Thames Water Utilities Limited
Interim results for the six months to 30 September 2023
5 December 2023

Operational highlights

- 49% reduction in customer complaints backlog; total complaints up 13%
- 90% reduction in CRI
- 6% reduction in leakage
- 60% reduction in supply interruptions
- Thames Tideway Tunnel on track for commissioning, the third phase of improvements that will increase the health of the river by reducing combined sewer overflows by c.95%
- 10% increase in social tariff support for customers in vulnerable circumstances

Financial highlights

- Underlying Revenue up 11% to £1.2 billion
- Underlying EBITDA[1] up 22% to £627 million
- £1.0 billion invested in assets, a 30% year-on-year increase
- £3.5 billion of committed liquidity[2], underpinning our AMP7 investment programme

Refocused Turnaround Plan approved

- New three-year turnaround plan to deliver a step change in performance
- Six key operational priorities aligned to what our customers care about the most
- Builds on the good progress and foundations laid in the last two years
- Underpins delivery of our ambitious £18.7 billion PR24 business plan submitted to Ofwat

Interim Co-CEOs, Cathryn Ross and Alastair Cochran said:

"Today, we have announced a solid set of results with improvements in our key operational priorities and underlying financial performance in the first half. We've also invested a record £1 billion in the period to increase resilience in our network, improve customer service and environmental performance, and mitigate the impacts of climate change and population growth.

"We have also submitted our business plan for 2025-30 to Ofwat as part of its PR24 price review and had our refocused Turnaround Plan approved by our Board. These plans build on what we have achieved over the last two years, and will deliver a turnaround in performance and step change in investment in the areas that matter most to our customers.

"Our shareholders support this much needed investment, underscoring their commitment to delivering Thames' turnaround and life's essential service for the benefit of our customers, communities, and the environment. At the same time, we recognise our customers are continuing to face cost-of-living challenges. We've therefore further increased our social tariff support in the first half of this year and our plans for the next regulatory period set out an expectation that we will provide over 530,000 households with meaningful support with their water bills.

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[1] Calculated excluding exceptional items

[2] As at 30 September 2023; excludes £550 million of additional undrawn liquidity facilities that can be drawn in limited circumstances

"Turning around Thames will take time. We simply cannot do everything that our customers and stakeholders wish to see at a pace and for a price that everyone would like. We will continue to make the tough choices required to deliver what matters most to our customers and the environment. By being honest about what we can deliver and transparent about what we are doing, we believe we will build the trust and support we need from our customers and stakeholders if we are to succeed in our ambitious plans."

Key financials

£m	30 September 2023			30 September 2022			
	Underlying	BTL[1]	Total	Underlying	BTL[1]	Total	Total % Movement
Revenue	1,210.9	58.8	1,269.7	1,092.8	42.4	1,135.2	+12%
Operating expenses	(1,053.0)	(0.3)	(1,053.3)	(968.6)	(0.1)	(968.7)	+9%
Operating profit[2]	227.6	58.5	286.1	174.5	42.3	216.8	+32%
EBITDA[3]	627.1	58.5	685.6	513.3	42.3	555.6	+23%
Net finance expense	(208.7)	-	(208.7)	(261.0)	–	(261.0)	(20%)
Net gain on financial instruments	169.0	-	169.0	580.0	–	580.0	(71%)
Profit before tax	187.9	58.5	246.4	493.5	42.3	535.8	(54%)
Profit after tax excluding exceptional items[4]	141.8	43.9	185.7	331.7	65.9	397.6	(53%)
Profit after tax	128.4	43.9	172.3	331.7	65.9	397.6	(57%)
Operating cash flow excluding exceptional items[4]	584.8	4.9	589.7	581.8	0.6	582.4	+1%
Operating cash flow	579.1	4.9	584.0	581.8	0.6	582.4	+0%
Capital expenditure including intangibles	1,049.0	-	1,049.0	808.4	-	808.4	+30%
Net debt (statutory)	14,738.7	-	14,738.7	13,776.2	–	13,776.2	+7%
Gearing (%)[5]	79.5	-	-	80.0	–	–	(1%)
Credit Rating[6]	Baa2 (stable) / BBB (watch negative)			Baa2 (stable) / BBB (stable)			-

[1] Refer to page 25 for information about the Bazalgette Tunnel Limited ("BTL") arrangement
[2] Operating profit includes revenue and other operating income, offset by operating expenses
[3] EBITDA calculated excluding exceptional items
[4] See CFO section for more details on exceptional items
[5] Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 12
[6] Representing the consolidated Corporate Family Rating assigned by Moody's / S&P Class A debt of the securitisation group

For further information

Investors and analysts

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Media

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Our Interim Chief Executives' Review

Cathryn Ross and Alastair Cochran

Our refocused turnaround plan

Thames Water is privileged to provide life's essential service across our region. We supply 2.6 billion litres of clean drinking water to more than 10 million customers every day and treat 4.6 billion litres of sewage for more than 16 million customers. Across many areas of performance, we are in line with water industry averages. But in some other areas our performance needs to improve, including some areas of operational and environmental performance that matter most to our customers and communities. Our financial performance also needs to improve. It is clear that immediate and radical action is required.

It is not possible to address all the challenges facing Thames Water at the same time. Delivering a turnaround in performance requires a focus on the priorities that most matter now. We need to focus our resources on those outcomes that will evidence to our customers, regulators, shareholders and other stakeholders that Thames' leadership is able to navigate a way back to sustainably delivering our purpose to deliver life's essential service so our customers, communities and the environment can thrive.

We have therefore undertaken a structured and rigorous process during the first half of this year to develop a refocused, three-year Turnaround Plan. It focuses on six key operational priorities – health and safety, customer complaints, water quality, leakage, supply interruptions, and pollutions. And it will provide a springboard to deliver our ambitious plan for customers and the environment during the next regulatory period spanning 2025 to 2030 ("AMP8"). It is based on a resolute focus on understanding root cause issues and prioritising improving key outcomes. We will measure incremental progress through leading - as well as lagging - indicators, so that we know we are heading in the right direction, enabling us to build momentum before we see the material, sustained improvements in outcomes that will take time to deliver.

It also builds on good progress in recent years in building back some core internal capabilities that had been lost, in areas such as health and safety, capital delivery, some aspects of operational performance, customer contact, asset maintenance and stakeholder engagement. Basic operational performance has been improved in many areas, with significant reductions achieved in customer complaints and network blockages, whilst the ongoing Public Health Transformation Plan has reduced water quality risks (as measured by CRI).

Whilst business resilience remains fragile with frequent failures in our ageing infrastructure, we have taken a risk-based approach to improve reliability by more closely managing core assets and we have started to bring greater rigour to maintenance practices. We have also developed long-term asset plans to build resilience and redundancy that will ultimately restore operations to a level our customers expect.

Making progress

In the first half of 2023/24, we delivered improvements in several of our key operational priorities and underlying financial performance has largely improved year-on-year. However, our performance is still not where it needs to be.

Health and safety: people matter more than anything else. It is why the health, safety and wellbeing of our colleagues and customers remains our most important priority. Notwithstanding this, our health and safety performance remains an area of concern, particularly as we've experienced an increase in lost-time frequency rate in the first half of the year to 0.19 per 100,000 hours worked. In response, and as part of our refocused Turnaround Plan, we're defining a long-term measurable plan that ensures health, safety and wellbeing is at the forefront of all our activity. It addresses foundational capabilities that are essential for delivering an improvement in performance, focusing on competency, visible safety leadership, and understanding and learning from incidents, as well as supporting a reduction in work-related injuries and illnesses.

Customer complaints: our overall objective is to improve the service we offer to customers, evidenced by a reduction in the overall number of complaints, the complaints backlog, and improving our cost to serve as a result. We successfully reduced the backlog of customer complaints by 49%, a key priority in the first half and have moved up the CCW (Consumer Council for Water) performance ranking for the first time. However, work to clear the backlog has generated an increased volume of second stage complaints, which has contributed to the overall inflow increasing by 13% year-on-year to 38,872. We are undertaking detailed root cause analysis and end-to-end customer journey mapping to target improvements in billing and customer side leakage, which generate the highest proportion of complaints. In addition, investment in our digital systems and data platforms next year will deliver further sustainable improvements in customer satisfaction and complaint reductions, continuing the good progress we have made in the last two years.

Water quality: at the heart of our purpose is delivering a reliable supply of safe, high quality drinking water to our customers. Following the successful launch of our Public Health Transformation Plan last year, we have delivered a 90% reduction in our water quality compliance risk index ("CRI") to 1.19 in the first three quarters of this calendar year. This plan has been supported by complementary programmes, including improvement works at our large water treatment works in London. We are committed to maintaining these high levels of water quality performance, recognising that the CRI measure is susceptible to very small increases of risk at our large water treatment works or service reservoirs.

Leakage: performance benefitted from more benign weather conditions this year compared to last summer, with leakage down 6% year-on-year to 557.1 Ml/d. We are targeting a sustained reduction through better understanding of consumption, improved targeting of detection activities, better prioritisation of repairs (including "fixing bigger leaks faster"), improving DMA operability and availability, and driving greater productivity in our field operations. We believe that a focus on delivering sustained improvements in key leading indicators will drive down leakage over time, although we are cognizant that performance remains highly sensitive to extreme weather events and the 3-year average performance commitment target measure makes recovery from major events, such as last year's drought, difficult. We are also realistic about the scale of the challenge we face given the vulnerability of our ageing infrastructure, which is why we have proposed to invest c.£1.9 billion during the next regulatory period to start to address the decline in the health of our assets.

Supply interruptions: we made a solid start to the year, reducing supply interruptions by c.60% year-on-year to 2 mins 52 seconds, within our performance commitment target. Our Turnaround Plan targets maintaining improvements made year to date and rolling-out our Supply Interruption Strategy, which includes nine initiatives focused on addressing trunk mains bursts and inefficiencies in mains repairs, as well as improving our response to unexpected events. This will reduce underlying performance as much as possible to be able to better absorb the impact of major incidents, which are extremely difficult to forecast and mitigate, and the inherent risk associated with high levels of asset debt in our portfolio.

Pollutions: overall performance deteriorated in the first half, with category 1-3 pollutions increasing year-on-year from 217 to 257. Our Turnaround Plan addresses and mitigates the major drivers of pollutions across our wastewater network and sewage treatment works, including more proactive network cleaning and monitoring, and better prioritised reactive responses. Consequently, blockages, which cause over 40% of network pollutions, reduced by 5% in the first half of the year. As we look ahead, changes our regulators are making to the definition of pollutions are expected to increase the overall number of pollutions we report, even if there is no change in the impact we have on the environment. Notwithstanding this, we are committed to tackle the root causes of pollutions to meet the expectations of our communities and the needs of the environment.

Investing to improve performance

In the first half of this year, we increased investment in our network and assets by 30% to £1.0 billion. This material year on year increase reflected the planned increase in investment in our infrastructure to increase resilience in our network, improved customer service, and to help mitigate the dual impacts of climate change and population growth.

Notable capital programmes in the period included the renewal of critical water mains in Finsbury Park and Seven Sisters using innovative new 'Die Draw' technology, which enables water mains to be replaced without digging up the whole length of the pipe to be replaced. We're also replacing 3km of rising main at Haydon End, near Swindon, which moves sewage uphill under pressure and has experienced several bursts in recent years. As we focus on improving our wastewater performance, we've also started work on our major new sewage treatment works in Guildford, which will construct a 'state of the art' facility to accommodate population growth in the area as well as enabling development in the town.

Cleaning up rivers also continues to be a key focus and we are on the final countdown to the commissioning of the landmark Thames Tideway Tunnel, London's "super sewer". This is the third phase of improvements that together will increase the health of the River Thames by reducing combined sewer overflows by an estimated 95%, the largest ever storm discharge reduction project in the UK water sector.

Looking further ahead, we are fully committed to deliver a step change in investment and performance. This is why, between 2025 and 2030, our PR24 business plan proposes to invest a record £4.7 billion in our network and other assets to improve water security for our customers in London and the Thames Valley and deliver environmental improvements. This investment is critical to building greater resilience in the face of an ageing asset base, climate change and population growth.

Financial resilience

We continue to maintain high levels of liquidity, diversify sources of funding, pre-fund maturities and maintain a balanced debt maturity profile.

A step change in investment is being funded through a combination of customer funding, debt capital and new equity. Consequently, and as expected, both net debt and regulatory capital value increased in the first half. This resulted in senior gearing of 79.5% as at 30 September 2023, below the maximum allowed under our covenant of 95.0% and the 85.0% lock-up level.

Furthermore, the TWUL Group had total liquidity of £3.5 billion as at 30 September 2023, as well as £550 million of other undrawn liquidity facilities that can be drawn in limited circumstances. In addition, after the period end, we completed £625 million of funding transactions that further extended our liquidity runway.

As previously disclosed, our shareholders have agreed to provide a further £750 million in new equity funding across AMP7 subject to satisfaction of certain conditions. We continue to have constructive discussions with all stakeholders to satisfy these conditions and look forward to securing a PR24 price control that, in the round, allows us to both deliver record levels of investment for the benefit of the customers, communities and environment we serve, and offer investors an opportunity to earn the returns required to finance it.

Caring for customers

For over three decades Thames Water's bills have been below the industry average, despite us having the oldest network. And they are no higher today than a decade ago. To deliver water security and environmental improvements, our bills will need to rise but also be affordable. We are therefore committed to do more than ever to support customers who struggle to pay their bills.

Since launching new eligibility criteria for our social tariff, we have increased support to a further 30,000 households taking the total to 335,000 in the first half. This represents a more than doubling of the level of support provided in three years. We're proposing to increase this support further in the next regulatory period, to over half a million households, as we balance affordability with the need to ensure water security for today's customers and those of tomorrow.

A new Chairman

On 10 July, Sir Adrian Montague joined as our new Chairman. Sir Adrian is a highly experienced Chair of large infrastructure businesses and was Chair of Anglian Water Group Limited for five years between 2010 and 2015. From 2003 to 2010 he was Chair of British Energy, and he is currently the Chair of Cadent Gas Limited and Porterbrook Holdings Limited.

Chief Financial Officer's Review
Alastair Cochran

Underlying financial performance has largely improved year-on-year with material increases in revenue and EBITDA in the first six months of the 2023/24 financial year. At the same time, we've delivered record levels of investment as we ramp up our AMP7 investment programme to improve environmental performance, customer service, security of supply and the resilience of our ageing water and wastewater infrastructure.

We have also continued to maintain financial discipline, focusing on delivering operational efficiencies and maintaining strong liquidity. This has required us to make tough choices, including focusing resource and spend on the most critical areas, reducing headcount, and reprioritising capital spend. These have helped mitigate ongoing inflationary headwinds and ensure we have the committed funding in place to continue to deliver our ambitious capital programme that will benefit the customers, communities, and environment we serve.

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 Thames Water, we exclude it from our underlying results.

Revenue

Total revenue in the first half of the financial year increased by £135 million to £1,270 million. 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").

Underlying revenue for the six-month period ended 30 September 2023 increased by 11% to £1,211 million driven primarily by inflation-linked tariff increases.

Bad debt

We have a range of support options for customers in vulnerable circumstances and increased our social tariff by 10% in the period to help those who cannot afford to pay their bill in full. This means that we now support over 335,000 households with paying their bills, a 126% increase since the beginning of 2020.

Notwithstanding this extra support, our overall bad debt cost increased by £12 million to £48 million reflecting the impact of declining real wages on cash collections. The current period charge is split between a deduction of revenue of £22 million and operating expenses of £26 million.

Overall, the continued pressure of the cost of living resulted in our total bad debt charge increasing to 4.9% of underlying household revenue, a 0.9 ppts increase year on year. We are continuing to work diligently to improve bad debt performance and have implemented a range of initiatives to reduce the overall charge as a percentage of gross revenue over the medium and long term.

EBITDA

Total EBITDA (excluding exceptional items) in the first half of 2023/24 was £686 million, a 23% year-on-year increase. This was driven by revenue growth exceeding the increase in operating expenditure, as well as £22 million of other operating income from the sale of land and compensation for the relocation of assets. Exceptional items of £18 million incurred in the period related to business restructuring and transformation costs.

Underlying EBITDA, excluding amounts related to BTL and exceptional items, increased by 22% to £627 million.

The increase in underlying operating expenses (excluding depreciation, amortisation, impairment and exceptional items) was primarily driven by:

- A £29 million increase in employment costs as we invested to improve customer service by insourcing, and supported our employees through the cost-of-living crisis
- A £15 million increase in bad debt costs (excluding amounts deducted from revenue)
- A £7 million increase in rates, driven by a new valuation period
- A £5 million increase in raw materials and consumables, driven by chemical prices

Increases in operational costs were partially offset by cost efficiency initiatives, as well as higher operating income and recharges to capital as we ramped up our capital programme.

Profit before tax

Total profit before tax declined 54% to £246 million in the first half reflecting lower fair value gains on financial instruments, which more than offset a reduction in net finance expense.

A £52 million reduction in net finance expense to £209 million principally reflected the benefit of higher interest income on swaps and cash invested in money market funds and deposits, which more than offset higher interest costs on borrowings.

Non-cash net gains on financial instruments fell by £411 million to £169 million. This year-on-year decrease was driven by lower fair value gains on swaps that more than offset exchange gains on foreign exchange borrowings. We use swaps to hedge the interest rate risk, inflation risk and foreign exchange risk of our borrowings, enabling us to manage our financing risk. Fluctuations in market variables such as interest rates, inflation and foreign exchange rates, together with cash settlements during the period, generate changes in the balance sheet value of these financial instruments with the associated accounting gains or losses impacting profit.

Underlying profit before tax (excluding amounts related to BTL and exceptional costs) decreased by £288 million to £206 million.

Taxation

A total tax charge of £74 million was recognised in the first six months of 2023/24 comprising a current tax charge of £97 million, reflecting the use by TWUL Group of tax losses from other Kemble group entities, and a deferred tax credit of £23 million, which arises on the net reduction in timing differences primarily relating to fixed assets and cash flow hedges.

Profit after tax

Profit after tax was £172 million in the period, a decrease of £225 million compared to the prior comparable period, largely reflecting lower non-cash fair value gains on financial instruments.

Underlying profit after tax (excluding amounts related to BTL and exceptional items) was £142 million in the period.

Operating cash flow

Operating cash flow increased by £2 million to £584 million in the first half, with higher EBITDA offset by an increase in working capital due to the timing of billing schedules.

Underlying operating cash flow (excluding amounts related to BTL and exceptional items) increased by £3 million to £585 million in the period.

Capital expenditure

In the first six months of the financial year, we invested £1,049 million in our assets, including £97 million relating to capitalised borrowing costs. The £241 million year-on-year increase reflects the ramp up in our AMP7 investment programme to increase the resilience of our network and to help mitigate the impacts of climate change and population growth.

This included:

- £303 million invested through our in-house Capital Delivery vehicle, including: £41 million on water distribution mains replacement and rehabilitation in London and the Thames Valley; and, £20 million on the installation of new water trunk mains, including the Faringdon to Blunsdon route
- £125 million invested in our water network to reduce leakage and improve our trunk main network
- £77 million on major projects, including £34 million upgrading our major sewage treatment works at Beckton, Mogden, Greenwich and Crossness
- £16 million on connecting our network to the Thames Tideway Tunnel, including the Beckton Inlet works
- £46 million on our metering programme

Dividends

During the six-month period ended 30 September 2023, no dividends were paid to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent company.

In October 2023, following the period end, TWUL paid dividends of £37.5 million to TWUHL. These proceeds were subsequently distributed by TWUHL to Thames Water Limited and then through to Kemble Water Finance Limited ("KWF"). KWF retained the proceeds to service its - and its subsidiary Thames Water (Kemble) Finance plc's - external debt obligations.

No distributions were made to external shareholders of the group, who own shares in our ultimate parent company, Kemble Water Holdings Limited.

Pensions

We operate three pension schemes for our employees: a defined contribution scheme, to which we contributed £16 million during the first half; and two independently administered defined benefit schemes, both of which are closed to new employees. These two defined benefit schemes are the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"). TWPS was closed to future accrual as of 31 March 2021.

The triennial valuation as at 31 March 2022 for our defined benefit schemes is currently in progress. Our defined benefit schemes' accounting valuation has been updated to 30 September 2023 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net pension deficit for the two schemes as at 30 September 2023 was £173 million (31 March 2023: £176 million). The decrease in deficit was primarily due to the Internal Inflation Mechanism payment made in April 2023 into both schemes, offset by changes in actuarial assumptions in this period.

Credit ratings

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

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

Financing our investments

As we increase investment in our infrastructure, our financing strategy is to diversify our sources of funding, pre-fund maturities and maintain a balanced debt maturity profile.

As at 30 September 2023, the TWUL Group had total liquidity of £3,481 million comprising cash, short term investments and undrawn committed facilities. Separately, TWUL Group has £550 million of undrawn liquidity facilities that can only be drawn in limited circumstances.

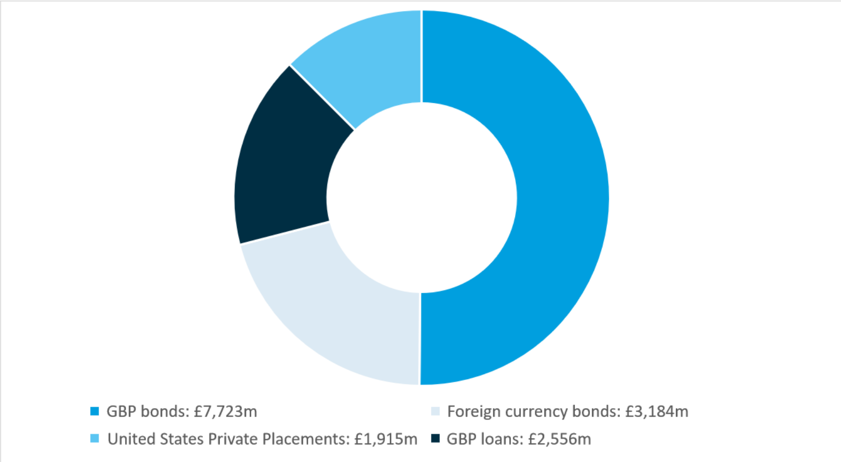
In the six-month period ended 30 September 2023, a total of £371 million Class B Revolving Credit Facilities were repaid and then redrawn in September 2023. In addition, a £300 million Class B bond was repaid in May 2023, and £11 million of amortising debt was repaid in April and May 2023.

In October 2023, after the first half period end, we completed the following funding transactions:

- a total of £530 million Class A Revolving Credit Facilities were drawn and a total of £371 million Class B Revolving Credit Facilities were repaid
- a £99 million Class A loan agreement due 2029 was fully drawn
- a £65 million Class B loan agreement due 2027 was fully drawn

- a £100 million Class A RPI loan agreement originally due 2025 and with accreted principal of £145 million was extended to 2033
- a £125 million Class A RPI loan agreement originally due 2026 and with accreted principal of £180 million was extended to 2033
- a £300 million Class A bond due 2040 was issued

The following chart provides a breakdown of gross debt of £15,378 million as at 30 September 2023, excluding cash & cash equivalents, net of unamortised issuance costs and discount, and excluding the impact of swaps and amounts owed to group undertakings.



Further information is provided in Note 10 Borrowings, line items “secured bank loans and private placements” and “bonds”.

Financial Instruments

Our borrowings, revenue and totex (“total expenditure”) are exposed to fluctuations in the external market such as changes in interest rates, inflation and foreign exchange rates. We manage these exposures by entering into derivative contracts to hedge against future changes in these rates. We only use derivatives for risk management and both the debt and derivative contracts are generally held until maturity, so there is no cash impact due to market value changes.

We have £13,270 million (notional value) of derivative financial instruments. A total net gain on financial instruments of £169 million was recognised in the income statement during the six-month period ended 30 September 2023. The gain for the current period has arisen primarily due to higher GBP interest rate expectations as well as the depreciation of Sterling against USD and CAD, partially offset by appreciation of Sterling against JPY and EUR, as compared to 31 March 2023.

During the six-month period ended 30 September 2023:

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

Gearing

As we continue to invest in the business, significantly beyond the PR19 Final Determination ("FD") allowances, our statutory net debt (as defined on page 34) increased by £780 million to £14,739 million.

The increase in net debt was accompanied by an increase in the Regulatory Capital Value ("RCV") of £641 million to £19,586 million (31 March 2023: £18,945 million), which means that senior gearing (on a covenant basis), as at 30 September 2023, was 79.5% (31 March 2023: 77.4%), below the maximum allowed under the covenant of 95.0% and the 85.0% lock-up level. The increase in gearing is mainly a result of the increase in capital investment and accretion on RPI-linked debt and swaps, partially offset by the impact of higher inflation increasing RCV.

As previously disclosed, our shareholders have agreed to provide a further £750 million in new equity funding across AMP7. This further funding is subject to satisfaction of certain conditions, including the preparation of a business plan that underpins a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over the next three years and is supported by appropriate regulatory arrangements. We continue to have constructive discussions with our regulators on the scope of both our plan and proposed regulatory arrangements. These discussions could influence the scope of our plan, the bill impact and bill profile. We continue to look forward to securing a price control that, in the round, allows us to both deliver record levels of investment for the benefit of the customers, communities and environment we serve, and offer investors an opportunity to earn the returns required to finance it.

Statement of Directors' responsibilities in respect of the interim results for the six months to 30 September 2023

The Directors confirm that the interim results for the six months to 30 September 2023 have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 4 December 2023 and signed on its behalf by:

Alastair Cochran
Interim Co-Chief Executive Officer and Chief Financial Officer

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Independent review report to Thames Water Utilities Limited

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed Thames Water Utilities Limited's condensed consolidated interim financial statements (the "interim financial statements") in the Interim results for the six months to 30 September 2023 of Thames Water Utilities Limited for the 6 month period ended 30 September 2023 (the "period").

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

The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 30 September 2023;
- the Condensed consolidated income statement and Condensed consolidated statement of other comprehensive income for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended;
- the Accounting policies; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim results for the six months to 30 September 2023 of Thames Water Utilities Limited have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

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

We have read the other information contained in the Interim results for the six months to 30 September 2023 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern
Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim results for the six months to 30 September 2023, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim results for the six months to 30 September 2023 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and the terms of its licence under the Water Industry Act 1991 which requires the Company to report as if it had issued equity share capital listed on the London Stock Exchange. In preparing the Interim results for the six months to 30 September 2023, including the interim financial statements, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim results for the six months to 30 September 2023 based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and the terms of its licence under the Water Industry Act 1991 and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
4 December 2023

Condensed consolidated income statement

For the six-month period ended 30 September

		2023			2022		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	2	1,210.9	58.8	1,269.7	1,092.8	42.4	1,135.2
Operating expenses excluding impairment losses on financial and contract assets	3	(1,026.7)	-	(1,026.7)	(956.8)	-	(956.8)
Impairment losses on financial and contract assets	3	(26.3)	(0.3)	(26.6)	(11.8)	(0.1)	(11.9)
Total operating expenses		**(1,053.0)**	**(0.3)**	**(1,053.3)**	**(968.6)**	**(0.1)**	**(968.7)**
Other operating income		69.7	-	69.7	50.3	-	50.3
Operating profit		**227.6**	**58.5**	**286.1**	**174.5**	**42.3**	**216.8**
Finance income	4	134.6	-	134.6	70.7	-	70.7
Finance expense	4	(343.3)	-	(343.3)	(331.7)	-	(331.7)
Net gains on financial instruments	4	169.0	-	169.0	580.0	-	580.0
Profit on ordinary activities before taxation		**187.9**	**58.5**	**246.4**	**493.5**	**42.3**	**535.8**
Tax (charge)/credit on profit on ordinary activities	5	(59.5)	(14.6)	(74.1)	(161.8)	23.6	(138.2)
Profit for the period		**128.4**	**43.9**	**172.3**	**331.7**	**65.9**	**397.6**

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 25.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2022/23.

Condensed consolidated statement of other comprehensive income

For the six-month period ended 30 September

		2023			2022		
		Underlying	BTL	Total	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m
Profit for the period		128.4	43.9	172.3	331.7	65.9	397.6
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial (loss)/gain on pension schemes	12	(11.9)	-	(11.9)	81.7	-	81.7
Deferred tax credit/(charge) on net actuarial (loss)/gain		4.4		4.4	(19.3)	-	(19.3)
May be reclassified to the income statement:							
Cash flow hedges transferred to income statement	11	9.3	-	9.3	11.5	-	11.5
Deferred tax charge on cash flow hedge transfer		(2.3)	-	(2.3)	(2.2)	-	(2.2)
Other comprehensive (expense)/income for the period		(0.5)	-	(0.5)	71.7	-	71.7
Total comprehensive income for the period		127.9	43.9	171.8	403.4	65.9	469.3

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2022/23.

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 25.

Condensed consolidated statement of financial position

As at

		30 September 2023			31 March 2023		
		Underlying	BTL	Total	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m
Non-current assets							
Intangible assets		249.6	-	249.6	263.3	-	263.3
Property, plant and equipment	7	18,700.5	-	18,700.5	18,017.4	-	18,017.4
Investment property		2.0	-	2.0	2.0	-	2.0
Right-of-use assets		36.5	-	36.5	39.8	-	39.8
Derivative financial assets	11	524.9	-	524.9	417.2	-	417.2
Intercompany loans receivable		1,282.9	-	1,282.9	1,249.1	-	1,249.1
Prepayments	8	-	429.8	429.8	-	377.9	377.9
Insurance and other receivables	8	52.5	-	52.5	64.6	-	64.6
Pension asset	12	-	-	-	6.0	-	6.0
		20,848.9	429.8	21,278.7	20,059.4	377.9	20,437.3
Current assets							
Inventories		28.6	-	28.6	20.9	-	20.9
Intercompany loans receivable		-	-	-	0.2	-	0.2
Contract assets	8	282.5	10.0	292.5	253.6	5.2	258.8
Trade receivables	8	679.7	34.1	713.8	315.9	16.8	332.7
Prepayments	8	66.9	-	66.9	48.8	-	48.8
Other receivables and amounts owed by group undertakings	8	56.2	-	56.2	134.4	(16.6)	117.8
Derivative financial assets	11	34.6	-	34.6	31.9	-	31.9
Cash and cash equivalents		883.1	11.9	895.0	1,829.3	7.0	1,836.3
		2,031.6	56.0	2,087.6	2,635.0	12.4	2,647.4
Current liabilities							
Contract liabilities	9	(509.7)	(20.6)	(530.3)	(130.1)	-	(130.1)
Trade and other payables		(836.0)	(31.2)	(867.2)	(821.2)	-	(821.2)
Borrowings	10	(2,135.1)	-	(2,135.1)	(2,280.5)	-	(2,280.5)
Lease liabilities		(6.9)	-	(6.9)	(7.3)	-	(7.3)
Derivative financial liabilities	11	(23.1)	-	(23.1)	(67.1)	-	(67.1)
Provisions for liabilities and charges		(40.7)	-	(40.7)	(35.0)	-	(35.0)
		(3,551.5)	(51.8)	(3,603.3)	(3,341.2)	-	(3,341.2)
Net current (liabilities)/assets		(1,519.9)	4.2	(1,515.7)	(706.2)	12.4	(693.8)
Non-current liabilities							
Contract liabilities	9	(975.5)	-	(975.5)	(921.7)	-	(921.7)
Borrowings	10	(13,445.0)	-	(13,445.0)	(13,457.4)	-	(13,457.4)
Lease liabilities		(46.7)	-	(46.7)	(49.7)	-	(49.7)
Derivative financial liabilities	11	(1,741.8)	-	(1,741.8)	(1,924.7)	-	(1,924.7)
Deferred tax liabilities		(1,165.3)	-	(1,165.3)	(1,190.2)	-	(1,190.2)
Provisions for liabilities and charges		(198.9)	-	(198.9)	(192.7)	-	(192.7)
Pension deficit	12	(172.5)	-	(172.5)	(182.0)	-	(182.0)
		(17,745.7)	-	(17,745.7)	(17,918.4)	-	(17,918.4)
Net assets		1,583.3	434.0	2,017.3	1,434.8	390.3	1,825.1
Equity							
Called up share capital[1]		49.4	-	49.4	29.0	-	29.0
Share premium		100.0	-	100.0	100.0	-	100.0
Cash flow hedge reserve		(9.1)	-	(9.1)	(16.1)	-	(16.1)
Revaluation reserve		783.2	-	783.2	795.5	-	795.5
Retained earnings		659.8	434.0	1,093.8	526.4	390.3	916.7
Total equity		1,583.3	434.0	2,017.3	1,434.8	390.3	1,825.1

[1] 20,428,000 shares with a nominal value of £1 each were issued during the reporting period to Thames Water Utilities Holding Limited, for a total value of £20,428,000. Refer to Note 15 for further detail.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the 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 25.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2022/23. The condensed interim consolidated financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 4 December 2023 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer / Interim Co-Chief Executive Officer

Condensed consolidated statement of changes in equity

For the six month period ended

	Note	Called up share capital	Share premium	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
1 April 2022		29.0	100.0	(33.2)	820.1	914.8	1,830.7
Profit for the period		-	-	-	-	397.6	397.6
Cash flow hedge transferred to the income statement	11	-	-	11.5	-	-	11.5
Deferred tax charge on cash flow hedge		-	-	(2.2)	-	-	(2.2)
Net actuarial gain on pension scheme	12	-	-	-	-	81.7	81.7
Deferred tax charge on net actuarial gain		-	-	-	-	(19.3)	(19.3)
Total comprehensive income		-	-	9.3	-	460.0	469.3
Transfer of depreciation[1]		-	-	-	(16.5)	16.5	-
Deferred tax on depreciation transfer[1]		-	-	-	5.2	(5.2)	-
30 September 2022		29.0	100.0	(23.9)	808.8	1,386.1	2,300.0
Loss for the period		-	-	-	-	(427.7)	(427.7)
Cash flow hedge transferred to the income statement	11	-	-	9.6	-	-	9.6
Deferred tax charge on cash flow hedge		-	-	(1.8)	-	-	(1.8)
Net actuarial loss on pension scheme		-	-	-	-	(12.3)	(12.3)
Deferred tax credit on net actuarial loss		-	-	-	-	2.5	2.5
Total comprehensive expense		-	-	7.8	-	(437.5)	(429.7)
Transfer of depreciation[1]		-	-	-	(16.3)	16.3	-
Deferred tax on depreciation transfer[1]		-	-	-	3.0	(3.0)	-
Dividends paid	6	-	-	-	-	(45.2)	(45.2)
31 March 2023		29.0	100.0	(16.1)	795.5	916.7	1,825.1
Profit for the period		-	-	-	-	172.3	172.3
Cash flow hedge transfer to the income statement	11	-	-	9.3	-	-	9.3
Deferred tax charge on cash flow hedge		-	-	(2.3)	-	-	(2.3)
Net actuarial loss on pension scheme	12	-	-	-	-	(11.9)	(11.9)
Deferred tax credit on actuarial loss		-	-	-	-	4.4	4.4
Total comprehensive income		-	-	7.0	-	164.8	171.8
Transfer of depreciation[1]		-	-	-	(16.4)	16.4	-
Deferred tax on depreciation transfer[1]		-	-	-	4.1	(4.1)	-
Share capital issued[2]		20.4	-	-	-	-	20.4
30 September 2023		49.4	100.0	(9.1)	783.2	1,093.8	2,017.3

[1] The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax on the fair value uplift on assets.
[2] 20,428,000 shares with a nominal value of £1 each were issued during the reporting period to the immediate parent, Thames Water Utilities Holding Limited, for a total value of £20,428,000. Refer to Note 15 for further detail.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2022/23.

Condensed consolidated statement of cash flows

For the six month period ended 30 September

	2023			2022		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Operating activities:						
Profit for period	128.4	43.9	172.3	331.7	65.9	397.6
Less finance income	(134.6)	-	(134.6)	(70.7)	-	(70.7)
Add finance expense excluding interest on lease liabilities	342.0	-	342.0	330.1	-	330.1
Add interest expense on lease liabilities	1.3	-	1.3	1.6	-	1.6
Less net gains on financial instruments	(169.0)	-	(169.0)	(580.0)	-	(580.0)
Add/(less) taxation on profit/(loss) on ordinary activities	59.5	14.6	74.1	161.8	(23.6)	138.2
Operating profit	**227.6**	**58.5**	**286.1**	**174.5**	**42.3**	**216.8**
Depreciation on property, plant and equipment	327.8	-	327.8	303.2	-	303.2
Amortisation of intangible assets	34.5	-	34.5	32.3	-	32.3
Depreciation of right of use assets	3.6	-	3.6	3.3	-	3.3
Impairment of property, plant and equipment	15.8	-	15.8	-	-	-
Less gain on sale of property, plant and equipment	(21.6)	-	(21.6)	-	-	-
Difference in pension charge and cash contribution	0.8	-	0.8	(5.9)	-	(5.9)
Increase in inventory	(7.7)	-	(7.7)	(4.0)	-	(4.0)
Increase in trade and other receivables	(373.8)	(69.3)	(443.1)	(380.4)	(49.6)	(430.0)
Decrease/(increase) in contract assets	(28.9)	(4.8)	(33.7)	0.6	0.2	0.8
Increase/(decrease) in trade and other payables	(61.1)	-	(61.1)	26.3	(5.7)	20.6
Increase in contract liabilities	450.2	20.5	470.7	417.9	13.4	431.3
Increase in provisions	11.9	-	11.9	14.0	-	14.0
Net cash generated by operating activities[1]	**579.1**	**4.9**	**584.0**	**581.8**	**0.6**	**582.4**
Investing activities:						
Purchase of property, plant and equipment [2]	(952.1)	-	(952.1)	(786.0)	-	(786.0)
Purchase of intangible assets	(20.8)	-	(20.8)	(22.4)	-	(22.4)
Proceeds from sale of property, plant and equipment[3]	4.9	-	4.9	-	-	-
Interest received	60.0	-	60.0	33.6	-	33.6
Net cash used in investing activities	**(908.0)**	**-**	**(908.0)**	**(774.8)**	**-**	**(774.8)**
Financing activities:						
New loans raised [4]	370.7	-	370.7	1,818.5	-	1,818.5
Repayment of borrowings[5]	(681.7)	-	(681.7)	(1,570.0)	-	(1,570.0)
Repayment of lease principal	(5.1)	-	(5.1)	(4.7)	-	(4.7)
Proceeds from derivative settlement[6]	-	-	-	18.9	-	18.9
Payment for derivative settlement[7]	(152.0)	-	(152.0)	(115.8)	-	(115.8)
Interest paid	(141.0)	-	(141.0)	(111.2)	-	(111.2)
Net fees paid	(8.2)	-	(8.2)	(3.9)	-	(3.9)
Net cash (used)/generated in financing activities	**(617.3)**	**-**	**(617.3)**	**31.8**	**-**	**31.8**
Net (decrease)/increase in cash and cash equivalents	(946.2)	4.9	(941.3)	(161.2)	0.6	(160.6)
Net cash and cash equivalents at beginning of period	1,829.3	7.0	1,836.3	419.8	5.2	425.0
Net cash and cash equivalents at end of period	**883.1**	**11.9**	**895.0**	**258.6**	**5.8**	**264.4**

Condensed consolidated statement of cash flows (continued)

[1] Net cash generated by operating activities for the six months ended 30 September 2023 includes £5.7 million (30 September 2022: £nil) payments that are considered to be exceptional. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to defined benefit pension upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made it would have resulted in a cash payment of £10.2 million for the six-month period ended 30 September 2023. A payment of £20.4 million for an internal inflation mechanism pension contribution payment was made on TWUL's behalf by Kemble Water Eurobond Plc, refer to note 15 for further detail. If both cash payments had been made by the Group, then the net cash generated by operating activities for the six-month period ended 30 September 2023 would be £553.4 million.

[2] Purchase of property, plant and equipment includes an adjustment to account for the cash on accruals relating to additions of capital investment in the period, therefore this figure does not tie to the additions in Note 7.

[3] Proceeds from sale of property, plant and equipment for the six months ended 30 September 2023 (30 September 2022: £nil) does not include £16.7 million of disposal presented in other operating income, which was in exchange for land (non-cash).

[4] New loans raised of £370.7 million relates to drawdowns from the Class B revolving credit facilities. In the comparative period ended 30 September 2022, new loans raised was £1,818.5 million consisting of £1,050.0 million drawdowns from Class A revolving credit facilities, £370.7 million drawdowns from Class B revolving credit facilities and £397.8 million (net of fees) relating to loans raised.

[5] Repayment of borrowings of £681.7 million (30 September 2022: £1,570.0 million) includes £370.7 million of repayments relating to Class B revolving credit facilities (2022: £650.0 million Class A revolving credit facilities and £370.7 million Class B revolving credit facilities). The remaining amount includes £10.1 million loan repayments and £300.9 million bond repayments (30 September 2022: £133.9 million loan repayments and £415.4 million bond repayments).

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

[7] Payment for derivative settlement of £152.0 million relates to accretion paydown on index-linked swaps (30 September 2022: £111.6 million). For the six month period ended 30 September 2022, £4.2 million related to settlement of cross currency swaps, £nil for the current period.

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 25.

The accounting policies included within this interim report and condensed consolidated financial statements are an integral part of these condensed financial statements and should be read in conjunction with the accounting policies included in the Thames Water Annual Report 2022/23.

Accounting policies

General information

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

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

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

Statement of compliance

These consolidated interim condensed financial statements of the Group have been prepared on the basis of the policies set out in the March 2023 Annual Report in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority.

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report for the year ended 31 March 2023 which were prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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

Principal risks and uncertainties

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

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

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

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

Accounting policies (continued)
Basis of preparation (continued)

The condensed interim consolidated financial statements for the six months ended 30 September 2023, set out on pages 16 to 21, 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

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

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

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

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

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

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

- It is based on a common set of terms for secured creditors that also facilitates debt raising across a range of facilities and debt instruments
- It establishes a contractual ringfence that enhances the licence ringfence and requires the Group to be clearly segregated from other parts of the Kemble Water Holdings Limited group and their financing arrangements

Accounting policies (continued)

Going concern (continued)

- There are controls on the Group's activities to ensure a focus is maintained on delivering its regulated business
- There is a framework of financial covenants, historical and prospective, requiring continual monitoring and these are underpinned by information undertakings requiring formal, bi-annual confirmation of compliance
- The WBS is designed to enable the Group to continue to operate through situations where there is financial stress and to maintain sufficient committed liquidity to service debt.

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

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

The Directors have also considered the consequences of a 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 committed facilities. A Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the 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. A cash lockup prevents distributions from Thames Water Utilities Limited to protect the interests of creditors and customers.

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

Basis of consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company and its sole subsidiary. A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns. Refer to the 'General information' section for information on the Group.

IBOR reform

The UK Financial Conduct Authority ("FCA") had concluded that the underlying market that the London Inter-Bank Offered Rate ("LIBOR") was derived from was no longer used in any significant volume and so the rates submitted by banks to sustain the LIBOR rate were often based (at least in part) on expert judgement rather than actual transactions. As a result, after the end of 2021, GBP LIBOR is no longer supported as a benchmark and GBP LIBOR has transitioned ("IBOR reform") to the new Sterling benchmark the Sterling Overnight Index Average ("SONIA").

The Group established a project to oversee the GBP LIBOR transition plan. This transition project included changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The transition has largely been completed, although some transactions with LIBOR references have not yet transitioned; this is expected to be completed by year ended 31 March 2024.

Refer to the IBOR reform section included in Note 11 Fair value of financial instruments on page 39 for details of all of the financial instruments that the Group holds at 30 September 2023 which contain references to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

Accounting policies (continued)

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, assets under construction and buildings are acquired by the Group and will be recognised within Land and Buildings and Assets Under Construction within Property, Plant and Equipment. These will be disposed of in future financial periods once construction is completed.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of PP&E are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

New standards and amendments

IFRS 17 'Insurance Contracts' impact assessment

IFRS 17 'Insurance Contracts', which replaces IFRS 4 'Insurance Contracts', establishes new principles for the recognition, measurement, presentation, and disclosure of insurance and reinsurance contracts and is mandatory for annual reporting periods beginning on or after 1 January 2023. The Group has adopted IFRS 17 as at 1 April 2023 and applied the new rules retrospectively.
Management conducted an assessment on the impact of IFRS 17, see below for the impact on the accounting for our financial guarantee contracts.

Financial guarantee contracts

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

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

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

Exceptional items

Within our accounts we have disclosed exceptional items, these are recognised in line with our updated policy stated below.

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.

Accounting policies (continued)

Exceptional items (continued)

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.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Annual Report for the year ended 31 March 2023.

Seasonality and cyclic nature of operations

Fluctuations in the billing cycle across the year impact balances reported in our Statement of Financial Position, see Note 8 Trade and other receivables and Note 9 Contract liabilities for further information.

Notes to the condensed consolidated financial statements

1. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Team. The Executive Team is responsible for the day-to-day running of the business and consequently the Executive Team is considered to be the Chief Operating Decision Maker ("CODM") of the Group.

In line with the Group's structure 'One Thames' all operational functions are included in a single business unit, enabling an end-to-end view of customer journeys and integrated resource management. Certain operational costs are split regionally by London and the Thames Valley and Home Counties, however revenue, overheads and capital expenditure are reported to the CODM at the group level.

The Group is subject to economic regulation by Ofwat and operates under a licence to provide water and wastewater services within a defined geographical region, being London, the Thames Valley and the surrounding area, therefore management considers the UK to be the geographical location of business.

From 1 April 2017, our customer profile changed following the sale of our non-household retail business to Castle Water Limited. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer.

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

Segmental performance

EBITDA is a key performance metric used by management. A segmental analysis of EBITDA and the management revenue figures has been presented with a reconciliation to statutory revenue and profit/(loss) before tax below:

For the six month period ended 30 September	2023 £m	2022 £m
Management revenue	1,232.3	1,116.7
Net operating expenses before depreciation and amortisation	(685.8)	(652.9)
Other operating income	25.0	4.9
Management EBITDA	**571.5**	**468.7**
IFRS 16 adjustment[1]	3.8	4.8
Statutory recognition of other operating income[2]	34.7	35.4
Statutory reclassification of pension costs[3]	(0.8)	(2.8)
Household BTL revenue[4]	48.4	35.0
Non-household BTL revenue[4]	10.5	7.6
Other statutory adjustments[5]	(0.3)	6.9
Exceptional costs[6]	17.8	-
EBITDA post statutory adjustments and adjusted for exceptional items	**685.6**	**555.6**
Less exceptional costs	(17.8)	-
Depreciation of property, plant and equipment	(327.8)	(303.2)
Depreciation of right-of-use assets	(3.6)	(3.3)
Amortisation of intangible assets	(34.5)	(32.3)
Impairment of property, plant and equipment	(15.8)	-
Total statutory operating profit before finance income/expenses	**286.1**	**216.8**
Finance income	134.6	70.7
Finance expense	(343.3)	(331.7)
Net gains on financial instruments	169.0	580.0
Total statutory profit before tax	**246.4**	**535.8**

[1] The management numbers do not recognise any balances associated with IFRS 16. The expense is recognised proportionally over the lease term rather than interest and depreciation.
[2] Other operating income includes 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 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. This excludes a bad debt charge of £0.1 million (six-month period ended 30 September 2022: £0.2 million) recognised within revenue in the Income Statement.
[5] These amounts relate to accruals and other statutory only adjustments not included in management numbers.
[6] Exceptional costs relate to restructuring and transformation expenditure incurred as a result of significant restructuring of the business.

Notes to the condensed consolidated financial statements (continued)

1. Segmental analysis (continued)

Revenue – Management to statutory reconciliation

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

For the six month period ended 30 September	2023 £m	2022 £m
Management revenue	1,232.3	1,116.7
Household BTL revenue	48.4	35.0
Non-household BTL revenue	10.5	7.6
Statutory reclassification of bad debt from operating expenditure[1]	(21.5)	(24.1)
Total statutory revenue	**1,269.7**	**1,135.2**

[1] This relates to amounts billed that are not probable of being recovered and therefore excluded from statutory revenue in line with the requirements of IFRS 15 revenue. In the current six-month period ended 30 September 2023, £21.4 million relates to management revenue (six-month period ended 30 September 2022: £23.9 million) and £0.1 million relates to BTL revenue (six-month period ended 30 September 2022: £0.2 million).

2. Revenue

For the six month period ended 30 September	2023			2022		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Gross revenue	1,232.3	58.9	1,291.2	1,116.7	42.6	1,159.3
Charge for bad and doubtful debts	(21.4)	(0.1)	(21.5)	(23.9)	(0.2)	(24.1)
Total	**1,210.9**	**58.8**	**1,269.7**	**1,092.8**	**42.4**	**1,135.2**

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. The Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected it is paid over to BTL under the 'pay when paid' principle. The revenue on this arrangement has been disclosed separately to the Group's underlying performance in the table above, which is consistent with our financial covenants. 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 six month period ended 30 September	2023 £m	2022 £m
Household market:		
Water services	426.4	367.0
Wastewater services	490.8	466.8
Retail services	72.1	58.6
Total gross revenue from household market	**989.3**	**892.4**
Non-household market:		
Water services	122.4	105.6
Wastewater services	99.7	97.1
Retail services	0.4	0.5
Total gross revenue from non-household market	**222.5**	**203.2**
Gross revenue from principal services[1]	**1,211.8**	**1,095.6**
Other appointed revenue[2]	8.9	9.0
Total appointed revenue	**1,220.7**	**1,104.6**
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)[3]	11.6	12.1
Total gross underlying revenue	**1,232.3**	**1,116.7**
Thames Tideway Tunnel revenue	58.9	42.6
Total gross revenue	**1,291.2**	**1,159.3**

All revenue is derived from activities based in the UK.

Notes to the condensed consolidated financial statements (continued)

2. Revenue (continued)

[1] Gross revenue from principal services relates to appointed revenue which is revenue generated from the regulated activities of the Company as defined in Condition A of its licence of appointment. These are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.
[2] Other appointed revenue is revenue generated from appointed activities but is not governed by the price control. These activities mainly include bulk supplies.
[3] Non-appointed revenue is revenue generated from non-appointed activities. These activities include third-party discharges to sewage treatment works and other commercial activities including developer services, property searches and cess treatment (treatment of waste from private receptacles not linked to the network).

3. Operating expenses

For the six month period ended 30 September	2023			2022		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Wages and salaries	211.2	-	211.2	179.7	-	179.7
Social security costs	21.2	-	21.2	20.4	-	20.4
Pension costs – defined benefit schemes	1.3	-	1.3	2.9	-	2.9
Pension costs – defined contribution schemes	16.3	-	16.3	13.8	-	13.8
Apprenticeship levy	1.2	-	1.2	5.5	-	5.5
Total employee costs	**251.2**	**-**	**251.2**	**222.3**	**-**	**222.3**
Power	110.1	-	110.1	111.8	-	111.8
Raw materials and consumables	43.2	-	43.2	37.8	-	37.8
Rates	65.5	-	65.5	58.2	-	58.2
Research and development expenditure	6.4	-	6.4	1.7	-	1.7
Insurance	27.7	-	27.7	27.1	-	27.1
Legal and professional fees	13.3	-	13.3	9.3	-	9.3
Other operating costs[1]	261.0	-	261.0	276.9	-	276.9
Own work capitalised	(151.2)	-	(151.2)	(127.1)	-	(127.1)
Net operating expenses before depreciation and amortisation	**627.2**	**-**	**627.2**	**618.0**	**-**	**618.0**
Depreciation of property, plant and equipment	327.8	-	327.8	303.2	-	303.2
Depreciation of right-of-use assets	3.6	-	3.6	3.3	-	3.3
Amortisation of intangible assets	34.5	-	34.5	32.3	-	32.3
Impairment of property, plant and equipment	15.8	-	15.8	-	-	-
Net operating expenses excluding impairment losses on financial and contract assets	**1,008.9**	**-**	**1,008.9**	**956.8**	**-**	**956.8**
Exceptional costs						
Restructuring and transformation[2]	17.8	-	17.8	-	-	-
Net operating expenses excluding impairment losses on financial and contract assets	**1,026.7**	**-**	**1,026.7**	**956.8**	**-**	**956.8**
Impairment losses on financial and contract assets	26.3	0.3	26.6	11.8	0.1	11.9
Total operating expenses	**1,053.0**	**0.3**	**1,053.3**	**968.6**	**0.1**	**968.7**

[1]Other operating costs primarily relate to costs for contracted services and repairs and maintenance of assets, including associated labour costs, which are not shown within employee costs above and do not qualify as capital expenditure under IAS 16: *Property, plant and equipment*.
[2]Exceptional costs of £17.8m relate to restructuring and transformation expenditure incurred as a result of significant restructuring of the business. These costs are considered exceptional in nature with additional significant expenditure to be incurred that is not in the ordinary course of the business. The tax impact of exceptional items is a reduction in the tax charge in the income statement of £4.5 million (2022: £nil) applying the 25% corporation tax rate (2022: 19%).

4. Finance income and expense and net gains on financial instruments

During the six months ended 30 September 2023, the Group recognised finance income of £134.6 million (Six months ended 30 September 2022: £70.7 million) relating mainly to interest on swaps, intercompany loans receivable and bank deposits.

The Group also recognised finance expenses of £343.3 million (Six months ended 30 September 2022: £331.7 million) relating mainly to interest and accretion on borrowings, and interest on defined benefit pension obligations and leases.

For the six month period ended 30 September	2023 £m	2022 £m
Finance income	134.6	70.7
Finance expense	(343.3)	(331.7)
Net finance expense	**(208.7)**	**(261.0)**

Net gains on financial instruments

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

For the six month period ended 30 September	2023 £m	2022 £m
Net exchange gains/(losses) on foreign currency borrowings	35.8	(224.8)
Net gains arising on swaps where hedge accounting is not applied[1]	142.5	816.3
Loss on cash flow hedge transferred from equity[2]	(9.3)	(11.5)
Net gains on financial instruments	**169.0**	**580.0**

[1] Net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations and depreciation of GBP against USD and CAD. The amount includes the fair value of £254.0 million (Six months ended 30 September 2022: £335.5 million) accreted on index-linked swaps during the period. In September 2023, £93.8 million was paid to early settle £100.8 million accretion on index-linked swaps. The difference of £7.0 million reflects the discount for early repayment.
[2] Refer to note 11 "Fair value of financial instruments" on page 36 for more information on the loss on cash flow hedge transferred from equity.

5. Taxation

For the six month period ended 30 September	2023			2022		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Current tax:						
Amounts payable/ (receivable) in respect of group relief [1]	82.3	14.6	96.9	(34.1)	-	(34.1)
Adjustments in respect of prior periods [2]	-	-	-	23.6	(23.6)	-
	82.3	**14.6**	**96.9**	**(10.5)**	**(23.6)**	**(34.1)**
Deferred tax:						
Origination and reversal of timing differences	(22.8)	-	(22.8)	172.3	-	172.3
	(22.8)	**-**	**(22.8)**	**172.3**	**-**	**172.3**
Tax charge/(credit) on profit/(loss) on ordinary activities	**59.5**	**14.6**	**74.1**	**161.8**	**(23.6)**	**138.2**

[1] The Group has net taxable profits for the six months to 30 September 2023 and expects to buy £96.9 million of group relief from group companies at the 25% standard rate of corporation tax. In the prior period, the Group had tax losses for the six months to 30 September 2022 and expected to sell these to group companies for £34.1 million at the 19% standard rate of corporation tax.
[2] The profits of BTL are taxable. As explained in the interim report for the prior year, BTL had a prior year adjustment which reversed current tax charges booked previously, where they related to tax losses provided by the underlying business; the corresponding current tax credit shown for the underlying business was also adjusted.

5. Taxation (continued)

The corporation tax charge is based upon the standard rate of corporation tax in the UK of 25% (six-month period ended 30 September 2022: 19%). The interim corporation tax charge for the six-month period ended 30 September 2023 is based on the forecast effective tax rate for the full year to 31 March 2024 applied to the profits earned in the six months to 30 September 2023.

The Group is not currently in a cash tax paying position with HMRC (although it does pay for group relief on taxable profits), 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). In the prior period, the Group had tax losses of its own and so did not buy group relief but instead expected to sell tax losses to group companies.

The tax charge for the six-month period ended 30 September 2023 is higher than the standard rate of corporation tax in the UK. The differences between profit on ordinary activities before taxation at the standard corporation tax rate and the total tax charge for the period are caused by disallowable costs less non-taxable income. As explained in the interim report for the prior year, the tax charge for the six-month period ended 30 September 2022 was higher than the standard rate of corporation tax in the UK because of the impact of the tax rate change on timing differences unwinding in the period.

6. Dividends

During the six months ended 30 September 2023, the Company paid no dividends (year ended 31 March 2023: £45.2 million; six months ended 30 September 2022: £nil) to its immediate parent Thames Water Utilities Holdings Limited ("TWUHL").

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

	Six months ended 30 September 2023 £m	Year ended 31 March 2023 £m	Six months ended 30 September 2022 £m
Distribution to external shareholders:			
External dividend distributions	-	-	-
	-	-	-
Distributions not distributed to external shareholders:			
Kemble Water Finance Limited debt service costs	-	42.4	-
Distribution to Thames Water Limited	-	2.8	-
	-	45.2	-
Total	**-**	**45.2**	**-**

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (31 March 2023: £nil).

In the prior year, the Company paid a dividend of £45.2 million to TWUHL. TWUHL distributed the proceeds to Thames Water Limited ("TWL"). TWL then retained £2.8 million to fund activities of the company. The remaining £42.4 million was distributed by TWL to Kemble Water Finance Limited ("KWF") to service debt obligations for its own external debt, and external debt of a subsidiary of KWF, Thames Water (Kemble) Finance plc ("TW(K)F"), which have been on lent to KWF via an intercompany loan.

External shareholders above is referring to shareholders of Kemble Water Holdings Limited ("Kemble").

In October 2023, the Company paid a dividend of £37.5 million to TWUHL. TWUHL distributed the proceeds to TWL, who then distributed the proceeds to KWF. KWF retained the proceeds solely to service debt obligations of its own external debt and debt of its subsidiary TW(K)F.

7. Property, plant and equipment

	Total £m
Cost:	
At 1 April 2022	24,321.0
Additions	1,724.9
Transfers between categories	-
Disposals	(2.8)
At 31 March 2023	26,043.1
Additions	1,026.8
Transfers between categories	-
Disposals	(3.2)
At 30 September 2023	27,066.7
Accumulated Depreciation:	
At 1 April 2022	(7,371.2)
Depreciation charge	(637.3)
Impairment loss	(18.2)
Disposals	1.0
At 31 March 2023	(8,025.7)
Depreciation charge	(327.8)
Impairment loss	(15.8)
Disposals	3.1
At 30 September 2023	(8,366.2)
Net book value at 31 March 2023	18,017.4
Net book value at 30 September 2023	18,700.5

Notes to the condensed consolidated financial statements (continued)

8. Trade and other receivables

Non-current

As at	30 September 2023			31 March 2023		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Prepayments	-	429.8	429.8	-	377.9	377.9
Insurance claims receivable	42.0	-	42.0	33.9	-	33.9
Other receivables	10.5	-	10.5	30.7	-	30.7
Insurance and other receivables	**52.5**	**-**	**52.5**	**64.6**	**-**	**64.6**
Total[1]	**52.5**	**429.8**	**482.3**	**64.6**	**377.9**	**442.5**

Current

As at	30 September 2023			31 March 2023		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Gross trade receivables	819.6	38.5	858.1	468.9	21.0	489.9
Less expected credit losses provision	(139.9)	(4.4)	(144.3)	(153.0)	(4.2)	(157.2)
Trade receivables[2]	**679.7**	**34.1**	**713.8**	**315.9**	**16.8**	**332.7**
Prepayments	66.9	-	66.9	48.8	-	48.8
Insurance claims receivable	10.1	-	10.1	-	-	-
Other receivables	42.5	-	42.5	49.0	-	49.0
Amounts owed by group undertakings	3.6	-	3.6	3.1	-	3.1
Amounts receivable in respect of group relief	-	-	-	82.3	(16.6)	65.7
Contract assets	282.5	10.0	292.5	253.6	5.2	258.8
Total	**1,085.3**	**44.1**	**1,129.4**	**752.7**	**5.4**	**758.1**

[1] Non-current prepayments at 30 September 2023 of £429.8 million (31 March 2023: £377.9 million) relate to the Bazalgette Tunnel Limited ("BTL") arrangement. The prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.
[2] The TWUL billing cycle means that the timing of bills for unmeasured customers results in a large increase in the net trade receivables balance of £381.1 million to £713.8 million (31 March 2023: £332.7 million; six month period to 30 September 2022 £685.6 million). This balance will reduce over the second half of the year.

Net contract assets at 30 September 2023 include £213.6 million (31 March 2023: £178.2 million) of unbilled services provided to metered household customers. Included within this amount is £8.8 million of bad debt provision (31 March 2023: £8 million). The remaining amount is for accrued non-household income, accrued capital contributions and accrued income from the BTL arrangement.

9. Contract liabilities

The TWUL billing cycle means that the timing of bills for unmeasured customers results in a large increase in the deferred income at the interim balance sheet date, being the primary driver for the increase in current contract liabilities of £400.2 million to £530.3 million (31 March 2023: £130.1 million). This balance will reduce over the second half of the year. Additionally, within this balance there is a decrease in receipts in advance from customers for water and wastewater charges of £46.1 million to £26.9 million (31 March 2023: £73.0 million).

Non-current contract liabilities have increased by £53.8 million to £975.5 million (31 March 2023: £921.7 million). The main driver is an increase in nil cost "adopted" assets and infrastructure charges received in the year.

Notes to the condensed consolidated financial statements (continued)

10. Borrowings

As at	30 September 2023 £m	31 March 2023 £m
Secured bank loans and private placements	4,471.2	4,427.9
Bonds	10,906.9	11,121.8
Amounts owed to Group undertakings	5.5	5.5
	15,383.6	**15,555.2**
Interest payable on borrowings	196.5	182.7
Total	**15,580.1**	**15,737.9**
Disclosed within non-current liabilities	13,445.0	13,457.4
Disclosed within current liabilities	2,135.1	2,280.5
Total	**15,580.1**	**15,737.9**

During the six months ended 30 September 2023, the Group drew down £370.7 million debt under its revolving credit facilities. The Group also repaid £681.7 million debt (principal and related accretion) including £370.7 million relating to revolving credit facilities and £311.0 million relating to bonds and loans.

The Company, its wholly owned financing subsidiary TWUF and its immediate parent, Thames Water Utilities Holdings Limited ("TWUHL") are the Obligors within a whole business securitisation group. Secured bank loans, private placements and bonds are in an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, TWUHL guaranteed the obligations of each other Obligor under the finance agreement. Additionally, the Company, and TWUF, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. Following the transition to IFRS 17, the Group made the election to apply the requirements in IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments' to these financial guarantee contracts. Refer to the accounting policies on page 25 for more information.

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

As at	30 September 2023 £m	31 March 2023 £m
Secured bank loans and private placements	(4,471.2)	(4,427.9)
Bonds	(10,906.9)	(11,121.8)
Lease liability	(53.6)	(57.0)
Amounts owed to Group undertakings	(5.5)	(5.5)
Interest payable on borrowings	(196.5)	(182.7)
	(15,633.7)	**(15,794.9)**
Cash and cash equivalents	895.0	1,836.3
Net debt (statutory basis)	**(14,738.7)**	**(13,958.6)**
Reconciliation to net debt (covenant basis):		
Interest payable on borrowings	196.5	182.7
Amounts owed to Group undertakings	5.5	5.5
Unamortised debt issuance costs and discount	(80.2)	(85.0)
Relevant derivative financial liabilities (Accretion and FX)	(969.8)	(831.7)
Unamortised IFRS 9 adjustment	22.8	23.1
Cash not relevant/(relevant) for covenant	(3.2)	(0.2)
Net debt (covenant basis)	**(15,567.1)**	**(14,664.2)**
Equity attributable to owners of the Group	**(2,017.3)**	**(1,825.1)**

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment; and includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rates on cross

10. Borrowings (continued)

currency swaps held in the Group and cash to be adjusted 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 the immediate parent Thames Water Utilities Holdings Limited £5.2 million (31 March 2023: £5.2 million) and from the parent of the immediate parent Thames Water Limited £0.3 million (31 March 2023: £0.3 million).

11. Fair value of financial instruments

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Group are as follows:

Financial assets:

As at	30 September 2023 £m	31 March 2023 £m
Fair value through profit and loss:		
Cross currency swaps	180.3	150.8
Interest rate swaps	341.4	257.4
Index-linked swaps	37.8	40.9
Cash and cash equivalents – money market funds	624.1	1,226.2
	1,183.6	**1,675.3**
Amortised cost:		
Intercompany loans receivable	1,282.9	1,249.3
Insurance and other receivables (excluding prepayments)	52.5	64.6
Trade and other receivables (excluding prepayments)	770.0	384.8
Cash and cash equivalents – short term investments	225.0	605.0
Cash and cash equivalents – cash at bank and in hand	45.9	5.1
	2,376.3	**2,308.8**
Total	**3,559.9**	**3,984.1**

Financial liabilities:

As at	30 September 2023 £m	31 March 2023 £m
Fair value through profit and loss:		
Cross currency swaps	(77.5)	(95.4)
Interest rate swaps	(378.8)	(316.3)
Index-linked swaps	(1,308.6)	(1,580.1)
	(1,764.9)	**(1,991.8)**
Amortised cost:		
Trade and other payables (excluding other taxation and social security)	(825.0)	(810.9)
Borrowings	(15,580.1)	(15,737.9)
Lease liabilities	(53.6)	(57.0)
	(16,458.7)	**(16,605.8)**
Total	**(18,223.6)**	**(18,597.6)**

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 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.

11. Fair value of financial instruments (continued)

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate, index-linked and cross currency swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. 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 30 September 2023:

	Level 2[1]	
As at	30 September 2023	31 March 2023
	£m	£m
Financial assets – derivative financial instruments		
Cross currency swaps	180.3	150.8
Interest rate swaps	341.4	257.4
Index-linked swaps	37.8	40.9
	559.5	449.1
Financial liabilities – derivative financial instruments		
Cross currency swaps	(77.5)	(95.4)
Interest rate swaps	(378.8)	(316.3)
Index-linked swaps	(1,308.6)	(1,580.1)
	(1,764.9)	(1,991.8)
Net total	(1,205.4)	(1,542.7)

[1] The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties.

During the six months ended 30 September 2023, £9.3 million (six-month period ended 30 September 2022: £11.5 million) was recycled from the cash flow hedge reserve to the income statement, see "Condensed consolidated statement of changes in equity" on page 19. The amounts recognised on cash flow hedge reserve are recycled to income statement as a phased release over the relevant hedging period and where the related debt has been issued and has not matured.

Notes to the condensed consolidated financial statements (continued)

11. Fair value of financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Group's financial assets and financial liabilities are set out in the tables below.

Financial assets:

As at	30 September 2023		31 March 2023	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current:				
Intercompany loans receivable[1]	1,282.9	1,282.9	1,249.1	1,249.1
Derivative financial instruments				
Cross currency swaps	145.7	145.7	118.9	118.9
Interest rate swaps	341.4	341.4	257.4	257.4
Index-linked swaps	37.8	37.8	40.9	40.9
Insurance and other receivables (excluding prepayments)	52.5	52.5	64.6	64.6
	1,860.3	**1,860.3**	**1,730.9**	**1,730.9**
Current:				
Cash and cash equivalents	895.0	895.0	1,836.3	1,836.3
Intercompany loans receivable[1]	-	-	0.2	0.2
Trade and other receivables (excluding prepayments)	770.0	770.0	384.8	384.8
Derivative financial instruments				
Cross currency swaps	34.6	34.6	31.9	31.9
	1,699.6	**1,699.6**	**2,253.2**	**2,253.2**
Total	3,559.9	3,559.9	3,984.1	3,984.1

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

Notes to the condensed consolidated financial statements (continued)

11. Fair value of financial instruments (continued)

Financial liabilities:

As at	30 September 2023		31 March 2023	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Non-current				
Borrowings				
Secured bank loans and private placements	(3,302.4)	(2,856.3)	(3,405.4)	(3,280.5)
Bonds	(10,137.1)	(8,119.2)	(10,046.5)	(9,419.5)
Amounts owed to Group undertakings	(5.5)	(5.5)	(5.5)	(5.5)
Derivative financial instruments				
Cross currency swaps	(54.4)	(54.4)	(81.7)	(81.7)
Interest rate swaps	(378.8)	(378.8)	(316.3)	(316.3)
Index-linked swaps	(1,308.6)	(1,308.6)	(1,526.7)	(1,526.7)
Lease liabilities	(46.7)	(46.7)	(49.7)	(49.7)
	(15,233.5)	(12,769.5)	(15,431.8)	(14,679.9)
Current				
Borrowings				
Secured bank loans and private placements	(1,168.8)	(1,162.3)	(1,022.5)	(1,021.2)
Bonds	(769.8)	(763.0)	(1,075.3)	(1,058.8)
Interest payable	(196.5)	(196.5)	(182.7)	(182.7)
Derivative financial instruments				
Cross currency swaps	(23.1)	(23.1)	(13.7)	(13.7)
Index linked swaps	-	-	(53.4)	(53.4)
Trade and other payables (excluding other taxation and social security)	(825.0)	(825.0)	(810.9)	(810.9)
Lease liabilities	(6.9)	(6.9)	(7.3)	(7.3)
	(2,990.1)	(2,976.8)	**(3,165.8)**	**(3,148.0)**
Total	(18,223.6)	(15,746.3)	**(18,597.6)**	**(17,827.9)**

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds (level 1 inputs to valuation technique). For private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Group's credit spread, foreign currency values are then translated at the spot rate.

The fair value of floating rate debt instruments is assumed to be the nominal value of the loan adjusted for credit risk if this is significant. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued, future interest costs and accretion expected to accrue to maturity, discounted using a risk-free rate plus the Group's credit spread. Amounts owed by group undertakings includes two floating rate loans and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

Notes to the condensed consolidated financial statements (continued)

11. Fair value of financial instruments (continued)

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 30 September 2023 and 31 March 2023 which contain references to GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying Value at 30 September 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	-	(88.6)	-	(88.6)
Amortised cost				
Borrowings[2]	-	(1,022.2)	-	(1,022.2)
Total assets and liabilities exposed to GBP LIBOR	**-**	**(1,110.8)**	-	(1,110.8)

[1] Consists of £88.6 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
[2] Consists of £1,022.2 million external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. In October 2023, the terms of £326.0 million of the £1,022.2 million external debt was amended and no longer has LIBOR references.

	Carrying Value at 31 March 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	-	(111.4)	-	(111.4)
Amortised cost				
Borrowings[2]	-	(993.9)	-	(993.9)
Total assets and liabilities exposed to GBP LIBOR	**-**	**(1,105.3)**	**-**	**(1,105.3)**

[1] Consists of £111.4 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however these have LIBOR references in the documentation.
[2] Consists of £993.9 million relating to external debt where the interest rate is not directly linked to LIBOR, however this has LIBOR references in the documentation.

12. 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 £16.3 million (six-month period ended 30 September 2022: £13.8 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £4.2m outstanding contributions as at 30 September 2023 (31 March 2023: £0.1 million) recognised in the statement of financial position. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes Company's eligible employees are provided through two defined benefit pension schemes: • Thames Water Pension Scheme ("TWPS"); and • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both now are career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the pension trustees. TWMIPS has been closed to new entrants since 1989 and TWPS since April 2011. Both schemes are closed to new employees. TWPS was closed to future accrual as of 31 March 2021.	In a defined benefit pension scheme the benefits: • are defined by the scheme rules; • depend on a number of factors including age, years of service and pensionable pay; and • do not depend on contributions made by the members or the Company	A charge was recognised in the income statement of £5.5 million (six-month period ended 30 September 2022: £6.2 million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; and • the net interest expense on pension scheme assets and liabilities An actuarial loss of £11.9 million (six-month period ended 30 September 2022: gain of £81.7 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic of the scheme members when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense. A pension deficit of £1.7 million (31 March 2023: £6.0 million surplus) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £170.8 million (31 March 2023: £182.0 million) is recognised in the statement of financial position for the TWPS scheme. As at 30 September 2023, the net pension deficit is £172.5 million (31 March 2023: £176.0 million). A company contribution of £20.9 million (six-month period ended 30 September 2022: £9.2 million) was made during the six-month period to 30 September 2023. £20.4 million of this contribution was paid by Kemble Water Eurobond Plc on TWUL's behalf, refer to note 15 for further detail. The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

12. Retirement benefit obligations (continued)

In addition to the cost of the defined benefit pension arrangements, the cost of providing enhanced benefits under the Thames Water Mirror Image Pension Scheme for early retirement are met by employer augmentation payments. These augmentations are funded by way of additional employer contributions to the schemes. None were paid in the six-month period to 30 September 2023 (six-month period ended 30 September 2022: £nil).

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the trustees of the pension schemes and the Group. The purpose of this triennial valuation is to evaluate and, if necessary, modify the funding plans of the pension schemes to ensure the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the two schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million). The next triennial valuation based on the 31 March 2022 position is currently ongoing.

This funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2019 to 30 September 2023. The 2019 funding valuation has been updated to an accounting valuation as at 30 September 2023 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 *Employee Benefits* and shown in this note to the financial statements.

IAS 19 Assumptions

The approach used to set the IAS 19 assumptions is detailed below:

	Approach to set the assumptions
Discount rate	As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 30 September 2023.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS with an adjustment made for an inflation risk premium.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	Both defined benefit schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the actual mortality experience of members within the schemes, which remains unchanged from 31 March 2023. The assumptions also allow for future improvements to mortality rates.

Financial assumptions

The main assumptions used by the actuaries in the valuation of these schemes are as follows:

	30 September 2023		31 March 2023	
	TWPS	TWMIPS	TWPS	TWMIPS
Rate of price inflation – RPI	3.25%	3.35%	3.25%	3.30%
Rate of price inflation – CPI	2.85%	2.80%	1.0%	1.0%
Discount rate	5.50%	5.55%	4.80%	4.80%

Mortality assumptions

The mortality assumptions were based on the post retirement mortality assumptions used for the previous financial year, but updated for the latest CMI 2020 model. The table below illustrates the life expectancies of an average member retiring at age 60 at the period-end reporting date and a member reaching age 60 at the period-end reporting date in 20 years.

Notes to the condensed consolidated financial statements (continued)

12. Retirement benefit obligations (continued)

	30 September 2023		31 March 2023	
	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	27.1	26.3	27.3	26.4
Female	29.4	28.6	29.6	28.8
Life expectancy from age 60 currently aged 40:				
Male	27.8	27.4	27.9	27.6
Female	30.4	29.7	30.7	30.0

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 investmen underperform these assumptions in the long term then additional contributions will need to be made to tl schemes in order to fund the payment of future benefits.
Discount rate risk	A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings.
Inflation risk	The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. Additionally, the Group's contributions to the schemes are based on assumptions about the future levels of inflation. Therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit.
Longevity risk	An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities.

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

	30 September 2023		31 March 2023	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Changes in assumptions resulting in a (decrease)/increase in liabilities				
Change in discount rate (+ 1% p.a.)	(150.0)	(45.0)	(210.0)	(50.0)
Change in rate of inflation (- 1% p.a.)	(105.0)	(30.0)	(135.0)	(30.0)
Change in life expectancy (+ 1 year)	50.0	20.0	55.0	20.0

13. Capital commitments

As at	30 September 2023 £m	31 March 2023 £m
Property, plant and equipment	873.3	826.2
Intangible assets	8.9	10.8
Total contracted for but not provided	882.2	837.0

The Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments has increased in the six-month period to 30 September 2023 due greater 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.

14. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are neither probable or remote and/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 and Commercial DW searches, from 18 December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, free of charge or for a smaller fee. The position is replicated across other Water & Sewerage Companies in England. The first phase of the trial commenced in November 2023. These claims are considered still at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of the Group.

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, 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.

Notes to the condensed consolidated financial statements (continued)

15. Related party transactions

Transactions

For the six-month period ended 30 September	2023		2022	
	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	468	-	140	-
Kemble Water Finance Limited	133	-	-	34,068
Kemble Water Eurobond plc	28	-		
Ultimate parent				
Kemble Water Holdings Limited	366	-	-	-
Immediate parent				
Thames Water Utilities Holdings Limited	33,645	-	-	15,197
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	52	-	602	-
Thames Water Property Services Limited	-	86	113	154
Trinzic Operations Limited	1,388	-	-	-
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	-	6	-	12
Water UK	-	726	-	-
Total	36,080	818	855	49,431

15. Related party transactions (continued)

Outstanding balances

The following amounts were owed to the Group from related entities, and owed to related entities by the Group at the balance sheet date:

	30 September 2023		31 March 2023	
	Amounts owed to the Group £'000	Amounts owed by the Group £'000	Amounts owed to the Group £'000	Amounts owed by the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	162		-	-
Intermediaries between the immediate and ultimate parent				
Kemble Water Eurobond plc	96,157[1]		96,146[1]	-
Kemble Water Finance Limited	64		-	-
Thames Water Limited	238		-	-
Immediate parent				
Thames Water Utilities Holdings Limited	1,282,918	127,365[1]	1,249,106	30,397[1]
Entities external to the Kemble Water Holdings group				
Water UK	-	-	-	328
Other entities within the Kemble Water Holdings Group				
Kennet Properties Limited	25	-	-	-
Trinzic Operations Limited	3,644	-	-	-
Total	**1,383,208**	**127,365**	**1,345,252**	**30,725**

[1] These amounts relate to provisional group relief receivable/payable balances.

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

In addition to the above transactions, during the six months ended 30 September 2023 an internal inflation mechanism pension contribution payment of £20.4 million for the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme, defined benefit schemes was made by Kemble Water Eurobond Plc, an intermediate parent of the company, on behalf of Thames Water Utilities Limited, recorded through intercompany transactions with a resultant intercompany payable balance being recorded in Thames Water Utilities Limited owed to its immediate parent, Thames Water Utilities Holdings Limited. In September 2023, Thames Water Utilities Limited issued 20.4 million shares with a nominal value of £1 each to Thames Water Utilities Holdings Limited, in exchange for the extinguishment of the intercompany payable owed to Thames Water Utilities Holdings Limited, for a total value of £20.4 million.

16. Key management personnel

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

The remuneration of the Directors for the six-month period ended 30 September 2023, and comparative period 30 September 2022, is included in the table below:

For the six-month period ended 30 September	2023 £'000	2022 £'000
Fees	255	263
Salary	2,207	1,924
Pension and pension allowance	199	167
Bonus[1]	888	964
Other benefits[2]	2,127	1,942
Total	**5,676**	**5,260**

[1] For the six month period to 30 September 2023, and the comparative period, a bonus for key management personnel was accrued based on 50% of expected year end outcome. The final bonus for the year is to be determined at year end.
[2] Other benefits includes medical benefits, car allowances, relocation costs and other incentives. Increase is driven by long-term incentive plans implemented in current period.

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

17. Post Balance Sheet Events

In October 2023, the following transactions took place:

- a total of £530.0 million Class A Revolving Credit Facilities were drawn and a total of £370.7 million Class B Revolving Credit Facilities were repaid;
- a £98.5 million Class A loan agreement due 2029 and a £65.0 million Class B loan agreement due 2027 were fully drawn;
- a £100.0 million Class A RPI loan agreement originally due 2025 and with accreted principal of £144.8 million, and a £125.0 million Class A RPI loan agreement originally due 2026 and with accreted principal of £180.1 million, were both extended to 2033;
- a £300.0 million Class A bond due 2040 was issued; and
- the Company paid dividends of £37.5 million to Thames Water Utilities Holdings Limited. These proceeds were subsequently distributed by Thames Water Utilities Holdings Limited to Thames Water Limited and then through to Kemble Water Finance Limited. Kemble Water Finance Limited retained the proceeds to service its – and its subsidiary Thames Water (Kemble) Finance plc's - external debt obligations.

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