As at 31 March 2022:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	5,598.2	757.7	7,748.3	14,104.2

As at 31 March 2021:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	4,952.7	703.5	7,611.5	13,267.7

The weighted average interest rates of the debt held by the Company, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

	Weighted average interest rate		Weighted average period until maturity	
As at 31 March	2022 %	2021 %	2022 Years	2021 Years
Fixed	3.8	4.2	10.3	11.0
Index-linked	8.2	2.6	16.9	17.0

(i) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 196.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2022. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	2022 +1% £m	2022 -1% £m	2021 +1% £m	2021 -1% £m
Profit	222.9	(263.9)	208.6	(243.8)
Equity	222.9	(263.9)	208.6	(243.8)

(ii) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Company has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2022. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2022 +10% £m	2022 -10% £m	2021 +10% £m	2021 -10% £m
Profit	(4.9)	(2.5)	(4.6)	0.9
Equity	(4.9)	(2.5)	(4.6)	0.9

Notes to the company financial statements continued

41. Financial instruments continued

(iii) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Company as a regulated water and wastewater company is subject to fluctuations in its revenues due to movements in inflation. Therefore, the Company's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2022. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2022 +1% £m	2022 -1% £m	2021 +1% £m	2021 -1% £m
Profit	(639.7)	556.1	(620.3)	563.4
Equity	(639.7)	556.1	(620.3)	563.4

(b) Credit risk

Credit risk relates to the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Company's trade receivables, its loan to its immediate parent entity Thames Water Utilities Holdings Limited, insurance receivables short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Company and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Company's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 37. For non-household customers, the company's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Company's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2022, no collateral was held (2021: nil).

The following table summarises amounts held on cash at bank and in hand and money market funds by credit rating of counterparties.

As at 31 March	2022 £m	2021 £m
AAA	411.5	492.1
A	12.3	–
Total	**423.8**	**492.1**

Note: funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2022 £m	2021 £m
AA-	12.2	0.5
A+	89.2	94.0
A	13.7	8.1
Total	**115.1**	**102.6**

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in note 40.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2022 £m	2021 £m
Within one year	727.7	1,042.8
Between one and two years	1,661.8	207.4
Between two and three years	626.4	1,939.4
Between three and four years	669.6	606.3
Between four and five years	700.3	835.6
After more than five years	9,204.4	8,388.4
Total	**13,590.2**	**13,019.9**

Notes to the company financial statements continued

41. Financial instruments continued

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March	2022 £m	2021 £m
Undiscounted amounts payable		
Within one year	1,770.7	2,009.3
Between one and two years	2,064.2	624.0
Between two and three years	1,134.9	2,317.5
Between three and four years	1,250.3	1,038.5
Between four and five years	865.6	1,204.3
After more than five years	21,957.6	19,448.9
Total	29,043.3	26,642.5

1 The comparative amounts have been restated to include lease liabilities.

(ii) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March	2022 £m	2021 £m
Undiscounted amounts payable		
Within one year	68.5	107.1
Between one and two years	(83.5)	72.4
Between two and three years	(124.3)	(70.5)
Between three and four years	55.4	(65.7)
Between four and five years	62.6	55.0
After more than five years	(1,457.8)	(975.4)
Total	(1,479.1)	(877.1)

Cash flow hedges

The Company has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 144.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2022, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the relevant hedging period.

During the year, £31.1 million (31 March 2021: £37.5 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 183. The amount recycled of £31.1 million consisted of a phased release of cash flow hedge reserve where the related debt has been issued and has not matured.

The Company's cash flow hedge reserve disclosed on the statement of changes in equity on page 183 relate to forward starting interest rate swaps which have now commenced.

Cash flow hedge reserve	£m
At 1 April 2020	(90.1)
Cash flow hedge transferred to income statement	37.5
Deferred tax charge on cash flow hedges	(7.1)
At 31 March 2021	(59.7)
Cash flow hedge transferred to income statement	31.1
Deferred tax charge on cash flow hedges including impact of tax rate change	(4.6)
At 31 March 2022	(33.2)

Notes to the company financial statements continued

41. Financial instruments continued

The following are the effects of forward starting interest rate swaps which have commenced on the Company's financial position and performance:

As at 31 March	2022 £m	2021 £m
Quantitative		
Cash flow hedge transferred to income statement	31.1	37.5

As at 31 March	2022	2021
Qualitative		
Line item affected in income statement due to reclassification	Net losses on financial instruments	Net (losses)/gains on financial instruments

The table below shows phasing of amounts to be reclassed to income statement from the cash flow hedge reserve, which relates to the Company's forward starting interest rate swaps which have commenced:

As at 31 March	2022 £m	2021 £m
Interest rate swaps		
Within one year	(21.1)	(31.1)
Between one and two years	(18.7)	(21.1)
Between two and three years	(2.8)	(18.7)
Between three and four years	–	(2.8)
Between four and five years	–	–
After more than five years	–	–
Total	(42.6)	(73.7)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Company has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as the early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2022 and 31 March 2021. The column 'net amounts' shows the impact on the statement of financial position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the Company statement of financial position				
As at 31 March 2022	Gross amounts £m	Amounts set off £m	Net amounts presented on Company statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	115.1	–	115.1	(90.8)	24.3
	115.1	–	115.1	(90.8)	24.3
Financial liabilities					
Derivative financial instruments	(1,655.6)	–	(1,655.6)	90.8	(1,564.8)
	(1,655.6)	–	(1,655.6)	90.8	(1,564.8)
Total	(1,540.5)	–	(1,540.5)	–	(1,540.5)
As at 31 March 2021					
Financial assets					
Derivative financial instruments	102.6	–	102.6	(101.3)	1.3
	102.6	–	102.6	(101.3)	1.3
Financial liabilities					
Derivative financial instruments	(937.3)	–	(937.3)	101.3	(836.0)
	(937.3)	–	(937.3)	101.3	(836.0)
Total	(834.7)	–	(834.7)	–	(834.7)

Notes to the company financial statements continued

41. Financial instruments continued

IBOR reform

The following table contains details of all of the financial instruments that the Company holds at 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 31 March 2022		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	**–**	**(199.8)**	–	(199.8)
Amortised cost				
Intercompany loans receivable[2]	**1,993.4**	**–**	1,993.4	–
Borrowings[3]	**–**	**(899.3)**	–	(899.3)
Total assets and liabilities exposed to GBP LIBOR	**1,993.4**	**(1,099.1)**	1,993.4	(1,099.1)

1 Consists of £199.8 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.

2 In May/June 2022, the interest rates in respect of £1,693.4 million of intercompany loans receivable were transitioned from LIBOR to SONIA. Refer to Note 36 Intercompany loans receivable for a breakdown of these intercompany loans. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

3 Included in the £899.3 million of borrowings in the table above are £893.8 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The remaining £5.5 million includes 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. In June 2022, the interest rates in respect of these £5.5 million loans were transitioned from LIBOR to SONIA. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

42. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	**Total £m**
At 1 April 2020	(1,198.2)	6.7	58.2	14.1	**(1,119.2)**
Credit/(charge) to income statement	(27.2)	(17.4)	60.6	8.7	**24.7**
Credit/(charge) to other comprehensive income	–	43.1	(7.1)	–	**36.0**
At 31 March 2021	(1,225.4)	32.4	111.7	22.8	**(1,058.5)**
(Charge)/credit to income statement including impact of tax rate change	(293.7)	(15.2)	148.6	(3.7)	**(164.0)**
Credit/(charge) to other comprehensive income including impact of tax rate change[1]	–	42.9	(4.6)	–	**38.3**
Other	0.1	–	–	–	**0.1**
At 31 March 2022	(1,519.0)	60.1	255.7	19.1	**(1,184.1)**

1 The credit of £42.9 million to other comprehensive income in respect of retirement benefits comprises a credit of £11.8 million on the net actuarial loss in the year and a credit of £31.1 million for the impact of the tax rate change in the year. The charge of £4.6 million to other comprehensive income in respect of the cash flow hedge reserve comprises a charge of £5.9 million on the cash flow hedge transferred to income statement less a credit of £1.3 million for the impact of the tax rate change in the year.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements, except for deferred tax on timing differences which are expected to unwind by 31 March 2023 which continues to be provided at the current rate of 19%, and except for the deferred tax liability on the surplus on the TWMIPS pension scheme which is provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income as shown above.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

As at 31 March	**2022 £m**	2021 £m
Deferred tax assets	**334.9**	166.9
Deferred tax liabilities	**(1,519.0)**	(1,225.4)
Net deferred tax liabilities	**(1,184.1)**	(1,058.5)

Notes to the company financial statements continued

42. Deferred tax continued

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Company mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is provided on the retirement benefit obligations booked in the accounts. The £60.1 million deferred tax asset at 31 March 2022 is the net of an asset of £64.3 million (25% of the deficit on the TWPS pension scheme of £257.3 million) less a liability of £4.2 million (35% of the surplus on the TWMIPS pension scheme of £12.0 million). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- Cash flow hedges: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

43. Share capital and other reserves

Share capital

	2022			2021		
As at 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Authorised, allotted, called up and fully paid:						
29,050,000 ordinary shares of £1 each (2021: 29,050,000 ordinary shares of £1 each)	29.0	–	29.0	29.0	–	29.0

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

	2022			2021		
As at 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Share premium	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	(33.2)	–	(33.2)	(59.7)	–	(59.7)
Revaluation reserve	820.1	–	820.1	903.1	–	903.1
Retained earnings	1,051.5	286.3	1,337.8	1,990.8	217.6	2,208.4
Total	1,938.4	286.3	2,224.7	2,934.2	217.6	3,151.8

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Refer to note 8 for information on the dividends paid by the Company.

44. Contingent liabilities

Contingent liabilities for the Company are consistent with the Group, as detailed in note 25.

Financial guarantees

The Company is part of a Whole Business Securitisation ("WBS") group as described in note 40. 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 Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Company will be required to make a payment under the guarantee.

45. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases that do not fall under IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Company is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt on a post swap basis as at 31 March 2022 was £13.8 billion (2021: £12.9 billion).

Notes to the company financial statements continued

46. Post balance sheet events

On 29 June 2022, the Thames Water Utilities Limited Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water Utilities Limited in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. This equity commitment of £500 million has been approved by shareholders' investment committees and is not subject to any performance-related conditions. Such funds, when drawn, are expected to be cascaded from Kemble Water Holdings Limited to Thames Water Utilities Limited via intermediate holding companies.

In April/May 2022, the Company further strengthened its financing position, through entering into a total of £300.0 million loan facilities, consisting of £150.0 million Class B due April 2029, £100.0 million Class A due May 2029 and £50.0 million Class B due August 2025. These facilities are currently undrawn. A £63.1 million Class A facility due March 2027 and £11.9 million of a Class A facility due March 2029 were repaid early in April 2022. The intercompany loans with TWUF in respect of £370.7 million Class B Revolving Credit Facilities were also repaid in April 2022.

In May/June 2022, the interest rates in respect of £1,693.4 million intercompany loans receivable and £5.5 million of intercompany borrowings were transitioned from LIBOR to SONIA. Since 31 March 2022, a total of £375.0 million has been drawn from the Class A Revolving Credit Facility by TWUF and on lent to TWUL on the same terms plus a 0.10% margin.

47. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2022			2021		
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	(1,005.2)	68.7	(936.5)	(180.9)	59.6	(121.3)
Less finance income	(122.5)	–	(122.5)	(138.2)	–	(138.2)
Add finance expense excluding interest on lease liabilities	572.3	–	572.3	409.9	–	409.9
Add interest expense on lease liabilities	3.2	–	3.2	3.4	–	3.4
Add net losses on financial instruments	743.8	–	743.8	360.4	–	360.4
Add/(less) taxation on (loss)/profit on ordinary activities	153.0	16.1	169.1	(39.5)	14.0	(25.5)
Operating profit	344.6	84.8	429.4	415.1	73.6	488.7
Depreciation on property, plant and equipment	623.7	–	623.7	559.3	–	559.3
Amortisation of intangible assets	55.6	–	55.6	51.9	–	51.9
Depreciation of right of use asset	5.7	–	5.7	8.0	–	8.0
Gain on sale of property, plant and equipment	(1.4)	–	(1.4)	(8.4)	–	(8.4)
Write-off of property, plant and equipment and intangible assets	10.0	–	10.0	–	–	–
Difference in pension charge and cash contribution[1]	(1.5)	–	(1.5)	(92.3)	–	(92.3)
Decrease/(increase) in inventory	1.9	–	1.9	(1.3)	–	(1.3)
(Increase)/decrease in trade and other receivables	(12.1)	(82.1)	(94.2)	10.7	(71.1)	(60.4)
Increase in contract assets	(11.5)	(2.7)	(14.2)	(4.6)	(4.3)	(8.9)
Increase/(decrease) in trade and other payables	76.4	1.7	78.1	(12.3)	1.0	(11.3)
Increase/(decrease) in contract liabilities	77.7	(0.1)	77.6	48.1	1.8	49.9
Group relief paid	(1.0)	–	(1.0)	–	–	–
Increase/(decrease) in provisions	41.3	–	41.3	(0.6)	–	(0.6)
Net cash generated by operating activities[1]	**1,209.4**	**1.6**	**1,211.0**	**973.6**	**1.0**	**974.6**

1 Operating cash flows for the year ended 31 March 2021 includes £nil (31 March 2021: £69.7 million) payments that are considered to be exceptional. This exceptional outflow related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying operating cash flows would have been £1,043.3 million for the year ended 31 March 2021. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2022 would be £1,186.3 million, which would have included a cash payment of £24.7 million.

Movement in cash and cash equivalents

Year ended 31 March	**2022 £m**	2021 £m
Unrestricted cash movement	12.3	(1.5)
Movement in money market funds	(80.5)	(262.2)
Total	**(68.2)**	**(263.7)**

Notes to the company financial statements continued

48. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'supply of trade' disclosure in the Annual Performance Report, published on our website.

Trading transactions

Year ended 31 March	2022 Services provided by the Company £'000	2022 Services provided to the Company £'000	2021 Services provided by the Company £'000	2021 Services provided to the Company £'000
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	**2,004**	**–**	1,936	–
Immediate parent				
Thames Water Utilities Holdings Limited	**8,270**	**–**	13,105	–
Subsidiary				
Thames Water Utilities Finance Plc	**5,999**	**345,295**	7,538	362,071
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**124**	**–**	45	–
Thames Water Commercial Services Limited	**20**	**–**	62	–
Thames Water Property Services Limited	**168**	**233**	180	193
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	**–**	**15**	–	24
Total	**16,585**	**345,343**	22,866	362,288

During the year the Company paid it's immediate parent company, Thames Water Utilities Holdings Limited, a dividend of £37.1 million (2021: £32.9 million).

Outstanding balances

The following amounts were owed to the Company from related entities, and owed to related entities by the Company at the balance sheet date:

As at 31 March	2022 Amounts owed to the Company £'000	2022 Amounts owed by the Company £'000	2021 Amounts owed to the Company £'000	2021 Amounts owed by the Company £'000
Ultimate parent				
Kemble Water Holdings Limited	**–**	**–**	5	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	**–**	**–**	1,014	–
Immediate parent				
Thames Water Utilities Holdings Limited	**1,693,422**	**10,888**	1,693,422	5,800
Subsidiary				
Thames Water Utilities Finance Plc	**335,.149**	**11,584,663**	331,650	10,968,765
Total	**2,028,571**	**11,595,551**	2,026,091	10,974,565

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