Registered number 06195202 (England and Wales)

Thames Water Utilities Holdings Limited

Annual report and financial statements
For the year ended 31 March 2026

Contents

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Strategic report

The Directors present their strategic report of the Thames Water Utilities Holdings Limited Group (the Group and Company) for the year ended 31 March 2026. This strategic report should be read in conjunction with the strategic report of Thames Water Utilities Limited, which does not form part of this report, which can be found at https://www.thameswater.co.uk/about-us/investors/our-results and provides a more detailed insight into the regulated business.

Business review

Principal activities

The principal activity of Thames Water Utilities Holdings Limited (the Company or TWUHL) is the role of intermediate parent company of Thames Water Utilities Limited (TWUL or Thames Water), which remains unchanged from the previous year. The Company is the intermediate parent presenting consolidated statements for the year ended 31 March 2026 (FY26) and will therefore be considered “the Group”. The principal activity of the Company is to act as the holding company of the Group, and it does not carry out any activities beyond this. Included in the Group is TWUL, Thames Water Utilities Finance plc (TWUF) and Thames Water Super Senior Issuer plc (TWSSI).

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned direct subsidiary, TWUL, in accordance with TWUL’s Licence of Appointment. References to “our” or “we” in this report relates to the activities of the Group including TWUL.

As the performance of the Group is dependent largely on its appointed activities, this report makes reference to the performance of TWUL in order to provide appropriate explanation as to the performance of the overall Group.

The Company is also part of a whole business securitisation group of companies (the Securitisation Group). This arrangement comprises the Company and the following wholly owned direct and indirect subsidiaries:

- Thames Water Utilities Limited (TWUL) – direct subsidiary;
- Thames Water Utilities Finance plc (TWUF) – indirect subsidiary.

The payment of all amounts owing in respect of the external debt issued by any company within the Securitisation Group is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The guaranteed debt of the Securitisation Group on a post swap basis as at 31 March 2026 was £18,202.6 million (2025: £17,902.3 million). The Company and TWUL also guarantee the borrowings of their subsidiary Thames Water Super Senior Issuer plc (TWSSI). At 31 March 2026 the guaranteed debt of TWSSI was £1,836.5 million (2025: £nil). Refer to “IFRS 17 ‘Insurance Contracts’ impact assessment” for analysis on the financial guarantee.

The Group’s Board consists of Executive and Non-Executive Directors. With the exception of Sir Adrian Montague, who serves as Chairman of TWUL and as a Director of the Company, the Non-Executive Directors have no role in the day-to-day running of the appointed business within TWUL, however they provide constructive challenge and independent views on various matters concerning the Group. In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group.

The main functional areas of the TWUL business are:

1) Retail: comprises customer-facing activities, as well as billing and cash collection, including amounts relating to construction of the Thames Tideway Tunnel (TTT) which has also been shown separately in the financial statements. From 1 April 2017, this business function is also responsible for billing and cash collection of wholesale market charges to licensed non-household retailers for both water and wastewater, including amounts relating to construction of the TTT;
2) Asset Operations & Capital Delivery: responsible for all aspects of raw water abstraction and treatment, the distribution of high-quality drinking water, and the collection, treatment, and safe disposal of wastewater for both household and non-household customers. It also comprises the management of water network assets, as well as the investment in and maintenance of the business’ water and wastewater infrastructure to ensure it is sufficiently resilient to continue customer delivery, whilst also meeting the challenges of population growth and climate change;
3) Support services: responsible for other areas including digital, asset management, regulation, strategy, finance, legal and HR.

Whilst the appointed supply of water and wastewater services provides approximately 99% of the Group’s appointed gross revenue, TWUL also manages certain non-appointed activities including:

- property searches, including the provision of information required by property developers; sale of gravel and other aggregates extracted through day-to-day operations; and
- treatment of trade effluent and other septic waste.

Business strategy

The Group’s purpose is to deliver life’s essential service, so our customers, communities and the environment can thrive. We do this with:

- **Physical assets:** We maintain an extensive network of water and sewage infrastructure, including numerous water and sewage treatment works. Our infrastructure is critical for delivering clean water and managing wastewater across London and the Thames Valley.
- **Natural resources:** We are responsible for safeguarding significant natural water resources, so they are managed sustainably and remain accessible to support public health and community wellbeing.
- **Our people and culture:** We employ more than 9,000 people and are committed to attracting, developing, and retaining a skilled and diverse workforce. Our people are at the heart of our operations, delivering essential water and wastewater services to the communities we serve.
- **Financial capital:** We need to manage substantial financial resources to maintain and upgrade our water and wastewater systems, investing in infrastructure efficiently for our customers.
- **Technology and innovation:** Our operations are supported by cutting-edge technology, from monitoring water quality and system performance to leveraging innovative solutions for efficiency and sustainability.
- **Suppliers and partnerships:** We work closely with a wide range of suppliers and partners to deliver safe, reliable and sustainable water services. We are committed to building strong relationships that align with our long-term goals.

Strategic report (continued)

Principal risks and uncertainties

Changes to risk landscape

We continue to actively manage our principal risks through a period of significant internal and external challenges. Throughout the year, we carried out detailed deep-dive reviews of each principal risk with the appointed Board sponsor, Executive risk owner and supporting sub-risk owners, strengthening both understanding and oversight across the risk landscape.

As part of this work, we introduced a new principal risk relating to supply chain disruption, reflecting increasing exposure to global cost volatility, limited specialist market capacity and the substantial capital delivery requirements of Asset Management Period 8 (AMP8).

Recognising the scale and complexity of the challenges facing Thames Water, our overall risk profile remains elevated.

Emerging risks

We continue to refine our approach to emerging risk identification through horizon scanning; workshops; benchmarking across the UK water sector; and engagement with regulators and stakeholders. Where appropriate, new principal risks are introduced to reflect changes in our operating environment.

Principal risk overviews

We have grouped our 17 principal risks into one of the following four categories:

Customers, communities and our people

1. We deliver a poor customer experience
2. We fail to prevent physical injury or mental harm (to our employees, supply chain partners or members of the public)
3. We fail to attract, engage and retain a capable, diverse and inclusive workforce
4. We fail to engage, and gain the trust of, customers, communities and stakeholders

Strategic & regulatory

5. We fail to maintain long-term continuity of service due to climate change and population growth, and protect biodiversity
6. We fail to comply with our core legal and regulatory obligations
7. We fail to protect our business from developments in the regulatory, legislative or political environments

Financial

8. We fail to collect revenues from our customers
9. We fail to secure goods and services to deliver our agreed outcomes on time and within agreed business plan cost targets
10. We are unable to maintain sufficient liquidity to meet our funding requirements
11. We fail to manage our business plan so that we deliver within our means

Operational

12. We fail to supply enough wholesome water to meet demand
13. We fail to defend against cyber crime and protect our information
14. We fail to adequately protect our employees and physical assets
15. We fail to maintain and improve the performance and resilience of our asset base
16. We fail to reduce our environmental impact due to the performance of our wastewater system
17. Legacy technology failure

1. We deliver a poor customer experience

Risk

The risk of delivering a poor customer experience if the organisation does not meet regulated service performance expectations, adequately support customers in vulnerable circumstances, provide effective service to developers and NAVs, or comply with Ofwat's Customer Focused Licence Conditions.

Trend Commentary

Customer complaints remain above target, largely driven by customer response to the 2025/26 price increase and rising demand linked to the compulsory smart metering programme. These factors continue to increase contact volumes and complaint inflow across Billing and Metering.

Despite these pressures, performance indicators show early positive movement. Billing performance has improved, with faster response times, lower abandonment rates, reduced complaint backlogs, and customer satisfaction aligned with year-end expectations. Operational contact centre performance remains stable, repeat complaint rates are low, and overall customer satisfaction has improved compared with earlier in the year.

Examples of mitigation

- Key mitigations focus on reducing complaints, strengthening end-to-end ownership of customer issues, and delivering proactive support for metered customers. Additional emphasis is being placed on enhanced incident management and continued investment in colleague capability and a customer centric culture
- Core controls covering complaint management, customer data and Customer Relationship Management (CRM) processes, workforce competency, customer communications, and compliance monitoring are assessed as operating effectively

Strategic report (continued)

Principal risks and uncertainties (continued)

Key Risk Indicators (KRIs)

- Total complaints
- Total resolution score (billing)
- GSS payments
- Average speed to answer
- Total CSAT

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

Risk

Over the past year, our understanding of health, safety and wellbeing (HSW) risk has matured, supported by a more robust and transparent approach to risk identification and assurance. As a result, we have gained clearer visibility of areas where the potential for physical or mental harm could increase if not actively managed, particularly in higher risk activities such as confined space working across our workforce, contractors, supply chain and customers.

This enhanced insight reflects a period of significant organisational change and transformation. Increased change activity, evolving operating models and resource pressures have sharpened our focus on leadership capability, role clarity and the consistent application of safety critical controls. Importantly, these factors are now well understood and are being addressed through targeted, system-wide interventions.

Trend commentary

The downward risk trend reflects the positive impact of a deliberate strengthening of our Enterprise Risk Management (ERM) framework and improved control effectiveness, rather than a reduction in our vigilance. The redesign of the HSW Risk Management Framework has enabled clearer identification and closure of legacy gaps in controls, governance and accountabilities, resulting in more timely and effective risk treatment. While new ways of working have increased transparency of residual vulnerabilities, they have also established a stronger platform for sustained risk reduction.

We continue to closely monitor and manage the risk of operational drift, particularly in areas with higher levels of unplanned work. Assurance activities, investigations and cultural diagnostics have provided deeper insight into reporting quality, psychological safety and emerging behaviours. These insights are being actively applied to reinforce standards, improve consistency and prevent risk normalisation. Overall, the organisation is better positioned to identify early warning signals and intervene proactively, supported by clearer governance, improved data quality and stronger leadership engagement.

Examples of mitigation

- Accelerated implementation of the revised HSW Risk Management Framework
- Targeted coaching, leadership maturity programmes, and structured human and operational performance engagement
- Improving the quality of critical incident investigations, strengthening closure discipline, conducting deeper dive risk reviews
- Horizon scanning for legislative changes and industry best practices

KRIs

- Completed safety critical training versus post training assessments and field competency validation
- Annual Audit Programme - Level 2 Assurance
- Employee Pulse Survey results
- Process safety - performance indicators

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

Risk

Attraction, retention, and engagement of a diverse and inclusive workforce, with the right skills, are essential for us to be able to serve our customers, protect the environment and support our front-line operations. Challenging recruitment market conditions, Government and regulatory policy initiatives, and adverse media coverage of the water industry continue to be key drivers of this risk.

Trend commentary

Recruitment for technical skills is difficult for all water companies, but our strategy of widening our pool of potential recruits, for example military leavers and care leavers, and increasing apprenticeships contribute to risk mitigation. A continued focus on employee and Trade Union engagement supports retention.

Examples of mitigation

- Continued focus on our skills and emerging talent activities has widened the pool of potential recruits and supports our aim to have a workforce that reflects the customers and communities we serve
- Maintaining positive relations with Trade Union Partners
- Engaging our employees through transparent communication and the 'Hear for You' survey and 'Leadership Experience' surveys

KRIs

- Voluntary attrition rate
- Time to offer and recruitment process
- Gender diversity
- Ethnic diversity
- Essential learning completion

Strategic report (continued)

Principal risks and uncertainties (continued)

4. We fail to engage, and gain the trust of customers, communities and stakeholders

Risk
We may be unable to engage with and build the trust and support of our stakeholders, which could hinder our ability to deliver services, complete projects, affect our reputation and ultimately our licence to operate.

Trend commentary
Trust in the water sector and Thames Water specifically, is low. Ongoing public and political debate about our finances, environmental performance and ownership make addressing this risk a challenge in the short to medium term. This negative focus hinders our ability to convey positive messages that would build trust. Progressing through our refinancing process and talking to stakeholders about delivery of our investment programme will start to give us an opportunity to rebuild trust.

Examples of mitigation
- Proactive and continuous engagement with customers and stakeholders on our investment plans for AMP8. This includes the Water Industry National Environment Programme (WINEP), Water Resources Management Plan (WRMP), Drainage and Wastewater Management Plan (DWMP), River Health Action Plan, Pollution Incident Reduction Plan (PIRP) and drinking water safety plan with a particular focus on demonstrating delivery
- Engagement with customers, stakeholders, and elected representatives at national, regional, and local levels to understand their needs, expectations, and preferences
- Building engagement in capital projects to explain how the biggest ever upgrade to our network in 150 years will deliver benefits local customers and communities
- Developing and embedding the Value framework to support decision-making and wider community engagement

KRIs
- SRO communications team track stakeholder advocacy for SROs
- Specific concerns raised by key stakeholders
- Monitoring of stakeholder comments

5. We fail to maintain long-term continuity of service due to climate change and population growth, and protect biodiversity

Risk
Climate change, population growth and failure to reduce customer demand could result in disruptions to service and damage to biodiversity. A failure to protect biodiversity at our sites, could cause harm through our operations or failure to deliver mandatory net gain requirements when delivering our capital programmes. We may not be able to reduce our operational greenhouse gas (GHG) emissions in line with external expectations.

Trend commentary
This risk has remained unchanged since the previous year. We aim to carefully manage the short- and long-term challenges resulting from climate change and demand growth, including drought, flooding, environmental damage, and asset resilience across our Asset Operations and Capital Delivery teams. Current forecasts indicate there will be a need for 140 million litres per day of new capacity by 2050 with a 31% increase in properties at risk of sewer flooding during a 1:30 year storm by 2055. As our population grows customer numbers are expected to increase by 10-20% for water and 16% for wastewater by 2050. We are prioritising growth investment in our assets with Sewage Treatment Works (STWs) due to receive significant investment in AMP8 and the proposed new White Horse Reservoir near Abingdon and Teddington Dry River Abstraction.

Examples of mitigation
- Collaborating with Water Resources South-East and neighbouring companies to address regional water security and develop our 50-year WRMP, including new supply options
- Progressing two projects to address drought and strengthen water resilience: proposed White Horse Reservoir and the Teddington Direct River Abstraction to support London during extended dry periods
- Development of the Drainage Water Management Plan
- Focusing on demand reduction schemes to influence customer usage, including the roll-out of digital smart meters and water efficiency activities
- Working to achieve a 5% reduction in operational GHG over AMP8 including improvements in energy efficiency, real time control, capital investment to meet the requirements of the Industrial Emissions Directive which will result in reduced operational emissions, fuel switching and working with the supply chain to reduce their emissions
- Developing the Asset Resilience frameworks
- Delivering WINEP Biodiversity obligations and educating the operational workforce

KRIs
- Operational GHG performance commitment (Water)
- Operational GHG performance commitment (Wastewater)
- Per capita consumption

Strategic report (continued)

Principal risks and uncertainties (continued)

6. We fail to comply with our core legal and regulatory obligations

Risk
Failing to deliver on our core legal and regulatory obligations could lead to negative outcomes for our customers and the environment. In addition, we could suffer damage to our reputation; a loss of regulator and stakeholder trust (in particular, but not limited to, Ofwat, Environment Agency (EA), Drinking Water Inspectorate (DWI) and ICO); and be exposed to the risk of regulatory investigations, potential enforcement orders, fines or private court proceedings.

Trend Commentary
Compliance risks regarding our core corporate obligations and water legal and regulatory obligations remains stable. However, our overall risk exposure is elevated from last year due to increased regulatory scrutiny and investigations, particularly environmental compliance.

Examples of mitigation
- Drinking water and public health transformation plans, to address Drinking Water Standards Compliance
- Actions to address the water treatment works permit compliance requirements
- Sequenced capital investment in STWs and Sludge Treatment Centres
- An ongoing comprehensive Compliance Improvement Programme has been mobilised to drive actions required to close permit gaps identified in the internal compliance assessment completed in Autumn 2025
- There is a programme in place to secure ongoing compliance with competition law obligations

KRIs
- Supply Demand Water Resources Management Plan
- Abstraction exceedances
- Control operator self-assessment
- Obligation owner self-assessment
- Serious pollutions
- ICO reportable incidents

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

Risk
Failure to protect our business from developments in the regulatory, legislative, and political environments could impact our business operations, resulting in new unfunded and/or undeliverable obligations and, as a consequence, non-compliance requiring potential significant investment over that anticipated in our business plan, and reputational damage.

Trend Commentary
The risk has remained unchanged since last year. The recommendations of the Independent Water Commission report relate to all three sub-risks. We are also seeing a ramp-up in investigations and enforcement from the EA, while encouraging a more strategic approach to enforcement.

We are making ongoing efforts to engage with regulators to mitigate the impact of the new Water Industry Regulation Incidents guidance, particularly in relation to the attribution of third party pollution incidents.

Examples of mitigation
- Informing and contributing to the water sector public policy debate by working in partnership with Water UK, other water companies and industry bodies. This includes engaging with key decision-makers and collaborating on the Independent Water Commission's review
- Prioritise investment for AMP8 and AMP9: working so that PR24 prioritises investment that delivers compliance requirements, subject to affordability and that any profiling towards that has regulatory approval
- AMP7 programme of WINEP: working so that delivery of WINEP meets regulatory deadlines and where at-risk negotiations to amend regulatory dates is undertaken

KRIs
- Political & regulatory monitoring system
- Investigations & penalties
- Statutory & regulatory requirements for business planning
- Activity & stakeholder tracking

8. We fail to collect revenues from our customers

Risk
We may struggle to collect revenues effectively if external factors affect our customers (household and non-household) or if internal factors impact our collection capabilities. This includes challenges to assisting customers with paying their water bills, which could result in a shortfall in our income and put pressure on our cash flow.

Trend Commentary
The risk to our revenue collection has remained stable, primarily due to the successful delivery of key Transformation Initiatives. Nevertheless, the external environment continues to present uncertainty, with ongoing geopolitical tensions and volatility in oil prices potentially placing further pressure on household finances and exacerbating cost-of-living challenges.

Strategic report (continued)

Principal risks and uncertainties (continued)

The Bank of England has indicated that inflation is expected to ease over the medium term, although the near-term outlook remains uncertain. Separately, the new Guaranteed Standards Scheme legislation in October 2025 has the potential to adversely affect our ability to collect revenue from household customers, pending industry engagement with Defra on proposed amendments.

We continue to utilise cross-subsidy, that has been agreed by our customers, to mitigate the impact on those in significant financial difficulty. To reduce the overall risk, we have enhanced affordability support measures for eligible customers.

Examples of mitigation
- Procurement of new collections system
- Transformation Programme for Year 2 of AMP focusing on data, affordability, customer and recoveries
- Proactive optimisation of social tariff utilisation

KRIs
- Monthly water consumption underpinning core metrics of revenue & billing
- Non-household cash withheld by retailers
- Non-household retailer late payment
- Underlying EBITDA
- Underlying revenue

9. We fail to secure goods and services to deliver our agreed outcomes on time and within agreed business plan cost targets

Risk
The Group faces supply chain risk driven by increasing pressures on both cost and availability of key materials and services. The macroeconomic environment is uncertain; geopolitical tensions, inflation, fluctuations in oil prices, and changes to tariff regimes all have the potential to impact supplier stability, pricing, and overall market capacity. These external challenges coincide with internal financial restructuring, a scaling-up of the Group's capital investment programme and increasing investment in the UK infrastructure and construction sectors. Together, these factors are intensifying competition for limited supply and heightening the risk of delivery disruption, cost escalation, and reduced operational flexibility.

This is important to the Group, customers and stakeholders, as the timely and cost-effective procurement of essential goods and services is critical for the delivery of water and wastewater services, AMP8 milestones and our biggest upgrade in 150 years.

Trend Commentary
Since this risk was introduced earlier in the year, this principal risk has shown improvement in profile, supported by ongoing supplier engagement, and targeted communications on liquidity and business plans, while monitoring and issue tracking remain embedded.

Examples of mitigation
- We have established a programme focused on scaling capital investments to secure sufficient capacity for AMP8 and beyond
- The supplier communications strategy seeks to equip suppliers and supplier-facing colleagues with transparent, timely updates that provide reassurance about the Group and its financial position to enable suppliers to continue supporting us with confidence
- We continue to mitigate risk and build resilience within the chemicals supply chain both internally and through water sector collaboration for operational continuity

KRIs:
- Our financial position
- Major supplier failure/disruption
- Supplier recruitment/resourcing
- Major product failure/withdrawal of accreditation

10. We are unable to maintain sufficient liquidity to meet our funding requirements

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

Trend Commentary
The overall risk profile has deteriorated due to the uncertainty around the timing of the financial Restructuring Plan, which would deliver new funding. A super senior credit facility has been provided by our creditors which, subject to conditions, provides liquidity until late 2026.

Our equity process, which involves bringing in new shareholders to invest in our business and right-sizing our debt, will continue over much of 2026. We continue to work with our creditors, stakeholders, and other potential equity investors to sustainably recapitalise the business.

Examples of mitigation
- A financial restructuring plan is underway to recapitalise the business and provide sufficient liquidity to meet our funding requirements

Strategic report (continued)

Principal risks and uncertainties (continued)

KRIs

- Committed liquidity
- Financial covenants
- Credit ratings
- Gearing levels

11. We fail to manage our business plan so that we deliver within our means

Risk

If we fail to deliver total expenditure and the required performance in line with our business plan, we may incur additional costs and/or fines and require additional funding beyond those assumed in the business plan. Failure to deliver efficiencies and/or appropriately evidence our costs could also have adverse consequences for the Final Determination of subsequent AMPs.

Each of these could necessitate the re-prioritisation of investment or a reduction in operational performance and service levels.

Trend Commentary

We take account of expected price changes within our financial planning assumptions but, due to the significant ongoing uncertainty regarding the Group's need for additional significant debt/equity funding and balance sheet restructuring, the environment within which we operate will remain uncertain until the wider financial restructuring has been completed.

Examples of mitigation

- Proactively monitoring inflationary pressures, which could impact our cost base, rates and operating cash flows
- Transformative capital and operating efficiency plans
- Implementation of improved end-to-end planning & reporting processes
- Ongoing discussions with creditors, regulators and Defra around the restructuring

KRIs

- CPIH inflation
- Underlying total expenditure versus budget
- Return on regulatory equity

12. We fail to supply enough wholesome water to meet demand

Risk

Failure to provide enough water to meet demand could occur through failures in abstraction, storage failures, transmission, treatment and distribution. Failure to provide enough water can also arise because demand exceeds our physical and/or licence ability to abstract, treat and supply it, for example, during a hot spell or a freeze thaw. Impacts of a risk event would primarily be on water quality, supply interruption and leakage and lead to consequences for customer and regulatory outcomes.

Trend Commentary

The risk has improved over the year as a result of investment, our Performance Commitment improvements plans and focus on asset availability and maintenance plans. However, ageing infrastructure and increased demand (driven by growth in our region) continues to challenge our ability to deliver sufficient water to customers.

Examples of mitigation

- Our mains rehabilitation scheme targets deteriorating infrastructure
- Initiatives to improve the compliance risk index score and leakage levels are progressing
- Water efficiency campaigns
- Focus on asset availability and maintenance plans
- Using smart meter data to better understand customer usage patterns and target leakage activity

KRIs

- Supply interruptions
- Water quality compliance risk index
- Leakage

13. We fail to defend against cyber crime and protect our information

Risk

Failure to have adequate controls in place to protect our data and resources from common threats and vulnerabilities, drastically affecting the confidentiality, integrity and availability of our information systems, resulting in an inability to meet our customer needs.

Trend Commentary

Protecting our systems and data is crucial, and we have initiatives which strengthen our cyber security by reducing potential vulnerabilities and refining our incident response processes.

Strategic report (continued)

Principal risks and uncertainties (continued)

The overall risk has deteriorated over the year due to additional risks identified regarding the impact of a loss/outage and our ability to recover from a significant operating technology or cyber incident.

Examples of mitigation

- The Data Loss Prevention strategy reduces the likelihood of data loss by focusing on employees' access to our data from external environments
- Conduct regular third party risk assessments and audits by deploying industry standard solutions and onboarding critical vendors

KRIs

- Internal mock-phishing - click rate
- Target maturity rating
- Penetration tests
- Mean time to detect
- Incident response resolution
- Critical systems without multi-factor authentication
- Number of security vulnerabilities
- Supply chain risk management

14. We fail to adequately protect our employees and physical assets

Risk
A breach or failure of our protective security arrangements could result in harm to our employees or the public as well as loss (theft) or damage to operational sites, assets, or services. This may also lead to service interruption or environmental harm, as well as substantial remediation costs and significant reputational damage to business.

By its nature, protective security experiences an ever-moving threat landscape that can involve both external and insider threat actors. We must be quick to identify that change in the landscape and be flexible in our approach to address it.

Trend Commentary
The safety of our people remains a core priority for the organisation and continues to be an area of heightened focus. This risk has deteriorated due to ongoing negative sentiment towards water companies. Monitoring of key risk indicators throughout the year has identified a deterioration in the overall risk profile, reinforcing the need for continued vigilance, proactive management, and appropriate mitigation measures to protect the wellbeing of our workforce.

Examples of mitigation

- Application of controls assessed on risk and criticality of operation, infrastructure and asset leading to recommendations for improvement in control strength
- Established standards on control requirements according to site criticality and monitoring project activity to oversee compliance with standards
- 24/7 alarm monitoring involving the use of CCTV interrogation
- Established security incident management process including established reporting process
- Proactive and reactive static and mobile security guarding resources
- Security advice and support

KRIs

- Number of incidents on site
- Number of security risk assessments undertaken
- Alarm interruption (alarm signal is disrupted, delayed, or prevented)

15. We fail to maintain and improve the performance and resilience of our asset base

Risk
Failure to maintain and improve our asset performance and resilience could lead to gradual deterioration and failures, resulting in disruption to water and waste services, health and safety risks, or environmental damage. This could pose challenges to delivering performance outcomes in AMP8 and beyond.

Trend Commentary
This risk has remained unchanged over the last year. During AMP8 we are submitting cases to Ofwat to unlock gated funding for asset improvements, which will help to improve asset performance and resilience. We need to manage the challenge of securing the supply chain capacity needed to efficiently and effectively deliver capital maintenance and investment upgrades.

Examples of mitigation

- Improving our understanding of asset condition ahead of PR29, in line with Ofwat's Roadmap for Enhancing Asset Health
- A broadened approach to a system-based resilience framework is facilitating a long-term plan to improve resilience
- Asset Improvement Gated Allowance aims to mitigate the highest asset health risks
- Exploring ways to improve the solution design process, while remaining compliant
- Deliver ramp-up in order to effectively Scale Capital Investment
- Increased maintenance activity in AMP8, via the maintenance 100 programme
- Enhanced tracking and governance via dedicated Project Management Office and Strategic Programme teams to track and help control spending and delivery

Strategic report (continued)

Principal risks and uncertainties (continued)

KRIs

- Rising mains, gravity sewers and service reservoirs beyond acceptable remaining life
- Percentage of gated allowance funds secured
- Delivery of planned preventative maintenance

16. We fail to reduce our environmental impact due to the performance of our wastewater system

Risk

Failure to reduce the environmental impact of our wastewater system, including collection, treatment, pumping, sludge management and storm overflows, could result in pollution, harm to river quality and biodiversity, regulatory action and reputational damage.

Trend Commentary

The overall risk has remained unchanged and outside of appetite. Pollution performance improved year on year. Treatment incidents reduced by around 30% to 109, outperforming plan. Network incidents reduced by around 16% to 247, although remaining slightly above plan. Serious pollution incidents remain a focus.

Progress against our published PIRP has been broadly on track this year. In our Treatment portfolio, critical asset maintenance has improved but remains marginally below target, with recruitment and training ongoing. Delivery of inlet screens, mid process monitoring and elements of the resilience programme have been affected by procurement and access constraints.

In our Network portfolio, proactive network interventions remain strong, including record sewer cleaning, sewer depth monitor installation and targeted investigations, with calm operations maintained for six months. Pumping station availability remains high, although generator installation delays affect resilience.

Storm overflow performance improved, but delivery is weighted towards later years. Sludge disposal compliance remains within appetite.

Examples of mitigation

- Pollution reduction programmes with strengthened performance management including:
  - power resilience initiatives like generator installation and black start testing
  - proactive sewer maintenance and targeted catchment studies
- Storm overflow investigations, modelling and early AMP8 delivery

KRIs

- Pollution and serious pollution incidents
- Blockages cleared
- Storm overflow discharge performance

17. Legacy technology failure

Risk

Thames Water has technology infrastructure, applications and network components that are nearing end of life or are past end of life and are therefore not on a regular maintenance plan for patches and updates. The risk of software and hardware failures deteriorates significantly as components age, become obsolete and/or become incompatible with more modern technologies. Failure of legacy or obsolete technologies carry a higher risk of leading to extended business disruption and/or loss of service as software updates are unavailable and/or replacement hardware is out of manufacture and difficult to source.

Trend Commentary

We retain broadly the same level of obsolescence and legacy technology across our estate as when last reported. Hardware typically runs to a five-year life cycle and software is similar; Thames Water has components which are significantly older and now beyond support from the respective vendors and manufacturers. A programme of work was started in 2024 to address the issue and made steady progress in decommissioning equipment and software which was no longer in use. The remaining assets continue to support live business services, with remediation focused on rebuilding capabilities, as these legacy components are incompatible with modern technology and not suited to direct migration to newer platforms.

A new programme of work commenced in Q1 FY27 to address the remaining legacy technology in conjunction with IBM. This programme will take circa two years to remediate the remaining elements, much of which needs to be reverse engineered and then replicated using new technology before the legacy solutions can be retired. Ultimately, we need to move away from a process of ‘projects’ remediating such things when they have become an issue and adopt relevant life cycle management practices across our digital estate such that these risks and issues do not occur.

Examples of mitigation

- The Technology Debt Remediation Project approach continues to review and approach appropriate remediation actions in line with the technical strategy and engaging our Technology Partners

KRIs

- % of supported vs unsupported systems
- Critical service unavailability
- End of life operating systems

Task Force on Climate-related Financial Disclosures

Reporting context[1]

In this disclosure, we comply with the requirements of The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, which amended sections 414C, 414CA and 414CB of the Companies Act 2006.[2] Thames Water Utilities Limited complies with the Task Force on Climate-related Financial Disclosures (TCFD) requirements under Condition P of its instrument of appointment, which requires it to report in line with a public limited company. This TCFD disclosure has been prepared in line with the four TCFD recommendations and the 11 recommended disclosures set out in the 'Recommendations of the Task Force on Climate-related Financial Disclosures' report, published in June 2017 by the TCFD, and the 'Implementing the Recommendations of the TCFD' supplementary guidance published in October 2021.[3] We have considered the TCFD annex, and we consider our approach to be consistent with the 4 TCFD pillars and 11 recommended disclosures.

The following table provides a guide to where the relevant TCFD disclosure can be found in this disclosure.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organisation's governance around climate related risks and opportunities. 1. Describe the board's oversight of climate-related risks and opportunities – page 14 2. Describe management's role in assessing and managing climate-related risks and opportunities – page 17	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning where such information is material. 3. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term – page 18 4. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning – pages 18 – 19 5. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario – pages 14 – 16	Disclose how the organisation identifies, assesses, and manages climate-related risks. 6. Describe the organisation's processes for identifying and assessing climate-related risks – page 17 7. Describe the organisation's processes for managing climate-related risks – page 14 – 17 8. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management – page 14 – 17	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. 9. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process – page 20 10. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks – page 21 11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets – page 20

Our approach to tackling climate change

Delivering safe, clean, and wholesome drinking water to the communities we serve – while responsibly managing wastewater and safeguarding our environment – is at the heart of everything we do.

As we face increasingly frequent extreme weather events (e.g. serious droughts in 2022 and 2025, extreme rainfall events in London during July 2021 and the hottest summer on record in 2025) combined with long-term shifts in climate patterns, it is essential to have robust plans in place to address both immediate disruptions and long-term challenges.

Climate change intensifies these pressures, making it more important than ever to understand its impacts, plan effectively, and adapt our operations to ensure we continue to meet the needs of our customers and protect the natural environment.

Both climate change mitigation and adaptation are central to our long-standing sustainability ambition to become more sustainable.

With the risks of climate change growing, the decisions we make today are critical to reducing future impacts and safeguarding resources for generations to come.

Reporting on climate change

We are committed to transparency in how we address climate change and regularly report on our progress through several key channels:

- Adaptation Reporting Power (ARP4): As part of the Climate Change Act 2008, we voluntarily submitted our response to the ARP4 process. This report outlines the actions we are taking to mitigate both current and future climate-related risks, submitted to the UK Government's Secretary of State.
- Task Force on Climate-related Financial Disclosures (TCFD): We report annually on our performance against the four TCFD pillars – Governance, Strategy, Risk Management, and Metrics & Targets. Our approach continues to evolve to meet customer expectations and align with changing regulatory and statutory requirements.

[1] Following recent announcement by the UK Government on UK Sustainability Reporting Standards and transition planning etc, we are keeping the evolving need and extent of climate change and sustainability reporting under review.
[2] The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 – https://www.legislation.gov.uk/uksi/2022/31/contents/made.
[3] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

Task Force on Climate-related Financial Disclosures (continued)

Reporting on climate change (continued)

- Strategic Planning: Our Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) are central to our long-term planning. These documents feed into our five-year business plan (the Price Review) and explicitly address climate change risks, mitigation, and adaptation. They set out how we will continue to deliver essential services over the next 25 years and beyond, in the face of climate change and population growth.
- Sustainability Reporting: Our Sustainability Report and ESG Statement provide further detail on our climate change strategy and our performance. These are publicly available on our website.

Where to find our detailed public disclosures:

- The TWUL Annual Report 2025/26 (available on our website)
- Sustainability Report and ESG Statement 2024/25
- Annual Performance Report 2025/26 (available on our website)
- PR24 Our Business Plan 2025-2030 (submitted and updated in April 2024)
- Water Resources Management Plan (2024)
- Drainage and Wastewater Management Plan (2023)
- Adaptation Reporting Power 4 (2024)
- Drought Plan (2022–27)
- Pollution Incident Reduction Plan (2026)

Governance

Our Board has ultimate responsibility for climate-related risks and opportunities. Collectively, our Board brings extensive experience in assessing and managing risk. The TWUHL Board is not deemed to require a committee for Audit, Risk & Reporting and Health, Safety, Security and Sustainability Committee, as all such these matters are closely monitored by the Committees reporting into the TWUL Board.

The TWUL Board oversees the effectiveness of our risk management and internal control systems. The TWUL Chief Risk and Compliance Officer is accountable for developing and maintaining the Enterprise Risk Management framework and supporting its integration across the organisation. Our principal risks include physical, and transition risks associated with climate change, which are reviewed annually by the TWUL Board.

The TWUL Audit, Risk & Reporting Committee meets quarterly to review principal and emerging risks, including their management. These risks encompass environmental protection and the challenges posed by climate change.

The TWUL Climate Change Working Group provides oversight and effective governance of our approach to managing climate change, with a focus on compliance with relevant statutory and regulatory obligations and reporting. This includes, but is not limited to, the five-yearly Price Review, Water Resources Management Planning, Drainage and Wastewater Management Planning, Adaptation Reporting Power submissions, TCFD disclosures, and our decarbonisation transition plans.

The group is led by our TWUL Director of Asset Management and includes senior representation from TWUL's Engineering, Asset & Capital Delivery, Finance, Risk, Strategy & External Affairs, Sustainability, and Energy and Carbon teams. The group feeds into the TWUL Executive Committee, led by the TWUL CEO and attended by the TWUL CFO and the TWUL Health, Safety, Environment and Sustainability Committee.

Strategy

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

Our plans for 2025-2030

Every five years, we publish our strategic plans for the upcoming regulatory period. Our AMP8 plan for 2025–2030 was shaped through comprehensive engagement with our customers, communities, Customer Challenge Group, and supply chain partners, and with active oversight from our Board. We described our proposals in the Business Plan 2025–2030, submitted to Ofwat in October 2023 and subsequently updated in April 2024. In February 2025, we requested that Ofwat refer our PR24 Final Determination to the Competition and Markets Authority (CMA) for re-evaluation. This referral was deferred to allow time for recapitalisation discussions to conclude.

Our Transformation Plan

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

Climate change

The increasingly unpredictable weather patterns we've experienced in recent years have tested the resilience of our services and highlighted climate change as one of our most significant challenges. Essentially, the impact on our operations comes down to three issues: too much water (flooding), too little water (drought), or water in the wrong place (such as sewer flooding).

While the exact timing and scale of climate change remain uncertain, our response is clear. We are actively adapting our business to meet these challenges and doing our part to reduce their impact. This is a fundamental part of our commitment to becoming more sustainable.

Our ambition is a future shaped by learning from the past and adapting to what lies ahead – delivering better services for our customers and protecting the environment. Our published plans for water resources and wastewater management look at least 25 years ahead and explicitly account for climate change and its uncertainties.

Task Force on Climate-related Financial Disclosures (continued)

Strategy (continued)

Importantly, climate change is not considered in isolation, but alongside other major risks and challenges to our business, including population growth, evolving environmental regulations, financial resilience, and affordability for our customers.

Mitigation

We continue to actively contribute to the reduction of greenhouse gas emissions to mitigate the devastating impacts of climate change. When developing our plans to address carbon emissions, there are four partly overlapping objectives:

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

Our mitigation strategy uses a carbon management hierarchy that follows best practice and prioritises tackling our own emissions ahead of reliance on others. This is consistent with customers' and the regulators' views that emissions should be avoided and reduced, before considering the use of offsets to tackle emissions which cannot be reduced.

We will apply this strategy in the following ways:

- Avoid – Where possible, we will avoid producing emissions. This will include actions to reduce demand, limit travel and avoid building by looking for other solutions to deliver the required outcomes.
- Reduce – Where economically and technologically possible, we will reduce emissions from our activities. This includes our actions to reduce waste by changing behaviours and optimising processes, improving efficiency, building less by making the most of our existing assets, and building efficiently with low carbon designs, techniques and equipment.
- Replace – Where economically and technologically possible, we will replace emission sources with alternative fuels and materials. This includes our purchase of renewable energy, and our actions to maximise renewable energy generation, replace fossil fuels with low carbon alternatives and use vehicles powered by lower carbon fuels.
- Offset – Offsets provide the final option to net-off emissions that can't be practicably avoided, reduced or replaced. Offsets can be internal (generated by us) or external (generated by a third party) and include emissions displacement, capture and sequestration. Examples of internal offsets are Renewable Energy Guarantees of Origin (REGOs) for exported renewable electricity and Renewable Gas Guarantees of Origin (RGGOs) for exported renewable biomethane. We do not currently pay for offsets.

While we do not directly control greenhouse gas emissions generated within our supply chain (Scope 3 emissions), we recognise that the goods and services we procure contribute to our wider environmental footprint. As such, we acknowledge the influence we can exert through responsible procurement and supplier engagement.

Our understanding and reporting of Scope 3 emissions continues to mature, particularly in relation to indirect emissions arising from construction activities, capital maintenance, and the end-of-life treatment of our assets. As methodologies and data quality improve, we remain committed to enhancing the transparency and robustness of our disclosures.

We are actively collaborating with our supply chain partners to identify opportunities to reduce emissions, co-develop solutions, and explore alternative products and approaches that support the transition to lower-carbon outcomes.

In 2019, we made a pledge for our operations to become net zero. Since then, there have been some material changes to the original assumptions used to underpin the pledge. The changes have a substantial impact on the scale and deliverability of the net zero challenge.

These changes include:

- Changes to our understanding of the levels of nitrous oxide emitted from the wastewater treatment process, a significant operational emission
- Increased operational emissions due to changes in reporting scope boundaries[4]
- Additional carbon impacts associated with increases in treatment standards
- Guidance from Government to consider phasing non-statutory commitments including Net Zero to future planning periods, reflecting concerns around customer affordability, deliverability and financeability of Price Review 2024 plans

These developments were reflected in our AMP8 plan submitted to Ofwat. They do not change our desire to achieve net zero, but alongside a growing expectation to consider Scope 3 emissions in our plans to decarbonise, they present a materially different shape and size of challenge. We are currently reviewing our route map to fully understand the challenges and opportunities these changes present and how they will impact on our net zero plans. We will publish an updated overview of our net zero goals and transition plan when complete.

Adaptation

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

We have been using climate scenario analysis for over 25 years to understand the different pressures climate change creates – such as water resource availability, water demand and flooding potential – and to help us make the best strategic and investment decisions to meet the challenges of an uncertain climate future. This includes managing our resources more effectively and improving the resilience of our infrastructure.

[4] Reporting boundary changes goes beyond the net zero reduction of operational emissions by 2030 used in our 2019 pledge and increases the size of the challenge.

Task Force on Climate-related Financial Disclosures (continued)

Strategy (continued)

We submitted our fourth Adaptation Reporting Power (APR4) report to Defra in November 2024. In it, we described our understanding of the impacts of climate change on our business and the actions we are taking to minimise them.

Scenarios

We have been incorporating climate change data into our planning since 1999, starting with our Water Resource Management Plan 99 (WRMP99). For our latest plans, we've used the UK Climate Projections 2018 (UKCP18), applying probabilistic modelling and scenario analysis to understand the pressures climate change can place on our operations – such as water availability, demand, and flood risk.

This insight helps us make informed strategic and investment decisions to build resilience and manage resources more effectively. Given the uncertainty around the timing and scale of climate impacts, we've adopted an adaptive pathways approach – a flexible decision-making framework designed for uncertain futures.

As new data, information and understanding emerges – whether about climate change itself or its effects on our services – we can adjust, pause or accelerate our responses. This ensures we remain agile and prepared, even if the pace or severity of change exceeds current projections.

Using scenarios

As part of our five-yearly regulatory planning cycle, we already consider and manage a range of climate-related risks and opportunities. For WRMP24 we used UK Climate Projections 2018 (UKCP18) modelling to increase our understanding of how climate will impact our business.

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

As part of our planning, we have undertaken a substantial amount of modelling to assess the impact of future climate scenarios, looking at key climate-related risks. This has helped inform and shape our strategic plans. These relate primarily but not exclusively to water resource availability, water demand and wastewater management.

A detailed description of these key risks, the regions that may be impacted and the strategies in place to manage them are outlined in our WRMP (covering the period 2025-2075) and DWMP (covering the period 2025-2050).

Representative Concentration Pathways

To model and project, the future climate, it's necessary to make assumptions about the economic, social and physical changes to our environment that will influence climate change. Representative Concentration Pathways (RCPs) can capture such assumptions within a set of scenarios. The conditions of each scenario are used in the process of modelling possible future climate evolution.

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

RCPs can be represented by the levels of temperature change compared with the preindustrial period that result from each scenario.

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

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

The potential implications of climate change on our activities and responses have been reflected in the development of our key long-term Group plans including:

- PR24 Our Business Plan 2025-2030 (updated in April 2024)
- Water Resources Management Plan (2024)
- Drainage and Wastewater Management Plan (2023)

Water Resource Management Planning (WRMP)

If no action is taken, we could face a daily water shortfall exceeding 1 billion litres by 2050. Of this, approximately 140 million litres per day (Ml/d) would result directly from the impacts of climate change. An additional 321 Ml/d is linked to the need for resilience against a one-in-500-year drought event.

To address this challenge, we must optimise the use of our existing water resources. This includes a combination of reducing leakage, lowering demand, and investing in new strategic water sources to ensure long-term resilience and security of supply.

Our WRMP, agreed with the Government, outlines how we will ensure a reliable water supply for our customers while safeguarding the environment, supporting population growth, and addressing the challenges of climate change. WRMPs are long-term strategies that require us to model future scenarios using a range of data and forecasts.

The further ahead we look, the more uncertain the future is, and we take this into account by using an adaptive pathways approach. This allows us to identify the different potential options we could require. Consequently, we have undertaken extensive modelling to assess the impact of climate change on our supply capability under different future climate scenarios.

In our WRMP, we set out that the 50th percentile of results from RCP8.5 probabilistic projections considered by Ofwat to be a 'high' (severe) future and that the 50th percentile of results from RCP2.6 probabilistic projections considered a 'low' (benign) future.

Task Force on Climate-related Financial Disclosures (continued)

Strategy (continued)

We have utilised the UKCP18 climate change projections – currently the most comprehensive and up-to-date set of scenarios available for the UK in our latest WRMP. Unlike previous models, UKCP18 classifies emissions scenarios based on changes in radiative forcing rather than socioeconomic pathways. Further technical details are provided in Appendix U of the WRMP.

Our planning approach follows an adaptive pathways framework. This means we do not rely on a single, fixed plan for the next 50+ years, as the long-term uncertainties involved would render such a plan inefficient or potentially unsuitable. Instead, we have prioritised near-term investments to address immediate supply-demand balance risks. For the longer term, we have developed a set of alternative pathways that outline the most efficient investment strategies under a range of possible future scenarios.

Regional thinking

Through Water Resources South East (WRSE), we are working with the other five water companies that supply the region's drinking water. We have developed a joint plan that addresses the climate and environmental challenges threatening our water resources.

This collaborative approach means we can look beyond our individual boundaries and work together to secure the region's future water supplies.

Drainage and Wastewater Management Plan (DWMP)

Building on the approach we took to develop our long-term WRMP, we've created our first DWMP, aligned with the national DWMP Framework.

This plan identifies the key risks and pressures facing our drainage and wastewater services – including climate change, population growth, and the need to protect the environment. Between 2019 and 2023, we engaged with around 2,000 customers and stakeholders and worked closely with our regulators to shape the plan. It has also played a key role in informing our PR24 business plan.

Covering the period from 2025 to 2050, the DWMP sets out a clear roadmap for delivering a resilient and sustainable wastewater service. It outlines how we will adapt to future challenges and ensure our infrastructure and services remain fit for purpose in a changing world.

DWMP adaptive planning

Adaptive planning including climate change is integral to our approach to developing our DWMP. As with the WRMP, we've looked at adaptive pathways planning in the context of RCP2.6 and RCP8.5 which model potential future climate evolution. More detailed information can be found in Appendix G of our DWMP.

Ofwat

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

The Long-term Delivery Strategy section of the plan includes several leading and lagging monitoring metrics related to climate change.

Risk management

Climate change has the potential to significantly impact our business, and we already consider and manage a range of climate-related risks and opportunities. We are evolving our understanding of the interconnectivity of climate change risks and opportunities, and how best to manage these so that climate change risk and its management are fully integrated into our wider strategy. See page 5 for more information about our approach to understanding and managing risks, including those related to climate change.

Our robust 'three lines' model guides our approach to considering and managing our risks so we can deliver our Purpose and objectives, while also seeking to mitigate and control our risks, including climate change, to an acceptable level rather than eliminating them completely.

How we manage risk

Embedding a clear and consistent approach to risk oversight and governance is key so that risk management is effectively implemented across the business. The Board has overarching responsibility for the effectiveness of the risk management and internal control systems, supported by the ARRC, which maintains oversight over the principal risk landscape and how the business is responding. Our Chief Risk and Compliance Officer is responsible for integrating our Enterprise Risk Management framework along with the established 'three lines' model to enable an effective relationship between risk, control and assurance. Each of our principal risks are owned by a member of our Executive Committee and sponsored by one of our Non-Executive Directors. All principal risks are disclosed within this Annual Report on page 5.

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

Where we are going

As we evolve our climate change understanding, we are continuing to review the risks and opportunities, building on existing information.

Physical risks – Risks caused by physical shocks and stressors to natural systems and infrastructure. For more information see our Adaptation Reporting Power 4 report.
Transition risks – Risks that arise because of economic and regulatory transition towards a low carbon future.
Opportunities – Uncertainties that could bring other benefits and mitigations. Our WRMP and DWMP explicitly consider climate-related opportunities.

Our principal climate change risks, opportunities and mitigations are described below.

Task Force on Climate-related Financial Disclosures (continued)

Risk management (continued)

Transition risks

Risk	Drivers	Potential Impacts	Opportunities and mitigations
Changing regulation, subsidies, and incentives	• Funding and prioritisation of goals and objectives • Changing regulatory landscape	• New or changing policies and levels of Government support may impact financial viability of interventions • Higher overall costs to achieve net zero • Achievement of net zero delayed	• Engage with regulators and policy to highlight the key challenges and potential impacts the sector faces so that they can be considered in policy and regulation • Diversify low carbon investment options • Monitor policy and regulation changes
UK electricity grid fails to decarbonise in line with Government Policy	• Carbon emissions associated with grid electricity are a significant element of our location-based operational emissions, and their reduction is central to achieving net zero	• Any delay to the decarbonisation of the electricity grid will impact the timing and cost of achieving net zero using the location-based reporting approach	• We have assumed that the UK electricity sector will decarbonise in line with Government policy and ambition • Explore additional onsite renewable energy generation opportunities, alongside energy efficiency, to reduce emissions associated with energy consumption and to protect ourselves from price volatility within the energy markets
The wider UK economy fails to decarbonise in line with Government targets	• We are reliant on the wider economy decarbonising in line with Government targets, in order to provide water and wastewater services in a low carbon way	• Achievement of net zero delayed • A requirement to consider offsets for Scope 3 emissions • Higher overall costs to achieve net zero	• Collaborate with the supply chain and wider industry to find solutions to reduce carbon emissions
Lack of availability and affordability of low carbon goods and services	• Growing demand for low carbon goods and services, driven by the need to reduce the carbon intensity of delivering water and wastewater infrastructure could lead to a lack of availability or rising costs	• Avoidable carbon emissions locked into solution delivery • Higher project delivery costs • Achievement of net zero delayed • Higher overall costs to achieve net zero • Reputational impacts	• Actively engage with delivery partners and supply chain to highlight plans and the requirement for low carbon goods and services
Deliverability, financeability and affordability of moving to a low carbon future	• Investment to deliver emissions reductions cannot be fully funded through the five-yearly regulated price review cycles	• Bill impacts and affordability issues for some customers • Deliverability, financeability and affordability challenges • Achievement of net zero delayed • Reputational impacts • Higher future costs to achieve net zero	• Engage with regulators and Government bodies to align plans and encourage incentives in areas of need • Provide additional support to struggling bill payers
Conflicting policy or regulation driving increases in emissions	• Not all regulatory drivers are aligned in terms of managing and reducing carbon emissions, which could lead to increased emissions	• Increase in scale and scope of carbon emissions driven by changing environmental regulation and scope • Increase in unfunded and undeliverable emissions reductions requirements • Increasing size of the net zero challenge • Higher overall costs to achieve net zero • Achievement of net zero delayed	• Work with key stakeholders including Government and regulators to understand the impact of changes to standards on carbon emissions • Work with supply partners to reduce our capital carbon emissions • Seek to proactively reflect any changes in future statutory business plans • Engage with evolution of new regulatory regime following publication of the Cunliffe Report and the Government White Paper 'A New Vision for Water'

Physical risk – Water

Risk	Drivers	Potential Impacts	Opportunities and mitigations
Failure to provide enough wholesome drinking water	• Higher temperatures, hotter, drier summers and increased frequency, duration and intensity of droughts will increase demand and reduce water availability • Population growth will also increase demand and compound climate change pressures • An increased customer awareness of environmental, climate change and associated water risks	• Additional infrastructure investment required to secure water supply • Additional operational costs to support supply during droughts, reduce leakage and reduce customer consumption • Regulatory penalties/fines could increase	• Deliver agreed Water Resources Management Plan which assesses and plans for future water resource needs including climate change (see page 17) • Reduce leakage by 50% by 2050 • Reduce Per Capita Consumption (PCC) • Increase penetration of smart water meters • Improve our resilience to a one-in-200-year drought by 2030 • Support customers to use less water

Physical risk – Wastewater

Risk	Drivers	Potential Impacts	Opportunities and mitigations
Failure to effectively transport and adequately treat wastewater	• More intense rainfall events increasing volumes of water to wastewater systems • Higher temperatures impacting wastewater transport and treatment • Additional demands on wastewater systems e.g. population growth • Increased population and land cover leading to increased runoff • Increased customer awareness of climate change and associated wastewater risks e.g. river health	• Additional infrastructure investment required to secure performance • Additional operational costs to provide service e.g. during extreme weather events • Regulatory penalties/fines could increase • Potential damage to infrastructure • Increased risk of flooding both to properties and the environment	• Deliver funded elements of our Drainage and Wastewater Management Plan in AMP8 • Work with the Flood Ready London partnership to deliver London Surface Water Strategy to slow the rate at which rainwater enters sewers, reducing the risk of flooding • Deliver Pollution Incident Reduction Plan (PIRP) building on existing plans to systematically manage risk and reduce pollution incidents under a single, overarching framework

Task Force on Climate-related Financial Disclosures (continued)

Risk management (continued)

Potential future impacts of climate change on our financial performance

The potential future impacts of climate change on our financial performance include:

- Increased climate change and sustainability reporting complexity and associated costs
- Adapting to and mitigating climate change could bring challenges around affordability and fundability
- Increased frequency and duration of wet weather could increase the risk of flooding, pollution events, fines and penalties
- Increased customer awareness around climate change and associated water risks together with changing expectations may increase operational and capital investment costs to respond to these challenges
- Wetter, warmer winters coupled with more frequent and intense storm events together with population growth, leading to increased capital investment, operational cost, service impacts, penalties and compensation
- Delays in obtaining approval for proposed Strategic Resource Options could negatively impact the future cost to deliver, and water available to customers
- Increasing drought severity and frequency combined with hotter, drier summers and population growth, leading to increased capital investment, operational cost, service impacts, penalties and compensation
- Hotter drier summers and more frequent and intense drought will require additional investment in water infrastructure such that we meet consumer expectations and regulatory requirements
- Regulated capital value may increase with investment as we invest to manage and mitigate climate change challenges. Failure to respond effectively could impact investor confidence
- Changes to the original assumptions and scope for carbon reduction that have a direct impact on the size, cost and deliverability of the decarbonisation challenge

Time horizons

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

	Tactical short-term	Regulatory review period	Strategic long-term
Time Horizon	0 to 2 years	5-year regulatory period	6 to 25 years
Approach	Implementing tactical response plans for delivery of our annual performance targets in the face of acute physical risks informs the need for future improvements. Focus includes incident management plans & process-driven response plans, drought plan and localised response strategies. This is considered an operational timeframe reflecting weather events.	Every five years we produce a regulatory business plan for our economic regulator. In it we describe our plans to provide water and wastewater services for the five-year period covered but within a longer 25-year context. These five-yearly financial plans are called Price Reviews and result in a Regulator-agreed rolling five-year investment plan. For AMP8, we will have a key focus on river health and leakage to accommodate the impacts of climate change, population growth and urbanisation.	Long term plans exploring & accounting for the future potential risks we may face, including climate change uncertainty. How we will meet future challenges, and the steps that need to be considered. Our Long-term Delivery Strategy included in the plan includes several leading and lagging monitoring metrics where the driver is climate change. Production of a Water Resources Management Plan every five years with a 25-year-plus outlook. Production of a Drainage and Wastewater Management Plan every five years with a 25-year outlook
Includes	Undertaking an appraisal of the health of our assets to inform our Asset Health Insight. Assessing and delivering operational tasks/operation & maintenance of assets.	Engaging with key stakeholders to agree response plans including Environment Agency, Ofwat, customers and local communities. Use of scenarios to determine responses. Assessment of capital investment needs including the promotion and delivery of large-scale capital solutions.	Proactive engagement with Government and regulators to inform and help shape a long-term coordinated regulatory framework at the regional and sector level. Active consideration of the potential long-term impacts of climate change on our essential services in Water Resources Management Plan and Drainage and Wastewater Management Plan. Our Long-term Delivery Strategy metrics will have clear owners and Executive sponsors, trigger points and at least annual monitoring.
Relationship	The time horizons represented here are dynamic and interrelated.		

Time horizons are considered as part of our climate risk assessment process – see risk section on page 5 for more information.

Metrics and Targets

We are measuring and monitoring our response to climate-related risks and opportunities as part of our ongoing commitment to addressing climate change. Our well-established approach to climate change mitigation (reducing emissions and environmental impact) and adaptation (enhancing resilience to climate impacts) has led us to integrate climate-related metrics and targets into our business planning. Our climate-related goals are aligned with both current and future sustainability objectives.

These metrics and targets are consistent with our day-to-day operations but are also embedded in our TWUL Annual Report and Accounts, Annual Performance Report, Sustainability Report, and Environmental, Social, and Governance (ESG) Statement. This transparent reporting framework enables stakeholders – including investors, customers, regulatory bodies, and the public – to track our progress, evaluate our climate strategy, and understand the actions we're taking to mitigate risks and identify opportunities associated with climate change.

Task Force on Climate-related Financial Disclosures (continued)

Metrics and Targets (continued)

We are building a comprehensive understanding and response to the causes and impacts of climate change. Our ongoing challenge is to align our actions with our broader environmental goals and regulatory expectations and for our actions to deliver long-term value to both the business and the communities in which we operate. These commitments reflect our proactive approach to climate change, supporting the global transition to a more sustainable and resilient future.

The metrics outlined in the below table contribute to the delivery of our longer-term goals, including climate ambitions, activities and targets, allowing us to view progress. By monitoring these indicators across the business, we can assess performance and understand our direction of travel.

Area	Metric description	2025/26	2024/25	Related Activities (A)/Targets (T)/ Performance (P)
Reducing GHG Emissions	Net Scope 1, 2 and 3 GHG operational emissions (ktCO_2e) (market based). (See Directors' report pages 27 – 32 and Annual Performance Report Table 11A for more detail).	870.2	347.4	• Supporting the Government's seventh carbon budget by limiting the volume of operational and capital greenhouse gases. (A) • AMP8 Performance Commitment to reduce operational emissions by 5% compared to 2025 by 2030[5]. (T) • Review and update our net zero plans. • 100% of purchased electricity is from renewable sources. (P) • Increase the amount of self-generated renewable energy. (A)
Transition Risks	Increase self-generated renewable energy (GWh generated and consumed).	474.6	475	• Increase the amount of self-generated renewable energy. (A) • Improve energy security and reduce impacts of price volatility by generating more renewable energy. (A) • Use energy more efficiently. (A)
	Reducing electricity costs and volatility impacts (% self-generated renewable electricity).	20.2	19.5	• Improve energy security and reduce impacts of price volatility by generating more renewable electricity. (A)
Physical Risks	Maintain water abstraction licence compliance (%).	98.6	99.3	• Maintain compliance with abstraction licences at Green (>98%). (T) • Plan, consult and publish new Water Resource Management Plan by 2029. (A)
	Reduce internal sewage flooding incidents per 10,000 connections.	1.43	1.83	• Plan and publish new draft Drainage and Wastewater Management Plan with targets that accommodates climate change for consultation by 2027. (T) • Reduce internal sewer flooding per 10,000 connections to by 1.16 by 2030. (T)
Climate-related Opportunities	Reducing per capita consumption (PCC) (% reduction in three-year average from the 2019/20 baseline).	4.7	3.4	• Reduce domestic PCC by 7.8% (% reduction in three-year average from the 2019/2020 baseline) by 2030. (T) • Per capita consumption plan. (A) • Water efficiency activities. (A) • Plan, consult and publish new Water Resource Management Plan by 2029. (A)
	Reduce leakage and pressure on resource (% reduction in three-year average from the 2019/2020 baseline).	15.1	13.2	• Reduce leakage by 36.7% (% reduction in three-year average from the 2019/2020 baseline) by 2030, annual average. (T)
	Increase volume of surface water disconnected from the public sewer system (m^3).	-	-	• Reducing pressure on sewer network. (A) • Collaborating with Local Authorities to deliver projects. (A)
	Net operational carbon (ktCO_2e) per £million revenues (location based).	0.29	0.22	• Increase the amount of self-generated renewable energy. (A) • Use energy more efficiently. (A) • Reduce operational emissions. (A) • Increase the amount of self-generated renewable energy. (A)
Capital/Financial	CEO/CFO Performance-related Plan are linked to environmental outcomes (%).	35	35	• CEO/CFO Performance Related Plan is linked to environment outcomes. (T) • Managers Performance Related Pay Plan to include environmental outcomes. (A)

Managing carbon emissions

The UK Government has set a national target of net zero carbon emissions by 2050[6] . Thames Water and the water industry have an important role to play in achieving the national target since together we contribute around 1% of the UK's greenhouse gas (GHG) emissions[7]. This was recognised in Ofwat's 2022 position paper, which set an expectation for the water industry to align with the Government's net zero targets for 2035 and 2050, and for operational and capital carbon emissions to be addressed "in parallel".

Relevant metrics are described above. Our Long-term Delivery Strategy (LTDS) includes additional leading and lagging monitoring metrics related to climate change.

By reducing emissions, we will provide a better environmental outcome for customers and reduce our contribution to the causes of climate change. For the period 2025-2030 concerns regarding water companies' deliverability, financeability and customer affordability resulted in the Environment Agency writing to companies on behalf of the then Secretary of State for the Environment, ahead of PR24, providing a clear steer that companies are expected to explore opportunities to phase non-statutory commitments, including net zero, to future price review periods, post 2030, where appropriate. These developments were reflected in our AMP8 plan submitted to Ofwat.

[5] AMP8 target based on Ofwat formula for calculation which is different to that used elsewhere in this Report
[6] https://www.ofwat.gov.uk/wp-content/uploads/2022/01/Net_Zero_Principles_Position_Paper_Jan_2022.pdf
[7] https://www.water.org.uk/news-views-publications/publications/net-zero-2030-routemap

Task Force on Climate-related Financial Disclosures (continued)

Metrics and Targets (continued)

We are currently reviewing our decarbonisation route map, taking into account changes to our understanding of the levels of nitrous oxide emitted from the wastewater treatment process and the growing expectation to consider Scope 3 emissions in our decarbonisation plans. We are currently reviewing our route map to fully understand the challenges and opportunities these changes present and how they will impact on our net zero plans. We will publish an updated
overview of our net zero goals and transition plan when complete.

Emissions by scope

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

The most common GHGs are carbon dioxide (CO_2), methane (CH4) and nitrous oxide (N2O), with the impact from a unit of carbon dioxide used as a reference for all GHGs. Each has a different global warming potential (GWP) for a 100-year time horizon of 1,28 and 265 GWP respectively.[8] Combining the quantity of each gas emitted with its GWP allows GHGs to be reported in tonnes or kilotons of carbon dioxide equivalent (CO_2e).

The Greenhouse Gas Protocol defines three emission scopes[9]:

- Scope 1: direct emissions – the emissions from owned or operated assets
- Scope 2: indirect emissions – the emissions from purchased energy
- Scope 3: indirect emissions – other emissions from suppliers, distributors, and product use.

Scope 1	Scope 2	Scope 3
Direct emissions from burning of fossil fuels	Indirect emissions from purchased electricity	Category 1: Purchased goods and services
Process and fugitive emissions	Electric vehicles	Category 2: Capital goods
Transport: TWUL owned or leased vehicles		Category 3: Fuel- and energy-related activities Category 5: Waste generated in operations Category 6: Business travel

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

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

Our reported net operational emissions (market based) increased from 347.0 ktCO_2e to 870.2 ktCO_2e. This year the sector, in agreement with industry regulator Ofwat, has adopted an updated emissions factor for nitrous oxide (N2O) emissions arising from the wastewater treatment process. This change reflects the adoption of the latest Intergovernmental Panel on Climate Change (IPCC) guidance and aligns the sector with the most up to date scientific evidence. As a consequence of this change, total greenhouse gas emissions attributed to wastewater treatment have increased by 529.5 ktCO_2e.

We continue to implement affordable measures to reduce operational carbon consistent with our carbon management hierarchy.

We made progress in managing our carbon emissions in the year, including:

- Self-generating 474.6 GW of renewable electricity or energy (total)
- Recycling 24.03 tonnes of plastic waste from traffic management cones and barriers. The recovered plastic was turned into new cones and barriers, avoiding waste going to landfill and 57 ktCO_2e of carbon

We include emissions associated with capital projects (capital carbon) within our Scope 3 reporting, covering the construction, maintenance and end-of-life of assets. To improve how this is managed and reported, we have implemented our Carbon Management Asset Standard and are embedding recognised industry standards such as PAS 2080:2023, alongside strengthening internal engagement and supply chain collaboration. This is supported by the release of an updated Carbon Assessment Tool and the integration of capital carbon into investment governance processes, helping to drive greater consistency and accuracy in reporting.

In 2025/26, capital carbon emissions are estimated at 336.7 ktCO_2e on a cradle-to-built basis, with 217.3 ktCO_2e from wastewater and 119.4 ktCO_2e from water activities. Despite an increase in capital delivery, emissions have reduced slightly year-on-year, reflecting a lower average carbon intensity driven by a higher proportion of lower-complexity and maintenance projects.

[8] https://www.ipcc.ch/assessment-report/ar5/
[9] https://ghgprotocol.org/corporate-standard – the table above describes the emissions included in our assessment.

Financial Review

Key financial performance indicators

	2026 Underlying £m	2026 Exceptional items £m	2026 BTL £m	2026 Total £m	2025 Underlying £m	2025 Exceptional items £m	2025 BTL £m	2025 Total £m
Revenue	3,615.6	-	140.9	3,756.5	2,602.8	-	135.4	2,738.2
EBITDA	2,090.1	(61.8)	140.7	2,169.0	1,334.6	(219.9)	135.1	1,249.8
(Loss)/profit after tax	(18.0)	(201.1)	140.7	(78.4)	(180.6)	(420.2)	164.3	(436.5)
Investment in assets [1]				2,679.9				2,225.1
Liquidity [2]				1.0bn				1.7bn
Gearing (%)[3]				86.1				84.4

[1]The investment in assets includes £0.2 billion (2025: £0.1 billion) assets which have been constructed under self-lay by third parties at nil cost
[2]As at 31 March 2026, cash of £0.6 billion and £0.5 billion committed super senior loan facility, are subject to conditions precedent for drawing including a creditor waiver.
[3]Ratio of covenant senior net debt to Regulatory Capital Value (RCV), adjusted for cash in Thames Water Super Senior Issuer plc (TWSSI). Unadjusted covenant senior net debt is 87.0%.

Bazalgette Tunnel Limited (BTL) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how these Group accounts for this arrangement is detailed in the accounting policies.

Underlying Revenue

Underlying revenue of £3,616 million represents an increase of £1,013 million (+39%), compared with 2024/25. This increase was driven primarily by rises in our charges for water, wastewater and retail services, in line with our allowed tariff increase of 35%.

Our 2025/26 allowed revenue reflects a CPIH inflation rate of 3.5% and regulator-approved weighted average ‘K’ factors of 24.6% for water, 31.8% for wastewater and 66.2% for retail. Revenue in 2025/26 also reflects historic wholesale and retail Outcome Delivery Incentive (ODI) penalties of £78 million (FY25: £95 million).

Bad debt remains a key focus for management, with charges increasing by £27 million to £113 million, of which £74 million related to current year bills, which is accounted for as a deduction to revenue.

The total bad debt charge was equivalent to 3.6% of total household appointed revenue, compared with 3.8% in the prior year, reflecting stronger collection performance despite the increase in customer bills during the year. This has been achieved through effective deployment of the social tariffs, changing the metered payment plan assessments from 12 months to 6 months and enhancement to our debt management effectiveness.

We continue to support our financially vulnerable customers who cannot afford to pay their bills in full through the use of social tariffs and other proactive support, with £260 million of customer assistance provided in this financial year (FY25: £116 million).

Underlying EBITDA

Underlying EBITDA of £2,090 million represents an increase of £756 million (+57%) compared with last year. The improvement was largely driven by the growth in underlying revenue, partly offset by a £232 million increase in underlying total operating expenses. This represented an 11% growth in operating expenses reflecting higher activity levels as we accelerate our turnaround of the business. For example, employment costs rose by 18% year on year as we hired more skilled people, particularly in the frontline, to improve the performance of our network assets and increase compliance. Elsewhere, we invested more in third party support for the transformation programme, which is addressing root cause issues which have historically caused underperformance and we increased provisions related to future prosecutions for environmental incidents and other legal matters. These increases were partly offset by savings on insurance costs plus rates remaining flat. Power costs only grew by 2% thanks to effective energy hedging strategies. In the year, we generated total renewable energy at our operational sites covering 26% of our electricity needs (FY25: 26%).

Other operating income of £97 million decreased by £53 million (-36%) driven by a lower number of requisitions (e.g. new water mains), diversion charges, connection volumes and lower sales of property, plant and equipment.

Underlying Operating profit

Underlying operating profit increased to £1,283 million, representing an increase of £727 million (+131%) mainly for the reasons noted above. This grew faster than underlying EBITDA because depreciation, amortisation and asset impairment charges of £807 million only grew by 4% year on year.

Underlying profit before tax

Underlying profit before tax improved to £75 million representing a movement of £367 million compared with the loss before tax of £292 million last year. The growth was driven by the higher underlying operating profit partially offset by an increase in underlying net finance expenses to £932 million (FY25: £700 million). This reflects the impact of maturing swaps, which have reduced finance income, coupled with an increased average cost of debt on higher average gross debt given the drawdowns during the year to fund capital investment, and an increase in net losses on financial instruments to £276 million in 2025/26 (FY25: £148 million), due to fair value movements in the derivative portfolio.

Exceptional items

The Group recognised pre-tax exceptional items of £205 million in 2025/26, lower than the exceptional items charge of £505 million in 2024/25, which was largely driven by lower operating expenses relating to financial restructuring including legal and professional fees due to the significant restructuring of the business.

Financial Review (continued)

Exceptional items (continued)

Pre-tax exceptional items in FY26 comprised:

- £138 million of exceptional finance expenses, relating to debt and advisory fees, which include legal and professional fees related to the recapitalisation process;
- £62 million of exceptional operating expenses, relating to financial restructuring including legal and professional fees due to the significant ongoing financial restructuring of the business.
- £5 million of non-cash exceptional items, relating to financial instruments.

Taxation

In the reported financial year, the Group paid £225 million to HMRC in business rates, employer PAYE, employer National Insurance Contributions, and other taxes. The corporation tax charge is based upon the standard rate of corporation tax in the UK of 25%, which is applied to profits earned during the 12 months to 31 March 2026. The Group is not currently in a cash tax-paying position with HMRC, 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. Of the £225 million, £213 million was incurred directly, mostly through business rates and employer National Insurance Contributions, and £12 million was incurred through indirect taxes such as the Climate Change Levy, Landfill Tax and Insurance Premium Tax.

The underlying tax charge of £93 million comprised a current tax charge of £4 million and a deferred tax credit of £89 million.

(Loss)/profit after tax

Underlying loss after tax was £18 million, a significant decrease over a loss after tax of £181 million in 2024/25. Total loss after tax improved significantly to £78 million, compared with a loss of £437 million after tax in 2024/25.

Capital Investment

Capital investment for 2025/26 was £2,680 million, an increase of £455 million (+20%) compared with the prior year, as well as being ahead of our allowed investment for the first year of AMP8. This increased level of investment in infrastructure assets was driven by the ongoing commitment to enhance the resilience, compliance and performance of our assets. Excluding capitalised borrowing costs, adopted assets, and statutory adjustments, capital investment was £2,369 million.

Water programme

Our customers depend on us to provide a high-quality, reliable and sustainable supply of drinking water, now and in the future. Planned investments in our water network over AMP8 are designed to make sure we can meet the rising demand for water against the backdrop of our ageing infrastructure and the increasing challenges brought about by population growth and climate change.

£963 million (excluding capitalised borrowing costs, adopted assets and statutory adjustments) was invested in the water network in 2025/26; key programmes were:

- £406 million invested to reduce leakage and secure future water supply, including the roll out of more than 245,000 smart meters, more than double 2024/25, and the deployment of acoustic sensors
- £365 million invested in maintaining reliable supply, including our mains replacement programme with 83km of mains pipes replaced in 2025/26
- £123 million invested in the development of long-term strategic water sources including the White Horse reservoir
- £69 million invested in drinking water quality improvements, including lead pipe replacement and upgrades to sampling facilities

Wastewater programme

We operate one of the largest wastewater networks in the world and the efficient management of the system is essential to protecting public health and the environment. Over AMP8 our investments in infrastructure, technology and sewage treatment works (STW) are designed to significantly upgrade the network, improve monitoring, response, and treatment standards, and reduce pollution incidents.

£996 million (excluding capitalised borrowing costs, adopted assets and statutory adjustments) was invested in the wastewater network in 2025/26, comprising £271 million in below ground assets and £725 million in above ground assets; key programmes were:

- £481 million spent upgrading STW to increase capacity, improve treatment standards and reduce pollution incidents, of which £3 million relates to below ground assets
- £247 million invested, of which £190 million relates to below ground assets, in sewer flooding prevention programmes, including core maintenance, network upgrades, and health and safety improvements
- £206 million invested, of which £78 million relates to below ground assets, in our pollution reduction programme including replacement of 16.5km of rising mains, upgrading stormwater systems to reduce storm overflows, and sewer network upgrades
- £62 million invested in our bioresources programme to produce green energy and maximising the energy and resource recovery from our sewage sludge

Capital investment in other programmes, including digital, developer services, fleet and facilities, in 2025/26 totalled £410 million.

Pensions

As at 31 March 2026, the total net IAS19 accounting surplus for the Group's defined benefit pensions was £4 million (2024/25 deficit of £86 million).

The Group's two independently administered defined benefit schemes, the Thames Water Pension Scheme (TWPS) and the Thames Water Mirror Image Pension Scheme (TWMIPS), saw a reduction in the deficit of £90 million and moved into a surplus of £4 million versus technical provisions. This combined improvement was driven by £169 million of Company contributions, partially offset by the impact of the updated valuation assumptions and data. The Group continues to make actuarially agreed, regular contributions for active employees (TWMIPS only) and deficit repair contributions (TWMIPS and TWPS), as agreed as part of the 2022 triennial valuation recovery plan.

Financial Review (continued)

Pensions (continued)

Both TWMIPS and TWPS were due the regular triennial valuation as at 31 March 2025. On TWMIPS the valuation was agreed between the Company and Trustees inside the statutory deadline of June 2026. The TWPS triennial valuation remains ongoing and is to be agreed after publication of this Annual Report and Accounts.

Gearing and interest cover

The debt drawdown in the year, together with non-cash changes to the carrying value of borrowings and leases (primarily consisting of accrued interest and debt accretion) increased statutory net debt[1] to £22,370 million (£20,432 million at 31 March 2025), representing an increase of £1,938 million.

Net debt (covenant basis)[2] which excludes cash and cash equivalents in TWSSI has increased by £2,047 million to £19,772 million from £17,725 million in 2024/25. Senior gearing increased from 84.4% in 2024/25 to 86.1%.[3]

Our Regulatory Capital Value (RCV) increased to £22,725 million as at 31 March 2026 compared with £21,008 million at 31 March 2025, reflecting net capital expenditure allowances less allowed depreciation.

The ratio of operating cashflow to senior debt cash interest was 1.46x for the period to 31 March 2026 (31 March 2025: 1.09x) and the ratio of operating cash flow to Class A debt cash interest was 1.89x for the period to 31 March 2026 (31 March 2025: 1.26x).

Testing of the gearing covenant and interest cover covenants are currently suspended while we progress our recapitalisation process to improve financial resilience.

Credit ratings

	Corporate Family	*Super Senior*	*Class A*	*Class B*
Moody's	Caa3 (stable)	B2 (stable)	Ca (stable)	C (stable)
S&P	-	-	CCC (negative)	CC (negative)

Our S&P ratings are unchanged since 31 March 2025. Our super senior debt was newly rated by Moody's in September 2025 at B2 (stable), and Moody's downgraded our Class A debt rating from Caa3 (stable) to Ca (stable) on 10 July 2026.

Cost of Interest

Overall, the Group's effective cost of interest[4] including accretion on index-linked debt was 5.7% (2024/25: 5.1%); the effective cash cost of interest[5] was 3.8% (2024/25: 2.4%). The increase in the effective cost of interest was driven by new debt issued at a higher cost. During the year, £11 million of accretion was paid on maturing index-linked swaps. However, no accretion payment was made for index-linked swaps which have not yet matured.

Financing investment

We finance investment in our water, wastewater and digital infrastructure through a combination of operating cash flows and external financing. Our creditors provide funding to Thames Water Super Senior Issuer plc (TWSSI) which in turn funds TWUL. TWSSI is a specialised subsidiary of the Group, created to raise super senior debt to fund TWUL. As some of the conditions to the access of this funding remain unsatisfied, TWUL has been required to seek consent from TWSSI's creditors to obtain the funding. During the year, TWSSI was provided with £1,837 million of super senior funding with net proceeds of £1,529 million advanced to TWUL towards financing our business, including our investments in our networks. £197 million of net proceeds remained.

Debt profile

The average debt maturity term is 11.2 years. The interest rate profile of debt as at 31 March 2026[6] is:

- £8,716 million fixed rate (2024/25: £6,942 million)
- £2,498 million floating rate (2024/25: £2,309 million)
- £8,826 million index-linked (2024/25: £8,650 million)

The debt instruments as at 31 March 2026[7] are:

- £10,351 million GBP bonds (2024/25: £8,653 million)
- £2,612 million foreign currency bonds (2024/25: £2,521 million)
- £1,680 million US Private Placements (2024/25: £1,698 million)
- £4,162 million GBP loans (2024/25: £3,867 million)

As at 31 March 2026, foreign currency debt was swapped into GBP with the exception of $285 million and ¥20 billion (2024/25: $285 million). A further $106 million of debt became unhedged from 13 April 2026.

[1] Statutory net debt is comprised of secured bank loans and private placements (FY26: £5,840 million; FY25: £5,548 million), bonds (FY26: £12,837 million; FY25: £11,104 million), lease liability (FY26: £87 million; FY25: £53 million), interest payable on borrowings (FY26: £1,877 million; FY25: £1,680 million) and bank overdraft (FY26: £4 million; FY25: £71 million) net of cash and cash equivalents (FY26: £557 million; FY25: £306 million).

[2] Net debt (covenant basis) excludes accrued interest, amounts owed to Group undertakings, unamortised debt issuance costs and discounts, and unamortised IFRS 9 adjustments; 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 currency swaps held in the Group. Bank overdraft is not relevant for covenant purposes, and cash is added for covenants purposes (which is based on cash and investments in the securitisation group whereas the accounting definition adjusts for other items including cash and cash equivalents in TWSSI).

[3] Ratio of covenant senior net debt to Regulatory Capital Value (RCV), adjusted to include cash and cash equivalents in TWSSI; covenant gearing ratio, which excludes cash and cash equivalents in TWSSI, is 87.0% (FY25:84.4%).

[4] Effective cost of interest is external net finance costs adjusted to exclude non-debt items, amortisations and to include swap accretion divided by average gross external debt on a post swap basis.

[5] Effective cash cost of interest is interest costs on external debt and swaps divided by average gross debt on a post swap basis.

[6] Post-swap principal outstanding plus inflation accretion

[7] Principal plus inflation accretion excluding swaps

Financial Review (continued)

Liquidity

The Group's liquidity is supported by an initial £1,500 million super senior facility and an additional £1,500 million of super senior facility (the accordion facility).

As at 31 March 2026 TWSSI had drawn £1,427 million of the initial super senior facility, of which £1,332 million of net proceeds was passed to TWUL. £73 million remains available under this facility and may only be drawn once the accordion facility has been fully committed and utilised.

TWSSI had drawn £410 million of the accordion facility, of which £197 million of net proceeds was passed to TWUL as at 31 March 2026, with an additional £197 million of net proceeds advanced to TWUL in April 2026. A further £414 million was drawn by TWSSI under this facility on 10 June 2026, of which £192 million of net proceeds was passed to TWUL in June 2026, and £205 million of net proceeds was passed to TWUL in July 2026. The Group has not yet sought commitments for the remaining £676 million of accordion facility.

The Group had total liquidity of £1,044 million as at 31 March 2026. This was made up of £557 million of available cash across Thames Water entities, including £197 million held in TWSSI, and £487 million of undrawn committed facilities held within TWSSI, comprising £73 million of the initial super senior facility and £414 million of the accordion facility. While certain conditions to the funding remain unsatisfied, cash held within TWSSI can only be advanced to TWUL with creditor consent.

Liquidity as at 30 June 2026 was £588 million comprising available cash of £515 million across Thames Water entities, including £206 million held in TWSSI and £73 million of the initial super senior facility, which is committed but undrawn. In addition, as at 30 June 2026, £676 million of the accordion facility is uncommitted.

Dividends

The Group's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected legal, regulatory and financial performance, regulatory restrictions (such as those set out in its Instrument of Appointment), management of economic risks and debt covenants.

In assessing the dividend to be paid, the Directors are required to seek to ensure that:

- Payment of a proposed dividend rewards efficiency and the effective management of risks;
- Payment of a proposed dividend should not impair the Company's current or short-term liquidity or compliance with the Company's covenants;
- Payment of a proposed dividend should not impair the Company's longer-term ability to finance the Company's business including access to both debt and equity capital, and therefore must also take account of future investment needs and financial resilience;
- An assessment is made to determine if the payment of a dividend reflects the Company's performance against the relevant price review Final Determination and its commitments to customers and other stakeholders; and
- An assessment is made of the impact that payment of the dividend may have on the Company's commitments and obligations, and in turn also its overall performance levels, including service delivery to customers, environmental commitments, community commitments, and obligations to employees and pension members.

No dividends were paid to shareholders in 2025/26 nor 2024/25. Dividends are not currently permitted to be paid due to the licence and WBS cash lock-ups resulting from credit rating downgrades below investment grade in April 2024.

Capital, financial and actuarial risk management policies and objectives

The Group's operations expose it to a variety of capital, financial and actuarial risks.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. Further details of this is discussed in the Going concern section of the Directors' Report and in the Accounting Policies, but without actions being taken during the year, there are material uncertainties which give rise to significant doubt about the company's ability to continue as a going concern. Details of the Group's borrowings and other financial instruments are disclosed in notes 17 and 18, respectively.

The capital structure of the Group consists of net debt and equity as disclosed in note 18.

Financial risk management

(i) Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Group's income or the value of its financial instruments. Financial instruments entered into by the Group include RPI linked bonds, loans and swaps. These instruments are exposed to movements in the UK RPI index. The principal operating company of the Group, TWUL, is a regulated water company with inflation-linked revenues. Therefore the Group's index-linked borrowings form a partial economic hedge as the assets and liabilities partially offset. The Group also uses derivatives to manage inflation risk on non-index-linked borrowings.

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of debt issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. Due to the extension of debt maturities on 25 February 2025 without a corresponding extension to swaps, there was an unhedged USD position in relation to the USPP originally due to mature in March 2025. From January 2026 there was also an unhedged JPY bond as a result of the counterparty exercising a break clause. Further disclosures regarding financial instruments can be found in note 18.

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

Financial Review (continued)

Capital, financial and actuarial risk management policies and objectives (continued)

(ii) Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

TWUL has a statutory obligation to provide water and wastewater services to customers within its region. Due to the large area served by TWUL and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 14.

(iii) Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. We finance our investment in our water, wastewater and digital infrastructure through a combination of operating cash flows, debt issuance and new equity. Our funding strategy this year has focussed on extending our liquidity runway and seeking new equity. Further details of this is discussed in the Going concern section of the Directors' Report and in the Accounting Policies, but without actions being taken during the year, there are material uncertainties which give rise to significant doubt about the company's ability to continue as a going concern. Details of the Group's borrowings and other financial instruments are disclosed in note 17 and 18, respectively.

Actuarial risks
The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. For further details of these risks, please refer to note 22.

The trustees continue to control the level of investment risk within the schemes by reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees also review the risk exposures taking into consideration the longer term objectives of the respective schemes.

s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

"A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;
(b) the interests of the company's employees;
(c) the need to foster the company's business relationships with suppliers, customers and others;
(d) the impact of the company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between members of the company."

On appointment, Directors receive an induction programme tailored to their specific requirements and designed to facilitate their understanding of the business, sector, the Company's operations and its culture.

Day-to-day running of the Company is managed by the Company's management team, consisting of employees from TWUL. During the reporting period, the Board of TWUHL has received updates and where it was required provided their approvals: principal accounting matters, going concern review, Company's annual report and financial statements, reappointment of the auditors, treasury procedures, Power of Attorney, annual tax update and Corporate Criminal Offence Statement. When required, the Board is supported by various external and internal advisers.

Stakeholder management

The Company's stakeholders are considered to be companies within the TWUL Group and its shareholders. Within its subsidiaries these also include debt investors, customers, employees, suppliers and other stakeholders. Stakeholder engagement occurs regularly throughout the year, both formally and informally. The TWUL Group's Director of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and environment

The Board supports the Group-wide commitment to seeking to continually improve the delivery of water and wastewater services in the most sustainable way, which means complying with regulation, delivering public value and leaving the environment in a better state than we found it at the end of each regulatory period.

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed within these financial statements.

Approved by the Board of Directors on 14 July 2026 and signed on its behalf by

A Montague, Director
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report

Introduction

The Directors present their Annual Report and the audited financial statements of Thames Water Utilities Holdings Limited (the Company) and the audited consolidated financial statements of its group (the Group) for the year ended 31 March 2026.

The Company is incorporated and domiciled in the United Kingdom and is a wholly owned subsidiary of Thames Water Limited. Its ultimate parent is Kemble Water Holdings Limited, a company registered in the United Kingdom and owned by institutional investors.

The financial statements are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes disclosures required under the Companies Act 2006 and related regulations.

The nature of the Group's operations and its principal activities are set out in our Strategic Report. The Strategic Report also includes additional details on some of the disclosures set out herein. More generally, the Strategic Report includes: our business model; key performance indicators and performance against them; our people strategy and workforce engagement programme; our approach to climate change, the environment, local communities and other sustainability issues; how we engage with stakeholders; an analysis of our principal risks and uncertainties and our approach to managing risk and a statement setting out how the Directors have complied with the requirements of Section 172 of the Companies Act 2006. The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of these risks and their management or mitigation can be found on page 5.

The Directors consider that the annual report and audited financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess both the Group's and Company's position and performance, business model and strategy.

The registered number of the Company is 06195202 (England and Wales).

Future outlook

The future outlook of the Company is not expected to change from the current principal activity of being an intermediate parent company. The future outlook of the Group is not expected to change from the current principal activity of being the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned direct subsidiary, Thames Water Utilities Limited (TWUL or Thames Water), in accordance with TWUL's Licence of Appointment.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

A De Brunner
J Gething
N Land
A Montague
I Pearson
N Robson
C Weston

J Gething was appointed on 2 December 2024 as Chief Restructuring Officer of the TWUL Group to provide specialist advice on the complex issue of balance sheet recapitalisation and he became a TWUL, TWUF and TWUHL Board member on 22 January 2025, followed by becoming a TWSSI Board member on 25 February 2025. He is not employed by any company in the Group and accordingly is not paid any remuneration by the Group for qualifying services. All fees associated with his role as Chief Restructuring Officer are paid to AlixPartners by TWUL.

During the year under review, none of the Directors had significant contracts with the Company other than their contracts of service (2025: none).

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are Directors of associated companies, which remain in force at the date of this Report. The Company maintains a comprehensive insurance programme, renewed annually, which includes Directors' and Officers' Liability cover.

Share capital

Refer to "Financing investment" section on page 24 for information on transactions impacting share capital in the Group during the year.

Operations outside the United Kingdom

There are no active operations conducted outside the United Kingdom.

Going concern

The Thames Water Utilities Holdings Limited (TWUHL or the Company) Directors have assessed TWUHL's ability to continue as a going concern, recognising that it is a holding company which does not trade and has no external debt, although the Company guarantees obligations of its subsidiaries TWUL and Thames Water Utilities Finance plc (TWUF) under the terms of the Whole Business Securitisation (WBS) and also guarantees the debt of Thames Water Super Senior Issuer plc (TWSSI).

Given the dependency on TWUL and the obligations the Company has under the WBS, the Company's Directors have considered as part of the Company's and TWUHL's Group going concern assessment, the current financial position of the Company's sole direct subsidiary TWUL (the only trading entity within the group headed by the Company). In making this assessment the Directors of the Company have made extensive enquiries of the TWUL Directors, of which all of the TWUHL Directors are TWUL Directors, which includes understanding their current intentions and expectations (and on what basis these have been formed) as well as considering the actions taken by TWUL post the balance sheet date of 31 March 2026. The section below summarises these considerations.

Directors' Report (continued)

Going concern (continued)

The Directors believe that it is reasonable to assume that the Group and Company will have adequate resources, for a period of 12 months from the date of approval of these financial statements, to continue operations and discharge their obligations as they fall due.

However, the Directors believe there exists material uncertainty as to whether the Group and the Company will be able to extend its liquidity runway for the Assessment Period in order to deliver a recapitalisation transaction by way of a court approved restructuring process successfully, either within the Assessment Period or at all. If it fails to do so, the Group would need to consider all options available to it at the time, but a possible consequence could be a special administration of TWUL under the Water Industry Act 1991. The elements which will be key to the success of a recapitalisation transaction are each subject to uncertainties which are outside of the Group and Company's control and which could crystallise in the very near term. For further details refer to the basis of preparation disclosure in the financial statements.

Further details of this assessment and the post balance sheet events are contained within the TWUL 2025/26 Annual Report, copies of which may be obtained from the Company Secretary's Office at Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Corporate governance

The TWUHL Board is responsible for the long-term success of the Group by providing leadership and strategic direction. It balances the interests of wide range of stakeholders including customers, employees, and suppliers and the impact on local communities and the environment. The TWUHL Board provide strong experience in finance asset management, and value creation, constructively challenge and monitor the performance, and the delivery of the Group's strategy, as well as that of the TWUL Executive Board. Members of TWUHL's Board are also members of TWUL's Board. The TWUHL Board is not deemed to require a committee for Audit Risk and Reporting, Director Remuneration, Nomination, Regulatory Strategy, Customer Service, or the Health, Safety, Security and Sustainability Committee, as all such these matters are closely monitored by the Committees reporting into the TWUL Board.

Our system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Our management of risk supports this through a number of key company level internal controls and responses:

- Business planning, budgeting and forecasting. These activities support resilient operations and sustainable and robust finances. The annual budgeting exercise includes a detailed budget for the year and a view for the remainder of the asset management plan (AMP).
- Performance reporting – the Board receive monthly management reports, including an overview of key performance metrics.
- System of delegated authority – delegated levels of decision-making authority are reviewed and approved by the Board;
- Insurance – insurance programme and insurance team in place. The Board review and approve the strategic approach being taken to level and type of cover;
- Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk;
- Code of conduct and speaking-up hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

TWUL's Enterprise Risk Management and Internal Audit teams also provide reporting and assurance over our management of key business risks over the Group.

Financial risk management

During the year management had access to the Chief Executive Officer, Chief Restructuring Officer and the Executive Team of TWUL, who also manage the Group on a day-to-day basis on behalf of the Directors of individual group companies. The TWUL Board receives regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Group's operations expose it to a variety of financial risks and information on the use of financial instruments by the Group to manage these risks is disclosed in the Strategic Report.

Political donations

The Group has an agreed policy to not make any political donations. No political donations were made during the year (2024/25: £nil).

Charitable donations

Charitable donations of £1.4 million were made by the Group during the year (2024/25: £1.4 million).

Research and development

Research and Development in Thames Water seeks to address business risks across the asset lifecycle for water, wastewater and bioresource assets in the infrastructure (below ground) and non-infrastructure (above ground) contexts. This technically focussed activity enables the identification, assessment and use of new technologies, techniques and systems, and continues to be an important function within the business. Priorities continue to be in the areas of leakage, supply interruptions, water quality, pollutions, operational efficiency and asset management, so we can implement solutions at scale to meet our regulatory obligations. We continue to be an active participant (both as lead, and in a supporting role), in all aspects of the Water Innovation Fund, championed by Ofwat. We continue to be a member of UK Water Industry Research (UKWIR) which delivers research programmes spanning 11 distinct areas (abstractions, leakage, supply interruptions, water quality, sustainability, pollutions, customer poverty, asset management, regulatory incentivisation, carbon reduction and circular economy) and enables the Chemical Investigation Programme, which looks to examine current and emerging legislation on trace chemical substances in the water environment. Expenditure on R&D totalled £25.4 million for the year 2025/26 (2024/25: £16.3 million), which includes our contribution into the Water Innovation Fund.

Intellectual property

The Group protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Directors' Report (continued)

Recruitment, employment and training of disabled people

We remain a Disability Confident Level 2 employer and continue to strengthen our inclusive recruitment approach as part of business as usual. Over the past year, we have widened our reach through community partners and diversified attraction channels to engage more people with disabilities and long term health conditions. This, alongside improvements to our disability declaration, has driven sustained progress, with 10% of external hires now declaring a disability, supported through inclusive processes embedded across our recruitment activity.

Our Guaranteed Interview Scheme, covering disability and care leavers, is now fully integrated into business as usual recruitment and has supported 9% of external hires this year. This helps unlock broader talent pools and means that our workforce better reflects the communities we serve.

We continue to honour our commitments under the Autism Covenant and grow our Supported Internship Programme, which remains a key part of our early talent and inclusion strategy. The programme continues to deliver strong outcomes, with 50% of interns progressing into paid employment, and we plan further expansion into 26/27. Alongside this, we will continue strengthening hiring manager capability to provide inclusive environments where interns and teams can thrive.

Engaging our colleagues

Our colleagues expect to know what our plans are and how they contribute to them, be kept informed and know what to say to family and friends when we are in the news, feel their views are listened to and acted on, and know their good work is recognised.

For the first time since 2023, we ran an engagement survey with all colleagues. Over a three week period, 77% over our people (over 6,000) took the time to share how they feel about working at Thames Water. Despite everything that has happened over the last couple of years – a new CEO, new priorities, a difficult financial situation, we saw a 2% increase in our engagement scores since 2023 – and big increases in the majority of the questions we asked colleagues.

Contributing to that engagement score, we saw big increases in colleagues feeling committed to our purpose and Thames Water motivating people to be their best (both up 5 pts). On the downside, we saw a drop (down 2 pts) in people being proud to work for Thames Water. In listening sessions after the survey, it became clear that this drop was due to the constant negative discussions about Thames Water in the media.

The biggest increases we saw were a 15pt increase in people knowing how what they do each day contributes to our success, and an 11pt increase in people having confidence in Chris and the Executive team to deliver on our turnaround plan. This is a great acknowledgement of the work Chris and the Executive Team have done to be more open, honest and transparent with colleagues, customers and the general public.

On the downside, it is clear people do not think any action will be taken as a result of the survey – something the Executive Team and Senior Leadership Team are focused on. We also saw a drop (3pts) in scores relating to how simple the organisation is and people being recognised for their great work.

What we've been doing:

While leaders across the business have put in place action plans based on the feedback from their individual teams, the Executive Team have been focused on staying open and honest in how we communicate to everyone, simplifying the organisation and recognising people's work.

We have seen changes to our travel and expenses policy making it easier to get approvals, improvements in our recruitment process and development of our delegated levels of authority – all to try and reduce bureaucracy and make it easier for people to get things done.

Our annual recognition awards are back with nearly 700 nominations from colleagues. This year, we celebrated colleagues and teams who are putting our 'Purpose in action'. The ceremony was held in late March with six winners in categories like prioritising our performance, our assets, our people and our customers, community hero and everyday hero.

To keep the lines of communication open, we released a visual podcast series where the Executive Team were interviewed on the topics on everyone's mind. A hard hitting series answering questions like – is Thames hiding something, why are we in so much debt and what we are doing to improve public perception. The podcast series was the most watched communications of the year.

For our frontline teams, we have introduced new communication channels to share more about what we are doing to turn around our organisation – and to celebrate where it is working. And for everyone, we have introduced a monthly dashboard which shows how we are progressing on the targets our customer care about most e.g. pollutions, leakage, water quality, complaints, health and safety.

Operational Greenhouse Gas Emissions and Energy Management

Thames Water calculates their Greenhouse Gas (GHG) emissions using the UK Water Industry Research Carbon Accounting Workbook (CAW).

The CAW provides estimates of the GHGs identified in the Kyoto Protocol, which are produced as a result of the operational activities of water and wastewater companies. Estimates are made based on guidance from the Department for Energy Security and Net Zero and, where required, international standards.

Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents (CO_2e).

Emissions reporting for 2025/26 reporting uses CAW v20 (AR5). This uses Global Warming Potential values for 100 year time horizon from the IPCC Fifth Assessment Report AR5 throughout.

Under the GHG Protocol there are two distinct methods to account for Scope 2 emissions. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

1. Location-based. This method reflects the average emissions intensity of the grid on which energy consumption occurs (using a grid-average emission factor data).
2. Market-based. This method reflects emissions from electricity that companies have purposefully chosen, and it derives emission factors from contractual instruments.

As Thames Water sources renewable electricity accredited with renewable 'Guarantees of Origin' through a contract with our supplier, a market-based accounting approach is applied when reporting Scope 2 emissions. The market-based approach has been used to determine Thames Water's operational plans and strategies for carbon management and performance reporting on our journey towards Net Zero.

For transparency, we have also disclosed the location-based data within this report for comparison.

Directors' Report (continued)

Our carbon target

For AMP8, concerns regarding companies' deliverability, financeability and customer affordability have been highlighted, resulting in the Environment Agency writing to companies on behalf of the Secretary of State for the Environment, providing a steer that companies were expected in the development of their business plans to explore opportunities to phase non-statutory commitments, including net zero, to future price review periods where appropriate.

Whilst these challenges do not change our desire to achieve Net Zero, we are still working to fully understand the implications and opportunities they present and how these will impact on our net zero plans. These challenges have been reflected in the development of our business plan for the 2025-2030 period.

Our aims include continuing to focus on energy efficiency, and energy generation, including by maximising energy and resource recovery from our sewage sludge, as well as transitioning away from fossil fuels through the electrification of our fleet, plant, and heating systems. We will publish an updated overview of our decarbonisation transition plan as soon as we have completed our review.

By reducing emissions, we will provide a better environmental outcome for customers and reduce our contribution to the causes of climate change.

Key trends

Greenhouse gas emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (direct emissions);
- Scope 2 (indirect energy use emissions);
- Scope 3 (emissions from purchased goods and services, business travel, and energy and fuel well-to-tank); and
- Carbon intensity ratios per megalitre of water and sewage treated (per Ml).

This year the sector, in agreement with industry regulator Ofwat, has adopted an updated emissions factor for nitrous oxide (N_2O) emissions arising from the wastewater treatment process. This change reflects the adoption of the latest Intergovernmental Panel on Climate Change (IPCC) guidance and aligns the sector with the most up to date scientific evidence. As a consequence of this change, total greenhouse gas emissions attributed to wastewater treatment have increased by 529.5 ktCO_2e.

The increase does not indicate a deterioration in operational performance. Rather, it represents an improvement in methodological accuracy and transparency, providing an improved basis for future emissions management strategies and interventions.

Using the location-based approach, our net operational emissions increased to 1.081.4 ktCO_2e in 2025/26.

Our gross operational emissions increased to 1093.5 ktCO_2e.

Using the market-based approach, our net operational emissions were 870.2 ktCO_2e.

Our gross operational emissions were 885.9 ktCO_2e.

In 2025/26, the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat – our emissions intensity ratio, were:

1. **Location -based**
   Water: 182.27 kgCO_2e per Ml
   Wastewater: 574.5 kgCO_2e per Ml

2. **Market-based**
   Water: 63.8 kgCO_2e per Ml
   Wastewater: 511.2 kgCO_2e per Ml

Scope 1 emissions increased by the following factors:

- Our direct emissions from burning fossil fuels increased by 6.5 ktCO_2e to 23.7 ktCO_2e .
- We are working towards transitioning to low carbon fuels and heating (e.g. HVO and/or heat pumps).
- Process and fugitive emissions increased by 529.5 ktCO_2e to 706.6 ktCO_2e ; this is due to the adoption of the latest IPCC guidance to align the sector with the most up to date scientific evidence, increasing total process and fugitive emissions.
- Our emissions associated with our Vehicle transport (Fleet) increased by 3 ktCO_2e to 20 ktCO_2e due to an increasing number of vehicles in our fleet. We are working towards transitioning plant and selected fleet to lower carbon alternatives, such as HVO.

Scope 2 emissions decreased by 14%, c. 26.4 ktCO_2e in 2025-26.

- We have increased on-site generation from sludge processes and commissioned a new solar plant at our Deephams sewage treatment works.

Scope 3 emissions associated with purchased goods and services increased by 5.2 CO_2e or 9%.

- Emissions from chemicals increased by 1 ktCO_2e, from 36.1 ktCO_2e to 37.1 ktCO_2e.
- Outsourced operators increased by 4.2 ktCO_2e to 27.1 ktCO_2e; we are working with our major suppliers transitioning to lower carbon fuels and energy sources.
- Business travel increased marginally by 0.1 ktCO_2e but remains below the historical average due changes in working practises and a conscious change in employee behaviour.

Directors' Report (continued)

Key trends (continued)

	Market-based		Location -based	
	2026 $kTCO_2e$	2025 $kTCO_2e$	2026 $kTCO_2e$	2025 $kTCO_2e$
Scope 1	769.1	229.9	769.1	229.9
Direct emissions from burning of fossil fuels	23.7	17.1	23.7	17.1
Process and fugitive emissions	725.4	195.8	725.4	195.8
Transport: TWUL owned or leased vehicles	20.0	16.9	20.0	16.9
Scope 2	0.0	1.9	164.8	191.1
Purchased electricity	0.0	1.9	164.8	191.1
Electric vehicles	0.000	0.002	0.000	0.002
Scope 3	116.9	120.6	159.6	162.8
Business travel for TWUL business	1.2	1.0	1.2	1.0
Outsourced activities	27.1	23.5	27.1	23.5
Purchased electricity – WTT and T&D	20.9	20.6	63.7	62.7
Purchased activities – WTT and T&D	9.3	7.5	9.3	7.5
Chemicals	37.1	36.1	37.1	36.1
Disposal of waste	21.3	32.0	21.3	32.0
Gross	886.0	352.4	1,093.5	583.8
Net-offs	(15.8)	(5.0)	(12.1)	(2.7)
Net	870.2	347.4	1,081.4	581.1

Capital projects Scope 3 emissions

In addition to operational carbon emissions described above, this is the third year we have reported Scope 3 emissions associated with capital projects, i.e., Capital Carbon emissions. These are Scope 3 indirect emissions associated with the construction, capital maintenance, and end-of-life treatment of assets.

This year we have been able to establish our Carbon Management Asset Standard within different delivery offices and operational business areas. This has led to an improved internal engagement around how we can lead the reduction of emissions associated with our capital projects, as well as the engagement and collaboration with our supply chain.

We have fostered our external engagement with other water and wastewater companies, with an increase in knowledge sharing and best-practice techniques through the Water UK Carbon Network, the Capital Carbon Forum we co-chair, and other external forums.

We are taking steps to develop our Carbon Assessment Tool to facilitate the use and therefore its uptake, and ability to update emission factors used in the future enabling more accurate estimating of our emissions.

We estimate that our capital projects are associated with 345.0 $ktCO_2e$ of emissions in 2024-25, calculated on a cradle-to-build basis. This is split into 216.9 $ktCO_2e$ associated with projects delivered in the wastewater business area, and 128.1 $ktCO_2e$ for projects in the water business area. This shows an increase in emissions from 2023/24, which is predominantly a result of an increase in capital works delivered. The carbon intensity of our main delivery office is similar to that of the previous years. However, the scope of work was less carbon-intensive for the majority of the other delivery offices, leading to an overall reduction of the carbon intensity.

Energy

SIn the year:

- Our total energy consumption increased by 18GWh, from 1,629 GWh to 1,647 GWh.
- Our total electricity consumption decreased by 20 GWh from 1,274 GWh to 1,254 GWh.
- We generated 268 GWh of renewable electricity at our operational sites (including renewable export).
- We used 253 GWh ourselves, covering 20.2% of our electricity needs from self-generated renewable electricity.
- Together with our other renewables – Biomethane, Wind and Solar Photovoltaics (PV), we have produced 518 GWh renewable energy.
- We used 475 GWh of this, covering 26 % of our energy needs, including heat energy

As a result, the net electricity intensity for each megalitre of water and wastewater we supply and treat have increased by:

- Water: 532 kWh/Ml +1.5%
- Wastewater:252 kWh/Ml -7.4%

Funding

Refer to "Financing investment" section on page 24 for information on funding during the year.

Directors’ Report (continued)

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors’ report confirm that, so far as they are each aware, there is no relevant audit information of which the Company’s auditor is unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

The financial statements on pages 46 to 128 were approved by the Board of Directors on 14 July 2026 and signed on its behalf by:

A Montague
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and consolidated financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

A Montague
Director
14 July 2026

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Thames Water Utilities Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Thames Water Utilities Holdings Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2026 and of the Group's and Company's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise:

- the Consolidated and Company statements of financial position as at 31 March 2026;
- the Consolidated and Company income statements, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended;
- the Material accounting policy information; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Material accounting policy information within the financial statements concerning the Group's and the Company's ability to continue as a going concern. The Company is reliant on support from its direct subsidiary and the Group's principal trading entity, Thames Water Utilities Limited ("TWUL"), to provide the liquidity required to meet the Company's cash outflows as they fall due and there is a material uncertainty as to whether TWUL will be in a position to provide that support as and when required for the duration of the going concern assessment period, defined as 12 months from the date of approval of these financial statements. Further, there is a material uncertainty as to whether the Group will be able to extend its liquidity runway in order to deliver a recapitalisation transaction by way of a restructuring plan under Part 26A of the Companies Act 2006 ("RP2") successfully, either within 12 months from the date of approval of the financial statements or at all. If a recapitalisation transaction by way of RP2 is not delivered, the Group and Company would need to consider all options available to it at the time, but a possible consequence would be a special administration regime of TWUL under the Water Industry Act 1991. The success of a recapitalisation transaction pursuant to RP2 is subject to uncertainties which are outside of the Group's control and which could crystallise in the very near term. These conditions, along with the other matters explained in the Material accounting policy information to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding and evaluating the design and implementation of relevant controls related to the directors' assessment of going concern;
- Understanding and assessing the factors giving rise to the material uncertainty including assessing the actions available to the directors on which they have based their assertion that they have a reasonable expectation that the Group and Company has adequate resources to continue for a period of at least 12 months from the date of approval of the financial statements;
- Obtaining and understanding the terms of the Whole Business Securitisation and the TWUL Group's financing documentation, including the super senior financing documentation and the financial covenants applicable to the TWUL Group, to understand the construct of the Whole Business Securitisation and the guarantees in place between TWUL and the Company;
- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets and forecasts;
- Performing a comparison of budget versus actual results for the year ended 31 March 2026 and understanding where variances had arisen. Through this testing we informed our assessment regarding management's ability to forecast accurately;

- Evaluating the key assumptions management has applied in developing their base case. We challenged various aspects of management's base case including consideration of potential downside risks;

- Performing inquiries with key stakeholders (from both within and outside of the TWUHL Group) and reviewing correspondence with creditor representatives, regulators and advice from the TWUHL Group's external legal counsel to corroborate management's position and assess whether there is any contradictory or additional evidence requiring disclosure within the basis of preparation;

- Engaging the use of our internal experts including business restructuring experts to support us in understanding aspects of management's assessment and informing our challenges to management; and

- Assessing the appropriateness of the disclosures within the financial statements as disclosed in the Material accounting policy information, relating to the material uncertainty on going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Context

As explained throughout the Strategic report, Thames Water continues to operate in a challenging environment. The business has incurred significant operational demands in maintaining and enhancing its network, alongside the ongoing need to ensure continuity of services, while continuing the restructuring process all within the context of persistent heightened regulatory and public attention. We have responded with a dynamic risk assessment and the continuous demonstration of professional scepticism throughout the execution of the audit.

Overview

Audit scope

- Our scoping is based on the Group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. The Group consists of four legal entities, Thames Water Utilities Holdings Limited (TWUHL), Thames Water Utilities Limited (TWUL), Thames Water Utilities Finance plc (TWUF) and Thames Water Super Senior Issuer Plc (TWSSI). All of the legal entities were considered significant components and subject to full scope audits.

Key audit matters

- Material uncertainty related to going concern (Group and parent)

- Valuation of provision for expected credit losses for trade receivables - household directly billed customers (Group)

- Valuation and completeness of provisions for environmental and related regulatory matters (Group)

- Classification of costs between operating and capital expenditure (Group)

- Valuation of retirement benefit obligation (Group)

- Valuation of financial derivatives - credit risk adjustment (Group)

- Valuation and accuracy of accounting for the accordion drawdown (Group)

Materiality

- Overall Group materiality: £40,000,000 (31 March 2025: £35,000,000) based the consideration of various factors and benchmarks, together with engagement leader judgement, resulting in this quantum which represents approximately 0.16% of Total Assets.
- Overall Company materiality: £53,023,000 (31 March 2025: £50,281,000) based on 1.00% of Total Liabilities.
- Performance materiality: £30,000,000 (31 March 2025: £26,250,000) (Group) and £39,767,250 (31 March 2025: £37,710,750) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Valuation and accuracy of accounting for the accordion drawdown is a new key audit matter this year. Accounting for debt modification, which was a key audit matter last year, is no longer included because of the accounting for debt modification being in relation to a one-off event that occurred in the year ended 31 March 2025. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of provision for expected credit losses for trade receivables - household directly billed customers (Group) The provision for expected credit losses on trade receivables amounted to £208.1m (2025: £177.1m), of which £151.1m (2025: £131.0m) is in respect to Household (HH) directly billed customers. The assessment of the recoverability of customer debts involves calculations with significant judgement and estimation. As detailed within the Significant accounting judgements and key sources of estimation uncertainty ('Accounting judgement and estimation - provision for expected credit losses'), management primarily uses historical performance	We obtained an understanding of the trade receivables provisioning process and evaluated the design and implementation of related financial controls. We evaluated the model used to calculate the core provision and evaluated its consistency with prior years, specifically that the primary inputs relate to the previous year's cash collection by ageing category applied to the ageing category as at 31 March 2026. We consider the construct of the model to be appropriate and in line with the requirements of IFRS 9.

to determine the future collectability of trade receivables and estimate the provision for expected credit loss. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The modelling takes the closing household debtors balance and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains is considered uncollectable, which forms the expected credit loss provision. An additional overlay adjustment has been made to the expected credit loss provision modelling to reflect emerging economic factors expected to impact customer payment behaviour and expected future credit losses. Refer to the Significant accounting judgements and key sources of estimation uncertainty section within the notes to the financial statements and note 14 of the financial statements.	We performed a lookback test on management's prior year provision by reviewing the level of write-offs which occurred during the year, in order to assess management's forecasting accuracy. We re-performed the calculations used in the model in order, to ensure the accuracy of these calculations. We tested the significant underlying data and inputs upon which the calculations were based, including testing a sample of receivables to validate the ageing classifications used in the model. We evaluated the appropriateness of the assumptions used and judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We evaluated management's considerations in respect of the methodology used for the calculation of the overlay adjustment. We challenged management's assumptions with regards to the factors impacting the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed sensitivity analysis which did not have a material impact on the outcome of management's assessment. We also evaluated the adequacy of disclosures in the financial statements.
Valuation and completeness of provisions for environmental and related regulatory matters (Group) The Group has provisions of £311.7.m (2025: £260.9m) relating to environmental, legal and other regulatory matters. These provisions primarily relate to matters arising from TWUL's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The determination of the completeness and valuation of environmental, legal and other regulatory matters is subjective, requiring significant judgement and a high degree of estimation uncertainty. Additional detail can be found within management's Significant accounting judgements and key sources of estimation uncertainty ('Accounting judgement - recognition of environmental, regulatory and legal provisions' and 'Accounting estimate - valuation of provisions'). For each matter, management must assess whether there is a present obligation as a result of a past event, the probability that an outflow of economic resources will be required and whether a reliable estimate can be made. This assessment determines the accounting treatment as either a provision, contingent liability or neither. Where a provision is recognised, management considers all available information in order to estimate the provision, including estimates and advice provided by external and internal legal counsel and historic experience. Refer to the Significant accounting judgements and key sources of estimation uncertainty section within the notes to the financial statements and notes 20 and 24 of the financial statements.	We obtained an understanding of the provisioning process for environmental matters and evaluated the design and implementation of related financial controls. We considered the expertise, qualifications and objectivity of the Group's external legal counsel. We reviewed legal advice and held discussions directly with external legal counsel, to identify potential inconsistencies or further environmental or regulatory matters not considered by management. We obtained estimates of potential penalties directly from the Group's external legal counsel and confirmed that these were used as the basis for the recorded provisions. Where relevant, we evaluated the consistency of the estimates year on year and understood the reasons for any significant changes. We evaluated management's methodology for estimating a provision for matters not yet prosecuted by the Environmental Agency ('EA'), including the consistency year-on-year. We recalculated the historical prosecution rate and compared the estimated average fine level to actual previous fines issued by the EA for similar matters. To assess the completeness of provisions for environmental and related regulatory matters, we performed board minute reviews, searched for relevant publicly available information and considered each matter set out in section 1,3,4 and 5 of note 24 of the financial statements. For each matter, we reviewed the latest advice from the Group's external legal counsel and held discussions with them and management to further understand each matter. The evidence obtained supported the inclusion of these matters as contingent liabilities. We also assessed the adequacy of disclosures in the financial statements.

Classification of costs between operating and capital expenditure (Group) Additions to Assets under construction (AUC) and Assets In Development (AID) during the year amounted to £2,581.9m (2025: £2,148.0m) which includes £412.2m (2025: £291.6m) of own works capitalised and £200.8m (2025: £186.7m) of borrowing costs capitalised, with the remainder being external costs. As detailed in the Significant accounting judgements and key sources of estimation uncertainty ('Accounting judgement - capitalisation of costs'), there is a high degree of judgement applied when allocating costs between operating and capital expenditure, especially as certain projects include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure, including staff costs to support capital projects, is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the Company, and can be measured reliably. There is a risk that capitalised costs may not fully meet these criteria. Additionally, the amounts capitalised involve a degree of estimation and judgement. There is also judgement applied in determining the amount of borrowing costs to be capitalised, which are capitalised at a project level only when certain qualifying criteria are met. Refer to the Significant accounting judgements and key sources of estimation uncertainty section within the notes to the financial statements and notes 9 and 10 of the financial statements	We obtained an understanding and evaluated the design and implementation of financial controls relating to the classification of costs between capital and operating expenditure. We performed sample testing at the project level, evaluating whether the projects were classified correctly as capital in nature. We performed sample testing at the individual expense level for costs capitalised into assets under construction and those expensed as repairs and maintenance during the year. We tested the calculation of borrowing costs capitalised, and the appropriateness of this capitalisation. Our procedures over own works capitalised included performing sample testing at the cost centre level by understanding and assessing the rationale behind the recharge rates attributed at a cost centre level. We assessed the appropriateness of the rates applied. We also challenged management as to the nature of the costs and whether they meet the capitalisation criteria. We also assessed the adequacy of disclosures in the financial statements.
Valuation of retirement benefit obligation (Group) The gross retirement benefit obligation as at 31 March 2026 was £1,582.7m (2025 £1,546.9m). The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in key financial and demographic assumptions used to value the retirement benefit obligation, in particular discount rates, inflation and mortality, could have a material impact on the calculation of the liability. The most significant assumptions are detailed in management's Significant accounting judgements and key sources of estimation uncertainty ('Accounting estimate - actuarial assumptions'). The principal change in the current year is that the results of the latest 2025 triennial valuation, including the updated demographic study, have been incorporated into the IAS 19 results through refreshed cashflows and revised assumptions. Refer to the Significant accounting judgements and key sources of estimation uncertainty section within the notes to	We obtained an understanding of the pensions process and evaluated the design and implementation of related financial controls. We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used (including discount rates and mortality expectations) against our internally developed benchmarks and considered the consistency and appropriateness of the methodology and assumptions applied compared to those used in preparing the previous year financial results. We have seen no evidence of management bias in the assumptions and methodologies used by the corporate actuary. We have performed an independent roll forward from the preliminary 2025 triennial valuation to the accounting results and found them to be materially accurate. We also evaluated the adequacy of disclosure in the financial statements.

the financial statements and note 22 of the financial statements.	
Valuation of financial derivatives - credit risk adjustment (Group) The Group derivative position as at 31 March 2026 was an asset of £287.9m (2025: £300.1m) and a liability of £1,786.4m (2025: £1,718.2m). The net derivative fair value as at 31 March 2026 was a liability of £1,498.5m (2025: £1,418.2m). The £80.3m year-on-year increase in the net liability position is primarily driven by underlying market movements. The derivatives credit risk adjustment valuation, specifically the estimation of the Company's own credit risk, is a key audit matter as it gives rise to a significant source of estimation uncertainty. See the Significant accounting judgements and key sources of estimation uncertainty ('Accounting estimates and judgement - valuation of derivatives') for further detail. The credit risk adjustment reflects a market participant's view of Thames' own credit risk, being the non-performance risk of Thames on its obligations. The estimation uncertainty reflects the lack of observable market inputs for key assumptions, particularly the Group's credit risk and super senior recovery rate, and the sensitivity of the valuation output to changes in those inputs. While IFRS 13 does not prescribe a specific methodology for calculating credit risk adjustments, management is required to apply judgement in determining an appropriate approach. Refer to the Significant accounting judgements and key sources of estimation uncertainty within the notes to the financial statements.	We obtained an understanding of the derivatives valuation process and evaluated the design and implementation of related financial controls. Our procedures over the risk-free valuations included: agreeing the terms of all derivative contracts held to independent confirmations or contract and, determining whether the risk-free valuations were within tolerable thresholds using standard PwC defined methodologies and independently sourced data inputs our valuations experts established to be appropriate for the instruments being valued. We used our internal valuation experts to perform procedures over the credit risk adjustment including: • Independently re-performing the credit risk adjustment calculation using an equivalent valuation model and management's credit curve and assumptions across the full population of counterparty netting sets; • Assessing the reasonableness of the key assumptions used by management in constructing their own-credit curve, including the inter-related probability of default and recovery rate assumptions through comparison with available market evidence; and, • Assessing the impact of alternative market participant inputs and approaches as a stand-back assessment, noting that this calculation produced varied but acceptable outcomes when the same recovery rate assumption is applied, and that the recovery rate is the dominant driver of estimation uncertainty rather than the specific credit curve construction. We assessed the classification of the derivatives as Level 3 instruments in the fair value hierarchy and reviewed management's disclosures on the estimation uncertainty in their valuation and describing the nature and extent of the uncertainty.
Valuation and accuracy of accounting for the accordion drawdown (Group) On 12 February 2026, TWSSI launched a process to allocate £823.5m of the £1.5bn Accordion facility. On completion of the book-build process on 27 February 2026, commitments of £823.5m were secured. £410.0m was drawn into TWSSI on 20 March 2026 and £205.0m on-lent to TWUL at 31 March 2026. This is a new key audit matter this year. The drawdown was made on terms set in advance as part of the Group's restructuring, giving risk to accounting judgements over the timing of recognition of the financial liability and whether the drawdown should be recognised at the transaction price. The accounting treatment adopted is described in the Material accounting policy information ('Interest bearing borrowings including those issued to other Group companies'). Refer to the Material accounting policy information and note 17.	We evaluated the design and implementation of related financial controls. We reviewed underlying agreements and subjected management's accounting assessment to detailed challenge with the support of our corporate reporting specialists. We assessed management's judgement as to the date the commitment arose and challenged whether the transaction price was the best evidence of fair value on initial recognition of the accordion borrowings and the related intercompany on lending. We assessed the consistency of the accounting treatment with the assumptions and market data used elsewhere in the financial statements. We also evaluated the adequacy of disclosure in the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

All of the legal entities were considered to be significant components and have been subject to full scope audits for the purpose of the consolidated Group audit. TWUL is significant as it is the Group's appointed water and wastewater services provider which also holds a significant proportion of the Group's total assets and trading activities. TWUF is significant as it holds the majority of the Group's external debt and a significant portfolio of derivatives, the valuation of which we consider to be a key audit matter. TWSSI was assessed to be significant as it contains the new super senior and accordion facility. TWUHL was assessed as significant due to its significant intercompany receivable balance which does not eliminate on consolidation. All audit procedures were led by the Group audit team located in the United Kingdom.

The impact of climate risk on our audit

In planning our audit we have considered the impact that the Group has on the environment through its operations and the impact the environment has on the Group. These considerations include the current and potential future impact climate change has on the Group’s business and its financial statements. Consistent with being one of the United Kingdom’s largest suppliers of water and wastewater services, planning for, reacting to and assessing the impact of current and future changes in environmental factors, for example the volume and intensity of rainfall and periods of drought, is an inherent part of the Group’s day to day activities. The majority of the Group’s carbon emissions are incurred in the treatment of water and wastewater during the normal course of its operations, and the Group continues to develop its assessment and plan to address the risk of climate change on the business. Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to the potential to exploit the by-products of the sewage treatment process, operational and supply chain decarbonisation and the need to address and comply with a changing regulatory environment. Further information is provided within the Strategic report. While the Group has set out its targets, the Group continues to assess and develop the consequences of this in terms of capital expenditure, the useful economic lives of current in use assets (and those currently under construction), the cost base and impacts on cash flows. The Group considered their climate ambitions in the preparation of the financial statements, including in the evaluation of critical accounting estimates and judgements. The Group concluded that based on the current plans in place to achieve their commitments, they did not have a material effect on the consolidated financial statements, as described in the Material accounting policy information as at 31 March 2026.

As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks on the Group’s financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment. We considered the Group’s climate change risk assessment and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We determined that no heightened audit risk arose in the year in respect of climate change. We have read the Group’s disclosure of climate related information in the front half of the annual report as set out in the TCFD section and considered consistency with the financial statements and our audit knowledge.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Company
Overall materiality	£40,000,000 (31 March 2025: £35,000,000).	£53,023,000 (31 March 2025: £50,281,000).
How we determined it	The consideration of various factors and benchmarks, together with engagement leader judgement, resulting in this quantum which represents approximately 0.16% (0.15%) of Total Assets	1.00% of Total Liabilities
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the Group (see Company rationale), accordingly Group materiality is also based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.16% of total Group assets was deemed to be most appropriate.	The entity is a holding Company and total liabilities has been determined to be the appropriate benchmark for TWUHL due to the size of intercompany borrowings held by the entity.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £17,500,000 and £38,000,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (31 March 2025: 75%) of overall materiality, amounting to £30,000,000 (31 March 2025: £26,250,000) for the Group financial statements and £39,767,250 (31 March 2025: £37,710,750) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £4,000,000 (Group audit) (31 March 2025: £3,500,000) and £5,302,300 (Company audit) (31 March 2025: £5,028,100) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2026 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations and Pension legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK corporation tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year, specifically journal entries to manipulate EBITDA and capital expenditure. Audit procedures performed by the engagement team included:

- Made enquiries of management, the internal audit function and external and internal legal counsel, of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluated management's controls designed to prevent and detect irregularities;
- Assessed the significant accounting estimates and judgements for indication of management bias;
- Identified journal entries throughout the year that met our fraud risk criteria and tested these;
- Reviewed minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sotiris Kroustis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
14 July 2026

Consolidated Income Statement

For the year ended 31 March 2026

		2026				2025			
		Underlying	Exceptional items	BTL	Total	Underlying	Exceptional items	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	2	3,615.6	-	140.9	3,756.5	2,602.8	-	135.4	2,738.2
Net operating expenses	3	(2,392.1)	(61.8)	-	(2,453.9)	(2,153.7)	(219.9)	-	(2,373.6)
Expected credit losses on trade receivables and contract assets	3,14	(37.6)	-	(0.2)	(37.8)	(43.6)	-	(0.3)	(43.9)
Total operating expenses		(2,429.7)	(61.8)	(0.2)	(2,491.7)	(2,197.3)	(219.9)	(0.3)	(2,417.5)
Other operating income	2	96.9	-	-	96.9	150.3	-	-	150.3
Operating profit		1,282.8	(61.8)	140.7	1,361.7	555.8	(219.9)	135.1	471.0
Finance income	5	116.2	-	-	116.2	186.3	-	-	186.3
Finance expense	5	(1,048.1)	(138.2)	-	(1,186.3)	(886.1)	(192.5)	-	(1,078.6)
Net losses on financial instruments	6	(276.0)	(4.8)	-	(280.8)	(148.0)	(92.5)	-	(240.5)
Profit/(loss) on ordinary activities before taxation		74.9	(204.8)	140.7	10.8	(292.0)	(504.9)	135.1	(661.8)
Tax (charge)/credit on profit/(loss) on ordinary activities	7	(92.9)	3.7	-	(89.2)	111.4	84.7	29.2	225.3
(Loss)/profit for the year		(18.0)	(201.1)	140.7	(78.4)	(180.6)	(420.2)	164.3	(436.5)

The Group’s activities above are derived from continuing activities.

Bazalgette Tunnel Limited (BTL) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required for reporting of some of our financial covenant ratios. Information on how the Group accounts for this arrangement is detailed in the accounting policies.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies. Exceptional items have been split out from our underlying figures to support users of the financial statements to better understand the underlying performance of the business and to separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2026

		2026				2025			
		Underlying	Exceptional items	BTL	Total	Underlying	Exceptional items	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
(Loss)/profit for the year		(18.0)	(201.1)	140.7	(78.4)	(180.6)	(420.2)	164.3	(436.5)
Other comprehensive (expense)/income									
Will not be reclassified to the Income Statement:									
Net actuarial (loss)/gain on pension schemes	22	(72.7)	-	-	(72.7)	21.0	-	-	21.0
Deferred tax credit/(charge) on net actuarial (loss)/gain	19	18.2	-	-	18.2	(5.2)	-	-	(5.2)
May be reclassified to the Income Statement:									
Cash flow hedge transferred to Income Statement	18	-	-	-	-	2.8	-	-	2.8
Deferred tax charge on cash flow hedge	19	-	-	-	-	(0.7)	-	-	(0.7)
Other comprehensive (expense)/income for the year		(54.5)	-	-	(54.5)	17.9	-	-	17.9
Total comprehensive (expense)/income for the year		(72.5)	(201.1)	140.7	(132.9)	(162.7)	(420.2)	164.3	(418.6)

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

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies. Exceptional items have been split out from our underlying figures to support users of the financial statements to better understand the underlying performance of the business and to separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Consolidated Statement of Financial Position

As at 31 March 2026

		31 March 2026			31 March 2025		
		Underlying	BTL	Total	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m
Non-current assets							
Intangible assets	9	200.1	-	200.1	207.5	-	207.5
Property, plant and equipment	10	22,708.3	-	22,708.3	20,836.2	-	20,836.2
Investment property	11	2.0	-	2.0	2.0	-	2.0
Right-of-use assets	12	63.5	-	63.5	37.4	-	37.4
Prepayments	14	-	-	-	-	623.9	623.9
Insurance and other receivables	14	89.4	-	89.4	45.1	-	45.1
Derivative financial assets	18	259.2	-	259.2	300.1	-	300.1
Pension asset	22	30.5	-	30.5	25.9	-	25.9
		23,353.0	-	23,353.0	21,454.2	623.9	22,078.1
Current assets							
Inventories	13	19.4	-	19.4	22.5	-	22.5
Trade receivables	14	416.2	25.8	442.0	379.1	24.0	403.1
Contract assets	14	399.3	15.3	414.6	337.9	6.3	344.2
Prepayments	14	62.2	750.7	812.9	58.0	-	58.0
Insurance, other receivables and amounts owed by group undertakings	14	127.2	-	127.2	54.9	-	54.9
Derivative financial assets	18	28.7	-	28.7	-	-	-
Cash and cash equivalents	15	540.8	16.5	557.3	280.6	25.8	306.4
		1,593.8	808.3	2,402.1	1,133.0	56.1	1,189.1
Current liabilities							
Contract liabilities	16	(171.7)	-	(171.7)	(169.3)	(0.5)	(169.8)
Trade and other payables	16	(1,115.6)	(8.9)	(1,124.5)	(978.9)	(20.8)	(999.7)
Bank overdraft[1]	15	(3.5)	-	(3.5)	(71.2)	-	(71.2)
Borrowings	17	(993.6)	-	(993.6)	(324.1)	-	(324.1)
Lease liabilities	12	(5.7)	-	(5.7)	(6.5)	-	(6.5)
Derivative financial liabilities	18	(1.3)	-	(1.3)	(66.2)	-	(66.2)
Provisions for liabilities and charges	20	(289.2)	-	(289.2)	(231.7)	-	(231.7)
		(2,580.6)	(8.9)	(2,589.5)	(1,847.9)	(21.3)	(1,869.2)
Net current (liabilities)/assets		(986.8)	799.4	(187.4)	(714.9)	34.8	(680.1)
Non-current liabilities							
Contract liabilities	16	(1,353.4)	-	(1,353.4)	(1,159.4)	-	(1,159.4)
Borrowings	17	(21,842.8)	-	(21,842.8)	(20,290.3)	-	(20,290.3)
Lease liabilities	12	(81.4)	-	(81.4)	(46.7)	-	(46.7)
Derivative financial liabilities	18	(1,785.1)	-	(1,785.1)	(1,652.0)	-	(1,652.0)
Deferred tax	19	(1,142.2)	-	(1,142.2)	(1,071.2)	-	(1,071.2)
Provisions for liabilities and charges	20	(266.0)	-	(266.0)	(265.7)	-	(265.7)
Pension deficit	22	(27.0)	-	(27.0)	(112.1)	-	(112.1)
		(26,497.9)	-	(26,497.9)	(24,597.4)	-	(24,597.4)
Net (liabilities)/assets		(4,131.7)	799.4	(3,332.3)	(3,858.1)	658.7	(3,199.4)
Equity							
Called up share capital	21	547.5	-	547.5	547.5	-	547.5
Cash flow hedge reserve	21	-	-	-	-	-	-
Revaluation reserve	21	726.6	-	726.6	748.6	-	748.6
(Accumulated losses)/Retained earnings	21	(5,405.8)	799.4	(4,606.4)	(5,154.2)	658.7	(4,495.5)
Total equity		(4,131.7)	799.4	(3,332.3)	(3,858.1)	658.7	(3,199.4)

[1] Bank overdraft at 31 March 2026 includes the impact of a committed BACs run, as well as pending cheques and direct debits. This presentation follows our accounting policy, whereby committed payments are accounted for on the date of payment instruction, which may be in advance of the cash settlement. Cash at bank and in hand on 31 March 2026 was sufficient to cover the cash outflows on the settlement date.

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.

The consolidated financial statements (which include the accompanying accounting policies and notes) for the Company, registered in England & Wales company number 06195202, were approved by the Board of Directors on 14 July 2026 and signed on its behalf by:

A Montague
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2026

	Note	Called up share capital £m	Cash flow hedge reserve £m	Revaluation reserve £m	(Accumulated losses)/ Retained earnings £m	Total equity £m
1 April 2024		547.5	(2.1)	770.9	(4,097.1)	**(2,780.8)**
Loss for the year		-	-	-	(436.5)	**(436.5)**
Cash flow hedge transferred to Income Statement	18	-	2.8	-	-	**2.8**
Deferred tax charge on cash flow hedge	19	-	(0.7)	-	-	**(0.7)**
Net actuarial gain on pension scheme	22	-		-	21.0	**21.0**
Deferred tax charge on net actuarial gain	19	-	-	-	(5.2)	**(5.2)**
Total comprehensive income/(expense)		-	2.1	-	(420.7)	**(418.6)**
Transfer of depreciation[1]		-	-	(29.8)	29.8	**-**
Deferred tax on depreciation transfer[1]		-	-	7.5	(7.5)	**-**
31 March 2025		**547.5**	**-**	**748.6**	**(4,495.5)**	**(3,199.4)**
Loss for the year		-	-	-	(78.4)	**(78.4)**
Net actuarial loss on pension scheme	22	-		-	(72.7)	**(72.7)**
Deferred tax credit on net actuarial loss	19	-	-	-	18.2	**18.2**
Total comprehensive expense		-	-	-	(132.9)	**(132.9)**
Transfer of depreciation[1]		-	-	(29.5)	29.5	**-**
Deferred tax on depreciation transfer[1]		-	-	7.5	(7.5)	**-**
31 March 2026		**547.5**	**-**	**726.6**	**(4,606.4)**	**(3,332.3)**

[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.

Consolidated Statement of Cash Flows

For the year ended 31 March 2026

	Note	2026 Underlying £m	2026 BTL £m	2026 Total £m	2025 Underlying £m	2025 BTL £m	2025 Total £m
Net cash generated by/(used in) operating activities[1]	27	1,918.2	(9.3)	1,908.9	1,269.6	19.5	1,289.1
Investing activities:							
Purchase of property, plant and equipment[2]		(2,447.9)	-	(2,447.9)	(1,995.3)	-	(1,995.3)
Purchase of intangible assets		(56.4)	-	(56.4)	(44.3)	-	(44.3)
Proceeds from sale of property, plant and equipment		1.3	-	1.3	21.0	-	21.0
Interest received		114.9	-	114.9	201.7	-	201.7
Payment to escrow[3]		(73.0)	-	(73.0)	-	-	-
Proceeds from escrow[3]		32.0	-	32.0	-	-	-
Net cash used in investing activities		(2,429.1)	-	(2,429.1)	(1,816.9)	-	(1,816.9)
Financing activities:							
New loans raised[4]		1,725.0	-	1,725.0	1,170.8	-	1,170.8
Repayment of borrowings[5]		-	-	-	(790.0)	-	(790.0)
Repayment of lease principal		(10.5)	-	(10.5)	(11.1)	-	(11.1)
Proceeds from derivative settlement[6]		-	-	-	19.8	-	19.8
Payment for derivative settlement[7]		(110.9)	-	(110.9)	(278.7)	-	(278.7)
Interest paid		(609.3)	-	(609.3)	(414.6)	-	(414.6)
Financing fees paid[8]		(155.5)	-	(155.5)	(87.7)	-	(87.7)
Net cash generated by/(used in) financing activities		838.8	-	838.8	(391.5)	-	(391.5)
Net increase/(decrease) in cash and cash equivalents		327.9	(9.3)	318.6	(938.8)	19.5	(919.3)
Net cash and cash equivalents at beginning of period		209.4	25.8	235.2	1,148.2	6.3	1,154.5
Net cash and cash equivalents at end of period[9]		537.3	16.5	553.8	209.4	25.8	235.2

[1] Net cash generated by operating activities for the year ended 31 March 2026 includes £50.7 million (2025: £80.4 million) of payments made during the year ended 31 March 2026 related to the exceptional operating costs recognised in the Income Statement of £61.8 million (2025: £219.9 million) for restructuring expenditure, refer to note 3. Net cash generated by operating activities (excluding payments relating to exceptional items and BTL) for the year ended 31 March 2026 would be £1,968.9 million (2025: £1,350.0 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 10. This number excludes the movement in capital infrastructure provisions.

[3] Included in the amounts paid to Escrow are £32.0 million relating to the Turnover fee paid in April 2025, £23.5 million relating to collateral for a physical power purchase agreement executed in November 2025, and a £17.5 million security deposit paid in July 2025. Whilst the funds were held in escrow the company was entitled to interest but the funds were not accessible. As a result, management's assessment was the money in Escrow did not meet the cash and cash equivalent criteria. Under the turnover agreement a fee was payable to relevant Class A lenders in the event that court permission was given for an appeal of the restructuring plan (RP1) to be heard. £32.0 million was required to be paid to escrow on 15 April 2025 and this was returned on 4 August 2025, following the Supreme Court's decision to refuse permission to appeal on 28 July 2025. Under the PPA agreement the £23.5 million is held in collateral and will be repaid within 3-5 years unless the business meets a certain credit rating before this date. Under the security deposit agreement, the £17.5 million is held in escrow and will be repaid upon expiry of the contract unless the business meets certain criteria, being a court approved restructuring plan, and investment grade. No amounts were received or paid from or to escrow in the prior period.

[4] New loans and bonds raised of £1,725.0 million (2025: £1,170.8 million) comprise drawdowns of £1,331.3 million (net of fees) on the initial £1.5 billion super senior facility and a further £393.7 million (net of fees) on the additional £1.5 billion accordion facility (2025: £1,170.8 million class A facilities). If fees are deducted from proceeds on issuance, these are presented within new loans raised in the cashflow statement; where fees are paid separately, but still assessed as being directly attributable to debt these are presented in fees paid in the cash flow statement. Rollovers of drawdowns under revolving credit facilities will not appear as new cash flows in the cash flow statement.

[5] Repayment of borrowings of £nil (2025: £790.0 million) includes £nil (2025: £490.7 million) of repayments relating to revolving credit facilities. The remaining amount includes £nil loan repayments (2025: £157.9 million) and £nil bond repayments (2025: £141.4 million).

[6] Proceeds from derivative settlement of £nil (2025: £19.8 million) relates to settlement of cross currency swaps.

[7] Payment for derivative settlement of £110.9 million (2025: £278.7 million) includes £11.4 million (2025: £143.5 million) relating to accretion paydown on index-linked swaps and £78.2 million (2025: £135.2 million) relating to settlement of swaps and £21.3 million relating to settlement of consent fee derivatives (2025: £nil).

[8] Financing fees paid for the year ended 31 March 2026 includes £140.5 million (2025: £68.4 million) of payments made during the year ended 31 March 2026 relating to exceptional finance expenses on debt restructuring costs of £129.6 million (2025: £86.8 million) recognised in the Income Statement. The remaining exceptional item of loss on consent fee debt of £8.6 million (2025: £105.7 million) recognised in the Income Statement have not been paid as at 31 March 2026.

[9] Included in this value is £197.0 million (2025: £nil) held in TWSSI which is only available to TWUL subject to creditor consent and therefore this cash is not immediately accessible to TWUL as at 31 March 2026.

Bazalgette Tunnel Limited (BTL) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cash flow amounts are amounts in relation to the arrangement with BTL and we 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.

Material accounting policy information

The material accounting policies adopted in the preparation of these consolidated and Company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

Thames Water Utilities Holdings Limited (the Company) is a private limited company incorporated and domiciled in the United Kingdom. The Company is limited by shares issued to shareholders. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned direct subsidiary, Thames Water Utilities Limited (TWUL or Thames Water), in accordance with TWUL's Licence of Appointment. References to "our" or "we" in this report relates to the activities of the Group including TWUL.

As at 31 March 2026, the Group includes the Company, TWUL, Thames Water Utilities Finance plc (TWUF), and Thames Water Super Senior Issuer plc (TWSSI) as its three subsidiaries.

The principal activity of the Company is to act as the holding company of the Group, and it does not carry out any activities beyond this.

Statement of compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

These Company financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, in conformity with the requirements of the Companies Act 2006.

In preparing these Company financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards adopted by the UK Endorsement Board but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the following exemptions:

- IFRS 7 Financial instruments: Disclosures.
- Paragraphs 91 to 99 of IFRS 13 Fair value measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1 Presentation of financial statements comparative information requirements in respect of:
    - paragraph 79(a)(iv) of IAS 1 (reconciliation of the number of shares outstanding at the beginning and end of the period), and
- The following paragraphs of IAS 1 Presentation of financial statements:
    - 10(d) (statement of cash flows).
    - 16 (statement of compliance with all IFRS),
    - 38B-D (additional comparative information),
    - 111 (cash flow statement information), and
    - 134-136 (capital management disclosures).
- IAS 7 Statement of cash flows.
- Paragraph 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24 Related party disclosures (key management compensation).
- The requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group.

Going concern

Basis of preparation

The consolidated financial statements for the 12 months ended 31 March 2026, set out on pages 46 to 122, 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.

The Thames Water Utilities Holdings Limited (TWUHL or the Company) Directors have assessed TWUHL's ability to continue as a going concern, recognising that it is a holding company which does not trade and has no external debt, although the Company guarantees obligations of its subsidiaries Thames Water Utilities Limited (TWUL) and Thames Water Utilities Finance plc (TWUF) under the terms of the Whole Business Securitisation (WBS) and also guarantees the debt of Thames Water Super Senior Issuer plc (TWSSI).

When considering whether the Group and Company are each a going concern, the Directors have had regard to IAS 1 para 25 which states that an entity shall prepare financial statements on a going concern basis unless the Directors either intend to liquidate the entity or to cease trading or has no realistic alternative but to do so.

In the context of the IAS standard, the Company has concluded that it should prepare its accounts as a going concern, however there are two areas which give rise to material uncertainty in relation to going concern, firstly considerations which specifically relate to the conditions of the Company and secondly the Company's obligations to TWUL, which has a material uncertainty.

Material accounting policy information (continued)

Going concern (continued)

Company Considerations

In assessing the going concern basis of preparation for the Group and Company, the Directors have considered the forecast cash outflows of the Company over the going concern assessment period (defined as 12 months from the date of the approval of the accounts) and have concluded it has access to sufficient liquidity to manage its forecast cash outflows over this period.

TWUL and Thames Water Limited (TWL) are unable to demand repayment of their intercompany loans which include interest from the Company during the restructuring period referred to as our Stable Platform Period which ends on the earlier of a successful recapitalisation transaction or until the date of the Group's earliest debt maturity (currently 22 March 2027). As a result, for disclosure purposes, the amounts have been disclosed as current at 31 March 2026. The Directors have also taken into consideration that under the terms of the WBS, should TWL demand repayment and the Company is unable to pay then the relevant amount is automatically deferred and not due for payment. The Company expects to require an extension to the Stable Platform Period. If RP2 is not launched by 1 October 2026, the Company expects to launch a scheme of arrangement or further restructuring plan to extend the Stable Platform Period. In order to be sanctioned by the Court, a scheme of arrangement requires 75% by value and a majority in number of those voting in each class to approve the scheme.

The Company has an intercompany payable of £0.1 million (2025: £0.1 million) owed to Kemble Water Holdings Limited, the Company's ultimate parent. The payable is unsecured and has no interest charged. This balance accrued under a letter of support issued in September 2024, and per the terms of the letter this is only repayable when the Company has access to alternative sources.

Whilst TWUHL has enough cash for the going concern period to cover its day to day administrative expenses, the Company does not have sufficient liquidity available to repay their current liabilities due within the assessment period should they be called on. There is material uncertainty of the Group and Company's ability to deliver a recapitalisation transaction by way of RP2 successfully either within the Assessment Period or at all. This casts significant doubt as to whether the Group and Company would be able to continue to operate as a going concern.

In addition, the Company is party to the WBS and cross guarantees the debt liabilities of the TWUL Group. The Directors of the Company have considered these obligations and made extensive enquiries of the TWUL Directors in considering these obligations and the impact on the Company as detailed further below.

TWUL Group considerations

Given the dependency on TWUL and the obligations the Company has under the WBS, the Company's Directors have considered as part of the Company's and TWUHL's Group going concern assessment, the current financial position of the Company's sole direct subsidiary TWUL (the only trading entity within the group headed by the Company). In making this assessment the Directors of the Company have made extensive enquiries of the TWUL Directors, of which all of the TWUHL Directors are TWUL Directors, which includes understanding their current intentions and expectations (and on what basis these have been formed) as well as considering the actions taken by TWUL post the balance sheet date of 31 March 2026. The section below summarises these considerations.

Whilst a material uncertainty exists, the Directors believe that it is reasonable to assume that actions can be taken such that the TWUL Group (being TWUL, TWUF and TWSSI) has adequate resources, for a period of 12 months from the date of approval of the Company's financial statements, to continue operations and discharge their obligations as they fall due. However, there exists a material uncertainty which could crystallise in the very near term, which may cast significant doubt on the Group and Company's ability to continue as a going concern in relation to the preparation of the financial statements given the TWUL Group requires a recapitalisation transaction to be implemented, the outcome and timing of which is not within their control. The Company is a guarantor under the WBS agreement and a guarantor of TWSSI debt and so any uncertainties in relation to the going concern position of TWUL directly impact the going concern assessment of the Company.

TWUL Group basis of preparation assessment

Context

The TWUL Directors believe that it is reasonable to assume that actions can be taken such that the TWUL Group have adequate resources, for a period of 12 months from the date of approval of the financial statements (the Assessment Period), to continue operations and discharge its obligations as they fall due. However, there exists a material uncertainty, which could crystallise in the very near term, which may cast significant doubt on TWUL Group's ability to continue as a going concern in relation to the preparation of the financial statements given the TWUL Group requires a recapitalisation transaction (including the provision of additional equity funding and a restructuring of the TWUL's existing balance sheet) to be implemented, the outcome and timing of which is not within their control.

The TWUL Directors' base case is that the recapitalisation transaction will be agreed and implemented within the Assessment Period.

The TWUL Directors expect that for the recapitalisation transaction to be agreed TWUL will require the support of its stakeholders (including its creditors) and for Ofwat to have taken a final decision in respect of regulatory measures following a public consultation. The recapitalisation will also require court sanction through a restructuring plan under Part 26A of the Companies Act 2006 (RP2) (noting that such decision to sanction RP2 may be subject to an appeal).

Discussions in relation to the recapitalisation have been taking place and continue with TWUL's stakeholders and, whilst progress has been made, Ofwat has not as yet launched the public consultation, and TWUL is not currently in a position to launch the recapitalisation. As a result, there exists a material uncertainty as to whether, and when, TWUL would be able to do so and therefore whether this will be implemented within the Assessment Period.

Material accounting policy information (continued)

Going concern (continued)

Notwithstanding this uncertainty, TWUL has engaged with its stakeholders ahead of preparing these consolidated financial statements and the TWUL Directors believe that TWUL's key stakeholders remain committed to pursuing a successful recapitalisation transaction. The TWUL Directors therefore expect that discussions in respect of launching the public consultation and the recapitalisation will continue and that in order for the recapitalisation to be agreed and implemented TWUL will need to have sufficient funding for the Assessment Period, which it does not currently have.

TWUL drew the final tranche of £213 million of its available committed super senior funding from its subsidiary TWSSI on 14 July 2026. TWUL has the ability to access £750 million of further external funding via TWSSI comprising £677 million which is uncommitted and £73 million which has been committed but which is deferred. However, the conditions to access the funding have not been satisfied and the satisfaction or waiver of these conditions is outside the direct control of TWUL. The TWUL Directors expect to require access to the £750 million external funding during August 2026, with the process to obtain such funding expected to commence on or around 16 July 2026.

The TWUL Directors further expect that additional liquidity will be required from early December 2026 and that TWUL will need to extend its debt maturities which fall due during the Assessment Period (the earliest falling in March 2027), and extend the waivers which it has obtained under its finance documents which are scheduled to end on the same date as its earliest debt maturity (currently March 2027). The provision of such further funding is outside the direct control of TWUL, requiring both consents from TWUL's creditors and commitments from lenders who are willing to provide such funding. The extension of maturities and waivers is also outside the direct control of TWUL, requiring consents from TWUL's creditors.

TWUL has engaged with its senior creditors and has received a letter of support from creditors representing in aggregate over £13 billion (82%) of TWUL's Class A Debt and over £1.6 billion (73%) of TWUL's Super Senior Debt, indicating that they intend to provide consents to allow the super senior facilities to continue to be drawn, the relevant maturities to be extended and the Stable Platform Period (which commenced on 25 February 2025 under RP1 and continues until March 2027, under which a Trigger Event is ongoing and testing of financial covenants is suspended) to be extended. The letter of support does not create legally enforceable rights but states the relevant creditors' present intentions.

If TWUL fails to obtain the consents and commitments necessary to have sufficient funding for the Assessment Period, TWUL will need to consider all options available to it at the time, but a severe but plausible consequence would be a special administration of TWUL under the Water Industry Act 1991.

Given the multiple interdependencies on which the ability to deliver the recapitalisation transaction is based, uncertainties in relation to each interdependency could crystallise in the very near term.

The TWUL Directors believe there are two elements that will be key to the success of a recapitalisation process pursuant to RP2 and each of these is itself subject to uncertainty:

1. Liquidity

Ensuring TWUL has a sufficient liquidity runway is an important step in TWUL's process to increase its long-term financial resilience, to attract new equity into the business, restore its investment grade credit rating and address the Section 19 undertakings relating to restoration of investment grade credit ratings agreed with Ofwat in 2024 (as explained further in the 'Other considerations' section below).

Following a judgment of the High Court of Justice of England and Wales handed down on 18 February 2025, the restructuring plan under Part 26A of the Companies Act 2006 proposed by the Company was sanctioned pursuant to an order of the High Court dated 21 February 2025 (RP1). On 17 March 2025, the sanction order was upheld by the Court of Appeal subject to a limited modification. On 30 July 2025, the Supreme Court refused Charlie Maynard MP permission to appeal the Court of Appeal decision (such request for permission having first been refused by the Court of Appeal, thereby concluding any further possible appeal in respect of RP1).

RP1 was designed to provide a sufficient liquidity runway to enable the TWUL Group to achieve a recapitalisation transaction, by extending TWUL's liquidity runway. RP1 has enabled, and continues to enable, TWUL to seek a sustainable recapitalisation transaction. RP1 had three principal elements:

- it extended the maturities of all Class A Debt and Class B Debt (including amortisation payments, but in each case excluding hedging arrangements under the WBS structure) by two years, such that the earliest extended maturity of Class A Debt or Class B Debt falls in March 2027;
- it permitted a new Super Senior credit facility with an initial committed tranche of £1.5 billion, subject to conditions, and the ability to increase this by a further £1.5 billion uncommitted accordion facility, which may be accessible following the satisfaction or waiver of certain conditions precedent (some of which are not yet satisfied and remain out of the TWUL Group's control); and
- it temporarily suspended a number of the financial and other covenants in TWUL's financing arrangements until the date of its earliest debt maturity (currently March 2027).

TWUL commenced the drawdown process on its £1.5 billion intercompany facility from TWSSI in April 2025, and further tranches of funding were drawn from TWSSI in May 2025, July 2025, August 2025, November 2025 and January 2026. In February 2026 TWSSI commenced the allocation process for the first £823 million of the accordion facility, with tranches of such funding being drawn from TWSSI to TWUL in March 2026, April 2026, June 2026 and July 2026. To date, TWUL has drawn principal of c. £2.25 billion of funding from TWSSI.

Material accounting policy information (continued)

Going concern (continued)

TWUL drew the final tranche of £213 million of its committed and undeferred[1] super senior funding on 14 July 2026, which is expected to provide liquidity through until at least the end of August 2026 based on the latest Board approved forecast.

TWSSI's remaining uncommitted super senior funding of £677 million, together with the £73 million committed and deferred super senior funding, is (subject to satisfaction or waiver of conditions precedent and to obtaining new commitments) expected to provide liquidity through until at least the end of November 2026 based on the latest Board approved forecast. The TWUL Group's liquidity position and cashflow projections are closely monitored and updated regularly; there remains a risk that short term net cash outflows may be higher than expected. TWUL forecasts to undertake the first utilisation of the second tranche of the accordion in August 2026 with the accordion expected to be fully drawn by November 2026, and therefore currently anticipates that the process to obtain commitments for the remainder of the accordion and consents to such drawings will be carried out in the coming weeks and will commence on or around 16 July 2026.

The drawing of super senior funding by TWUL is subject to conditions precedent including that for any drawing on or after 31 July 2026, the 'Supported LUA Condition' (which requires that a lock-up agreement to a recapitalisation transaction has been signed by at least 66 2/3% of TWUL's Class A creditors and 66 2/3% of TWUL's Super Senior creditors) must be satisfied. This date has been extended on multiple occasions as part of the recent consent processes and TWUL continues to work in good faith to implement a recapitalisation transaction in order to satisfy this condition, with the ability for further extensions to be granted with the consent of at least 50% of the super senior creditors.

The Supported LUA Condition also applies to the accordion, as does a condition that the CMA referral decision has been made (see further below in relation to the status of the CMA referral). The conditions can be waived with the consent of 50% of the super senior creditors.

The super senior creditors have been supportive and the requisite voting thresholds have been achieved in each waiver process to date with a consent rate significantly above the requisite majorities.

TWUL forecasts to require further funding from early December 2026 and that further funding of £2.4 billion would be required to provide sufficient liquidity for the period to end of October 2027, subject to the terms of the funding raise. TWUL expects to launch further consent processes to seek consent to increase the super senior funding by £2.4 billion in multiple tranches (the Upsize), with such Upsize requiring the consent of at least 75% of TWUL's Class A creditors and 75% of TWUL's super senior creditors.

If RP2 is not launched by 1 October 2026 (through filing of a claim form or issuance of a practice statement letter), TWUL expects to launch a scheme of arrangement or further restructuring plan in respect of the debt falling due in the period to 30 September 2027 (or, potentially, all of TWUL's debt) such that their respective maturity dates are rescheduled beyond 30 September 2027. In addition, if RP2 is not launched by 1 April 2027 TWUL expects to launch a scheme of arrangement or further restructuring plan in respect of the super senior debt falling due in October 2027 such that its maturity date is rescheduled beyond October 2027. In order to be sanctioned by the Court, a scheme of arrangement or restructuring plan requires 75% by value and a majority in number (if a scheme) of those voting in each class to approve the scheme or plan, subject to the ability "cram down" a class of creditors in a restructuring plan in certain circumstances.

TWUL has historically been subject to financial covenant ratio tests which monitor its interest cover and gearing. However, following the implementation of RP1, amendments have been made to TWUL's debt documentation. The outcome of these amendments is that the Trigger Events and Events of Default relating to financial ratios are no longer applicable during the ongoing period known as the 'Stable Platform Period'. During the Stable Platform Period, however, the TWUL Group have heightened reporting obligations to their secured creditors under the WBS structure and remain in a Trigger Event. TWUL also has additional covenants including a minimum liquidity cashflow covenant (Minimum Liquidity Covenant) requiring, upon a request to drawdown on super senior funding from TWSSI, confirmation that the TWUL Group had sufficient positive liquidity for a rolling 13-week period for any week that ended before 28 February 2026. Given 28 February 2026 has already passed, TWUL considers that the Minimum Liquidity Covenant should continue (to the extent required) to be considered as met through the Assessment Period.

The Stable Platform Period commenced on 25 February 2025 and will continue until the date of TWUL's earliest debt maturity (currently March 2027). TWUL expects to require an extension to the Stable Platform Period. If RP2 is not launched by 1 October 2026 (through filing of a claim form or issuance of a practice statement letter). This may require a scheme of arrangement or restructuring plan. As set out above, to be sanctioned by the Court, a scheme of arrangement or restructuring plan requires 75% by value and a majority in number (if a scheme) of those voting in each class of creditors to approve the scheme or plan, subject to the ability "cram down" a class of creditors in a restructuring plan in certain circumstances.

1. £73 million of the initial £1.5 billion committed facility has been deferred until the full super senior funding, including the accordion, has been drawn down as a result of relevant super senior creditors not participating in previous waiver processes. An amount equal to the deferred amount was requested for commitment from other super senior lenders as part of the accordion allocation process in February 2026.

Material accounting policy information (continued)

Going concern (continued)

TWUL has received a letter of support from creditors representing in aggregate over £13 billion (82%) of TWUL's Class A Debt and over £1.6 billion (73%) of TWUL's Super Senior Debt, indicating that they intend to provide consents to allow the super senior facilities to continue to be drawn, the relevant maturities to be extended and the Stable Platform Period to be extended. The letter of support does not create legally enforceable rights but states the relevant creditors' present intentions. In addition, the consummation of these transactions is reliant on consent processes and Court processes which are outside of TWUL's control and which are also reliant on sufficient other creditors in the relevant classes providing their support. TWUL intends to discuss this support with its other creditors in the coming months. As such there remains a material uncertainty as to whether TWUL and therefore the TWUL Group will have sufficient liquidity for the Assessment Period.

2. Recapitalisation Transaction

TWUL announced in 2024 that following receipt of the PR24 draft determination it would pursue all options to secure an equity investment from new or existing shareholders. Ofwat published its PR24 Final Determination (FD) for TWUL on 19 December 2024 and TWUL has concluded that the FD is neither financeable nor investible. TWUL has also concluded that the increase in investment required during AMP8 brings challenges relating to deliverability, predominantly in the wastewater non-infrastructure area of TWUL's business. TWUL has worked to optimise its investment plan to allow it to deliver the maximum possible wastewater outputs within AMP8. However, TWUL remains of the position that it is not possible for it to do everything required of it to achieve compliance with environmental requirements during AMP8, including with wider requirements beyond the schedule of projects required to be delivered under the Water Industry National Environment Programme in AMP8 (WINEP8).

TWUL commenced an equity raise process in the Summer of 2024. TWUL started with a pre-marketing phase in July 2024. Parties had access to a comprehensive set of diligence materials throughout the first phase of the equity process, ultimately resulting in five non-binding proposals being received on 5 December 2024 and revised non-binding proposals being received from the same five parties and one additional party on 10 February 2025. As part of the review of the revised non-binding proposals, a sub-committee of the Board of TWUL met regularly to consider these revised proposals and TWUL's financial adviser held clarificatory calls with, and received supplementary information from, the various parties. TWUL kept Ofwat updated throughout this process.

On 31 March 2025 TWUL announced, following the detailed assessment of proposals received, that it had selected KKR to enter the Phase 2 diligence stage of the equity process as preferred partner. In parallel, TWUL's senior creditors progressed work on an alternative proposal to recapitalise TWUL. Following a 10-week due diligence process, KKR advised in writing on 2 June 2025 that it was not in a position to proceed and its preferred partner status lapsed. An alternative proposal from a consortium of TWUL's senior creditors, L&VW, was submitted at the same time in late May 2025.

Since June 2025, TWUL, L&VW, Ofwat and other regulators have been engaged in constructive discussions regarding the proposed turnaround, transformation and recapitalisation of TWUL for the benefit of customers, employees and the environment (the L&VW Proposal).

On 16 March 2026 TWUL announced that L&VW had confirmed to Ofwat and TWUL its revised proposal for the turnaround, transformation and recapitalisation of Thames Water, following previous submissions in May and October 2025. Since March 2026 TWUL and L&VW have continued to engage with Ofwat and TWUL's other regulators and these discussions have remained constructive, with progress on key issues being made. On 15 June 2026 the Secretary of State for Environment, Food and Rural Affairs wrote to Ofwat, copying TWUL and L&VW, providing preliminary views in relation to the L&VW Proposal, including in respect of the protection of consumers' interests, the impact on the environment and consumers and the deferral of investments, and TWUL is working with L&VW and Ofwat to address those views.

TWUL has also increased its engagement with its financial stakeholders in relation to the L&VW Proposal and the support which would be required from them to implement it.

However, the L&VW Proposal is non-binding and remains subject to ongoing review by TWUL, Ofwat and other regulators, and is subject to further discussion with TWUL's financial stakeholders. As engagement remains ongoing, there is no certainty that the L&VW Proposal will be accepted nor that it will be finalised in its current form. At this stage, TWUL's Board has made no decision to accept and take forward the L&VW Proposal to implementation and Ofwat has not launched any public consultation in respect of the regulatory measures which form part of the L&VW Proposal. Furthermore, following assessment of responses to the public consultation Ofwat may decide not to adopt the regulatory measures in whole or in part which could affect the viability of the L&VW Proposal.

TWUL is also aware that it (and the UK water industry generally) face increased scrutiny from regulators and key stakeholders, including the UK Government and political parties and that there is currently a leadership election ongoing in respect of the Labour Party, which is expected to lead to a change in Prime Minister. Intervention by the UK Government in the water industry, or changes in governmental policy, both of which could crystalise at any stage and in the very near term, may affect TWUL's ability to deliver the L&VW Proposal, or any other third party, market-led solution.

In parallel with the above, TWUL announced on 14 February 2025 that it had asked Ofwat to refer the Final Determination to the CMA for a full redetermination. On 18 March 2025, TWUL announced that it had agreed with Ofwat to defer making the CMA reference for a period of up to 18 weeks to explore the possibility of unlocking a market-led solution for the recapitalisation of TWUL. On 18 July 2025, TWUL announced that it had agreed with Ofwat to further defer making the CMA reference until 22 October 2025 and, on 21 October 2025, TWUL announced that it had agreed with Ofwat to further defer making the CMA reference, and no deadline has been set for the end of the deferral period.

Material accounting policy information (continued)

Going concern (continued)

TWUL has continued to work on its statement of case such that it will be ready for submission if at any point in the process it determines that a CMA reference is required. The CMA must take into account the same statutory duties, strategic priorities and objectives (as set out in the Water Industry Act 1991) as Ofwat, including in relation to Ofwat's duty to exercise its powers in the manner which it considers is best calculated to (among other things) secure that water and sewerage undertakers are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions.

If there is no agreement in relation to the L&VW Proposal and TWUL does ultimately withdraw its agreement to defer the CMA reference, the CMA will determine at that point the process to be followed for the redetermination and TWUL would need to have sufficient funding to be able to complete that process and any recapitalisation transaction which followed. There can be no assurance that the CMA would make a redetermination that is more investible or financeable than Ofwat's PR24 FD, or that TWUL would have sufficient funding to enable completion of the process. An unfavourable CMA determination could increase the risk of a special administration outcome.

As a result, there can be no certainty that TWUL will be able to achieve an investible and financeable PR24 outcome or that any recapitalisation transaction will raise sufficient (or any) funds to deliver the turnaround, transformation and recapitalisation of TWUL for the benefit of customers, employees and the environment.

Other considerations

There is continued risk of non-compliance with TWUL's instrument of appointment.

On 24 July 2024 Moody's downgraded TWUL's corporate family rating to Ba2 with negative outlook (from Baa3) and on 31 July 2024 Standard & Poor's downgraded TWUL's Class A debt by two notches to BB with negative outlook (from BBB- with credit watch negative previously). As a result, both ratings then fell below the requirements set out in Condition P26 of TWUL's Licence requiring two ratings of investment grade to be held. During subsequent months both ratings were downgraded further, with Moody's Corporate Family rating now at Caa3 (stable outlook), Moody's Class A debt rating now at Ca (stable outlook) and Standard & Poor's Class A rating now at CCC (negative outlook).

As a result of these downgrades by S&P and Moody's, TWUL does not currently hold any investment grade credit ratings and Ofwat has confirmed it is in breach of Condition P26 of its Licence. A package of undertakings was accepted by Ofwat in which TWUL committed to taking all reasonable steps to address the concerns raised by its credit rating agencies and to restore two investment grade credit ratings. The consultancy firm, L.E.K. Consulting, was appointed as an 'independent monitor' to review TWUL's progress and compliance with the undertakings it made to Ofwat. Successfully restoring its investment grade credit rating is reliant on securing an investible and financeable PR24 outcome (which may be subject to a CMA referral), securing new equity investment and completing a sustainable recapitalisation of the business. However, the TWUL Directors believe that TWUL is currently compliant with the undertakings.

On 28 May 2025, Ofwat issued two penalties to TWUL:

- a penalty notice for £18.2 million in respect of its finding of contravention by TWUL of Condition P30 of its Licence in relation to certain interim dividend payments made in October 2023 and March 2024. No enforcement order was issued, with Ofwat noting that credit rating downgrades subsequent to those interim dividend payments mean that TWUL is now in cash lock-up and is unable to declare or settle any future dividends (without Ofwat's prior consent) until such a time as its investment grade credit ratings have been restored. The inability of TWUL to pay a dividend as a result of the cash lock-up and the uncertainty that may arise in relation to future declaration of dividends could affect the equity proposition that TWUL represents; and
- an enforcement order which, among other things, required TWUL within 6 months to submit remediation plans to Ofwat, alongside a penalty notice which imposed a penalty of £104.5 million. On 28 November 2025, TWUL announced that it had submitted its remediation plans to Ofwat and in May 2026 TWUL provided its 6 monthly-update to Ofwat. As part of submitting these remediation plans, TWUL assessed the cost and timing of the capital investment required and identified significant costs which were not fully funded through the existing Final Determination. TWUL is continuing to assess the level of capital investment required as it carries out further investigations as part of the implementation of the remediation plans. It is noted that the parallel investigation into compliance with Environmental Permits at Sewage Treatment Works by the Environment Agency continues and there remains uncertainty as to the conclusion of such investigation and its potential impact on the financial position of TWUL.

On 27 August 2025, TWUL announced the agreement of a payment plan with Ofwat in respect of these penalties. Under this payment plan, TWUL agreed to pay 20% of the total combined penalties (being £24.5 million) by 30 September 2025 and the balance of the penalties upon the earliest of (i) 30 days after the implementation of RP2; (ii) 31 March 2030; and (iii) if a special administration of TWUL occurred under the Water Industry Act 1991, 30 days following TWUL's exit from special administration. On 22 September 2025, TWUL announced that its super senior creditors had approved the payment plan via a consent request process with a consent rate of over 99% (including deemed consents). TWUL has since paid the first instalment by the date on which it was due under the payment plan.

TWUL also faces a number of significant incomplete enquiries, investigations and litigation (as set out in further detail in the notes of the financial statements) that could lead to significant fines and penalties, unfunded expenditure costs and claims for damages. In addition, the triennial valuation of each of TWUL's defined benefit pension schemes (TWPS and MIPS) with an effective date of 31 March 2025 has been under discussion between the pension trustee and TWUL. It is a requirement under UK regulations that triennial valuations of this type must be finalised within a period of 15 months from their effective date.

Material accounting policy information (continued)

Going concern (continued)

This requirement has not been met in relation to TWPS (but has been met in relation to MIPS). Where an actuarial valuation is not completed by the legislative deadline, the Pensions Regulator may open an investigation and consider using its enforcement powers. No such investigation has been launched at this stage. The impact of these, including any potential future enquiries, investigations and litigation, could place restraints on the financial resources available to TWUL (and consequently the timeline available to complete the recapitalisation), potential returns to equity investors and further affect the investibility and financeability of TWUL.

In the event that TWUL cannot implement the PR24 Business Plan in full, without revised regulatory arrangements, it is possible that it would over time breach the conditions of its Instrument of Appointment, the Water Industry Act 1991, its environmental permits and other legislation.

These could be breached (or be likely to be breached) in such a way that would be serious enough to make it inappropriate for TWUL to continue to hold its licence of appointment and give rise to a ground for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court to evaluate a Special Administration Order (including through a significant adverse operational event, depending on its severity). A petition could also be made if TWUL is unable to pay its debts. Any or all of these factors, or analogous factors, singularly or in combination, may lead to a Special Administration Order. The purpose of the Special Administration Regime is to enable the functions of a water and sewage undertaker to be carried out whilst a special administrator seeks to rescue the business as a going concern and/or transfer, as a going concern, its undertaking to one or more other companies.

Conclusion

The Directors believe that it is reasonable to assume that the Group and Company will have adequate resources, for a period of 12 months from the date of approval of these financial statements, to continue operations and discharge their obligations as they fall due. In assessing whether the Group and Company have adequate resources, for a period of at least 12 months from the date of approval of these financial statements, to continue operations and discharge their obligations as they fall due, the Directors have taken into consideration all of the factors set out above.

However, for reasons set out above the Directors believe there exists material uncertainty as to whether the Group will be able to extend its liquidity runway for the Assessment Period in order to deliver a recapitalisation transaction by way of RP2 successfully either within the Assessment Period or at all. If it fails to do so, the Company will not have sufficient liquidity to meet amounts should they be called on. The Company would need to consider all options available to it at the time, but a possible consequence could be a special administration of TWUL under the Water Industry Act 1991. The elements which will be key to the success of a recapitalisation transaction pursuant to RP2 are each subject to uncertainties which are outside of the Group and Company's control and which could crystallise in the very near term.

Taken together these may cast significant doubt on the Group and the Company's ability to continue as a going concern in relation to the preparation of the financial statements.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Basis of consolidation

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

Bazalgette Tunnel Limited (BTL) arrangement

Bazalgette Tunnel Limited (BTL) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel (TTT). The Group results recognise revenue, cost and profit on the arrangement with BTL, and disclose underlying performance separately, as required by certain Group financial covenants.

BTL is separately regulated by Ofwat and is subject to its own price reviews. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the TWUL's licence) – these amounts are charged as wastewater services. As cash is collected, these amounts are subsequently paid to BTL, under the 'pay when paid' principle.

Disclosed within significant accounting judgements and key sources of estimation uncertainty is the Group's assessment of it acting as a "principal" under the arrangement with BTL. Under IFRS 15 (within P.B35B), the Group is required to recognise revenue in the gross (not net) amount of consideration to which the entity expects to be entitled in exchange for the specified goods and services transferred. Under IFRS 15 it is deemed that delivery of the TTT forms part of the Group's performance obligation to customers to provide wastewater services and does not represent a distinct performance obligation. Revenue is recognised as the performance obligations to the customer are satisfied.

The Group therefore presents the amounts billed as revenue in its financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit, which is taxable. The revenue, cost and resulting profit on this arrangement are disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, a prepayment is created and will be realised over the useful economic life of the assets recognised when control of the tunnel transfers to the Group.

As part of the construction of the TTT, assets under construction and buildings are acquired by the Group and recognised within assets under construction and land and buildings within property, plant and equipment. An element of the portfolio of land and buildings acquired will be disposed of in future financial

Material accounting policy information (continued)

Basis of consolidation (continued)

periods once construction is complete; in line with the agreement with Ofwat this will include complete and partial disposal of certain assets acquired, this cost will be included as part of the asset to be depreciated when the asset is brought into use.

In February 2025, the TTT was connected to TWUL's wastewater network. The handover of the tunnel from BTL to the Group to maintain and operate is expected during 2026/27, a provisional handover date has been communicated. Handover will be followed by a period of up to 36 months of system acceptance testing.

Revenue recognition

The core principle of IFRS 15 Revenue from Contracts with Customers requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. The Group has a variety of customers, including household customers (directly billed or indirectly billed by other Water Only Companies (WOCs)) and non-household customers (retailers and New Appointments and Variations (NAVs)).

The transaction price is calculated and allocated based on the guidance set out in our Charges Scheme, published annually to our customers, which communicates the cost to the customer of using our services. For measured customers, this is primarily based on metered or estimated usage multiplied by a volumetric tariff, in addition to a fixed charge. For most unmeasured customers this is a fixed charge based on the rateable value of their home.

Revenue is recognised over time as the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable at the time of billing based on historical experience is excluded from revenue, as it does not fall within the IFRS 15 criteria. This is so that revenue is recorded at the amount which the Group expects to receive for providing its services to customers.

The Group considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.

Revenue for measured customers includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions. For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the performance obligation is satisfied. When the Group identifies the occupants, the bill is sent out in the customer's name if known or if not in the name of the occupier. If the Group has not identified an occupant within three months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Where a bill is cancelled and the property is made empty, for measured customers, the revenue cancellation is recognised immediately. Where the property is not empty, the cancelled bill will be replaced with an unbilled accrual. For unmeasured customers, the amount cancelled reduces contract liabilities (deferred income). Upon rebilling, for measured customers, the billed value is recognised immediately and, for unmeasured customers, the amount is recorded in contract liabilities (deferred income) and follows the apportionment stated in the paragraph above.

Revenue includes amounts that the Group billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is described in the previous 'BTL arrangement' section. Refer to pages 71 and 72 for significant accounting estimates and judgements concerning revenue recognition.

Service connections

The Group considers the combination of activities comprising a service connection to represent a distinct performance obligation to the customer. The service connections charge levied includes the cost of excavating, connecting and reinstating (if needed) the new supply, including the installation of a stop valve, boundary box and external water meter, as well as any associated pipework between the connection and the boundary box. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Up to that point, deferred service connections income is recorded within contract liabilities (deferred income). Typically amounts received will be fully recognised within a year following receipt.

Requisitions and diversions

Requisitions and diversions income is recognised over time in other operating income using the input method by estimating complete satisfaction of the performance obligation and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions and diversions income is recorded within contract liabilities (deferred income). These income streams encompass a wide variety of schemes, from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

Infrastructure charges

Infrastructure charges (which meet the extra demands that new connections put on existing water mains, sewers and other network infrastructure) are permitted to be levied on a distinct customer base in accordance with the Charging Rules for New Connections and are separate to water and wastewater charges to customers. Contributions received for Infrastructure charges are initially held within contract liabilities (deferred income). The Group considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly

Material accounting policy information (continued)
Revenue recognition (continued)

to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Group to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Group recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Group performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

Nil cost adopted assets
Nil cost adopted assets (also known as self-lay or fair value assets) are assets that have been constructed by an accredited third party, which are then adopted by the Group, who assume the obligation to service the end consumer. The consideration received by the Group is the adopted asset itself. Under IFRS 15 the Group is required to record the consideration at fair value, and a depreciated replacement cost is used to measure the fair value of these adopted assets, as there is no active market for these activities hence no exit price can be used. The consideration received for the nil cost adopted assets is initially held within contract liabilities (deferred income). The Group considers its performance commitment to align with its obligation to service the end customer over the adopted asset's useful economic life, therefore recognises income associated with these nil cost assets in other operating income on a straight-line basis over the life of the associated asset.

Gain or loss on disposal of property, plant and equipment
A gain or loss on disposal of property, plant and equipment is recognised as the difference between the disposal proceeds and the carrying amount of the asset at the date of disposal. This gain or loss is recognised in the Income Statement in other operating income.

Power income
Power income is generated by the sale of internally generated energy to the grid and associated incentives. This income is recognised at the point the energy is generated. The income is measured by multiplying the energy generated by the published rates, and the income will be a function of grid prices and contract stipulations. This income is presented within other operating income.

Interest income
Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate (EIR) applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. An exception to this is interest income recognised on loans that are considered in stage 3 of the expected credit loss model under IFRS 9, where interest income is recognised by reference to the carrying balance net of expected credit losses. Interest income is presented within finance income in the Income Statement.

Interest expense
Interest expense is accrued on a time basis by reference to the principal outstanding and the effective interest rate (EIR) applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the Income Statement. Additionally, the finance expense recognised in the Income Statement includes the actual inflation-adjusted interest accrued during the year, plus the actual adjustment in the principal, as adjusted for inflation during the year, thus the carrying amount is equal to the inflation-adjusted amount at the end of the period.

Contract assets
Contract assets are presented in the Statement of Financial Position when the Group's right to consideration is met in advance of billing. An example would be contract assets relating to revenue based on an estimate of the amount of mains water and wastewater charges unbilled at the period end. The Group applies the IFRS 9 simplified approach to measuring expected credit losses on contract assets, which uses a lifetime expected loss allowance. Refer to the 'Trade and other receivables (excluding prepayments)' accounting policy for more information.

Contract liabilities

Contract liabilities are presented in the Statement of Financial Position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to assets adopted by the Group during the year at nil cost that have been constructed under self-lay by third parties (nil cost adopted assets), where the Group has an obligation to service the customer after adopting these assets and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

Net losses on financial instruments
The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement as net gains/(losses) on financial instruments. The following are also recognised in the Income Statement as net gains/(losses) on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments;

Material accounting policy information (continued)

Net losses on financial instruments (continued)

- movement in fair value of consent fee derivatives, that were fees applied as part of the court-sanctioned restructuring plan and are linked to interest rate and index-linked swaps; and
- gains or losses arising on debt modification

Net gains/(losses) on financial instruments do not include any interest expense or income. Refer to 'Derivative financial instrument and hedging accounting policy' for more details.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the statement of other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the Income Statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Statement of Financial Position liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Separately acquired intangible assets, and internally generated intangible assets once commissioned, are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the Income Statement, within operating expenses, on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use.

The estimated useful economic lives are as follows:

	Years
Software	5-10

Assets in development are not amortised until they are commissioned. Qualifying borrowing costs that have been capitalised within the purchase of intangible assets are included within purchase of intangible assets within investing activities in the Statement of Cash Flows. All other borrowing costs are included as finance expenses within the Income Statement.

In accordance with International Financial Reporting Interpretations Committee (IFRIC) agenda decision, customisation and configuration costs related to Software-as-a-Service (SaaS) are only capitalised if they are assessed as a separable intangible asset under the criteria of IAS 38. Whilst this is not a separate legislative instrument, the Agenda Decision is considered mandatory when complying with IFRS. Customisation costs are analysed through review of purchase order information, documentation held and discussion with digital technical experts so that the correct amount is capitalised.

Property, plant and equipment

Property, plant and equipment (PP&E) comprises network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures, and fixtures and fittings). PP&E is stated at cost (or at deemed cost in the case of those network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Within land and buildings are assets acquired in relation to the Thames Tideway Tunnel (TTT) project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network, an element of the portfolio acquired will be disposed of in due

Material accounting policy information (continued)

Property, plant and equipment (continued)

course once required works have been completed in line with the agreement with Ofwat this will include complete and partial disposal of certain assets acquired.

On disposal, accumulated depreciation of the TTT land and buildings crystalises and is capitalised as part of the cost of delivering the TTT under assets under construction, reflecting the known reduction in value of the asset following the expected consumption of the asset by the Group. The element of the land and buildings that will continue to be required for operational purposes post construction (for example, used for accessing the tunnel shafts) will not be disposed of or classified as a cost of delivering the TTT.

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

Where parts of an item of property, plant and equipment have different useful lives, they have been accounted for as separate items of property, plant and equipment.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the Statement of Financial Position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value on a straight-line basis over its estimated useful life, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows:

	Years
Network assets:	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
Non-network assets:	
Land and buildings:	
Buildings	15-60
Operational structures	30-100
Plant and equipment:	
Other operational assets	4-40
Fixtures and fittings	5-7
Vehicles	5
Computers	3-5
Fixed and mobile plant	4-40

PP&E that is within scope of IFRS 5 will be classified as non-current assets held for sale. PP&E will subsequently be measured at the lower of the carrying amount and fair value less costs to sell and be presented separately in the Statement of Financial Position. In addition, depreciation on PP&E classified as non-current assets held for sale will not be charged prior to disposal.

Investment property

Investment property comprises one building originally purchased in relation to the Thames Tideway Tunnel (TTT) project to perform necessary works relating to the construction and integration of the tunnel into our network; however, the floor space in this building is being offered to external parties under short-term leases and, therefore, the property meets the definition of investment property.

Investment property is accounted for under the cost method of IAS 40 and is held at cost less accumulated depreciation. Management have deemed that the carrying value of the asset is materially equivalent to the residual value of the asset, which is reviewed annually, resulting in £nil depreciation charge for the year.

The accumulated depreciation has been recorded as a cost within assets under construction in property, plant and equipment, as this cost was necessary in bringing the TTT to a position to operate in the manner management intended.

Material accounting policy information (continued)

Investment property (continued)

In line with the treatment of the portfolio of Land and Building purchased of the TTT held in property, plant and equipment, investment property will be disposed of in line with our agreement with Ofwat.

Changes in the fair value identified on the investment property is recorded as depreciation as this charge reflects the consumption of the asset by the Group where the investment value of the property was expected to be impacted to allow for the TTT to operate in the manner management intended.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company Income Statement only, under net impairment losses. An impairment review is performed on an annual basis in line with IAS 36. Where the Company also has an intercompany loan receivable with the investment company, the expected cash flows on the investment company's net assets will first be used to minimise any impairments on the loan receivable. This may result in the need to recognise an impairment against the investment in that subsidiary.

Joint arrangements

The Group is party to a joint arrangement with Southern Water and Affinity Water in relation to the development of a large strategic water storage project in Oxfordshire (the White Horse Reservoir).

The project is currently in the development phase with activities focused on progressing the scheme toward formal consent and procurement. Thames Water acts as the lead developer for the project and undertakes the majority of development activities. Southern Water and Affinity Water participate through agreed funding contributions toward development costs.

Management has assessed the arrangement and determined that the arrangement represents a collaborative cost-sharing arrangement whereby the parties share in the development expenditure in proportion to agreed funding shares and meets the criteria of IFRS 11. Accordingly:

- Expenditure incurred by Thames Water in relation to the project is capitalised as development expenditure where it meets the relevant recognition criteria; and
- Contributions received from Southern Water and Affinity Water are recognised as a reimbursement of costs and are therefore offset against the carrying value of the related development asset.

The classification and accounting for the project will be reassessed as the project progresses, including upon establishment of any formal delivery vehicle or regulated infrastructure entity.

Non-derivative financial instruments

These are disclosed in line with the UK Endorsement Board amendments to IAS 1. The IAS 1 amendments changed the criteria for current liabilities from the position that the right to defer settlement for 12 months be unconditional to, under the changed standard, that the right has to have substance and must exist at the reporting date. Furthermore, the classification of liabilities is unaffected by management intentions or expectations about whether the Group will exercise its right to defer settlement or will choose to settle early.

Trade and other receivables (excluding prepayments)

Trade receivables are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. Other receivables such insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

Amounts owed by group undertakings are amounts owing outside of this consolidation group, in the consolidated financial statements, and are amounts owing within and outside this consolidation group, in the company financial statement and in both cases can relate to intercompany amounts within the wider Kemble Water Holdings Limited Group.

Material accounting policy information (continued)

Non-derivative financial instruments (continued)

IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has "no reasonable expectations of recovering" a financial asset. This is recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

Expected credit losses on trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable. The Group's assessment for calculating expected credit losses is explained below.

(i) Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on actual performance in the year and age of debt. The amount that remains is expected to not be collected and therefore needs to be covered by a bad debt provision. Debt that is older than five years is fully provided for. The model considers the impact on provisions for billing that is cancelled and not rebilled, and also the collectability of any rebilling and a bad debt provision against unbilled debtors; for instance, debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses.

Directly billed write off policy

The bad debt write off policy has remained unchanged and has been consistently applied in the current year. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- Where the value of the debt makes it uneconomic to pursue – all debts of less than £5 are written off;
- Where the age of the debt exceeds the statute of limitations – all debts of greater than six years old are written off, taking into account usual business rules;
- Where county court proceedings and attempts to recover the debt by debt collection agencies (multiple in some cases) have proved unsuccessful, including where the customer does not have any assets or has insufficient assets on which to levy execution; and
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order, and no dividend has been or is likely to be received.

For debt to be written off, there must be a legitimate charge against the debtor and no reasonable expectation of recovery.

(ii) Water Only Companies

A provision is also made against debts held by Water Only Companies (WOCs) who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we use an average of two data points when calculating the provisions – WOC Statutory Accounts and TW directly billed (DB) provision rates – as taking a single data point is not appropriate as collection rates, write-off and provisioning policies differ from company to company.

The finalised provision is calculated using the output of the model as explained above together with management judgement as to whether expected performance in the future is expected to differ materially from the recent past. Together, this methodology is used to formulate the provision, in accordance with the requirements of IFRS 9.

(iii) BTL

The arrangement with BTL means the Group has included the construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognising revenue within the Group and associated bad debt. The bad debt methodology is consistent with directly billed customers.

(iv) Non-household

The Group has assessed the risk of credit losses for non-household retail customers to be low and, therefore, considering the risk is deemed immaterial, no bad debt provision has been made. The Group has assessed specific debts held in respect of non-household retail customers which are subject to query by those customers and has made a revenue loss provision on those debts within accrued income based on historical collections experience or on the latest negotiations related to specific invoice queries.

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Material accounting policy information (continued)

Non-derivative financial instruments (continued)

Trade and other payables are recognised in the Statement of Financial Position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade payables are deemed paid upon initiating an electronic payment request where such a request cannot be amended or cancelled.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Amounts owed to group undertakings are amounts owing outside of this consolidation group, in the consolidated financial statements, and are amounts owing within and outside this consolidation group, in the company financial statement and in both cases can relate to intercompany amounts within the wider Kemble Water Holdings Limited Group.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and in hand, deposits held at call with financial institutions and short-term investments, all of which are held at amortised cost, and money market funds held at fair value through profit or loss. Cash is deemed derecognised upon initiating an electronic payment request where such a request cannot be amended or cancelled.

Included within cash and cash equivalents – money market funds are amounts collected in relation to BTL revenue that have not yet been paid across to BTL at the reporting date.

The Group is required to pre-fund cash to the bank prior to the bank approving BACs payments. Management has assessed that this pre-funding balance meets the definition of cash and cash equivalents, and it is not offset against overdrafts arising from the committed BACs payments as they are not settled on a net basis.

Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

When a loan is drawn down under an arm's length loan commitment, the resulting loan may be viewed as a continuation of the loan commitment and the fair value measurement of the loan on initial recognition would be based on circumstances on the commitment date. Therefore, the fair value of the loan on initial recognition would usually be considered to be the amount advanced, adjusted for fees paid, being the transaction price agreed on the commitment date.

Substantial and non-substantial modification to borrowings

An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred recognised as part of the gain or loss on the extinguishment. In the case of exchange or modification of interest bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the Income Statement. The Group's accounting policy is to consider only quantitative factors when determining whether the terms are substantially different.

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel is made available for use. The BTL prepayment will be realised over the useful economic life of the assets recognised on control of the tunnel.

Retirement and other employment benefits

Defined benefit schemes

The Group operates two, independently administered, defined benefit schemes, both of which are closed to new employees. One of these schemes, Thames Water Pension Scheme (TWPS), was closed to future accrual as of 31 March 2021 and there is no salary link. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the Statement of Financial Position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is met, i.e. that the entity has an unconditional right to reductions in future contributions during the life of the scheme, or to a refund on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high-quality bonds of equivalent term and currency to the liability.

Material accounting policy information (continued)

Retirement and other employment benefits (continued)

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the Income Statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit)/surplus.

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the Income Statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of other comprehensive income in the period in which they arise.

The Trust Deed for the Thames Water Mirror Image Scheme (TWMIPS) provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business, the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Group. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Group considers that, under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

Defined contribution schemes

The Group operates a defined contribution (DC) pension scheme for employees. From 1 April 2011, the Group has offered DC pension schemes as the only schemes to which new employees of the Group are eligible. The assets of the DC pension schemes are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the Income Statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations; however, defined funds for former employees are held within these schemes.

Performance Related Pay Plan (PRPP)

Performance Related Pay Plan bonus payments are accrued in the period based on draft performance outcomes against targets set and are subsequently assessed against final pay-out values approved by the Remuneration Committee. Under the PRPP established during the FY24 financial year, 60% (Base Award) of the total eligible bonus amounts at Director level are paid in the following financial year, with 40% (Deferred Award) deferred and paid 27 months after the end of the financial year the award relates to. The deferred award is subject to a multiplier of 0.75x–1.25x dependant on Group performance over the deferral period. Any payment remains subject to the absolute discretion of the Remuneration Committee. This includes reducing (or forfeiting) any earned Base Award if overall performance is not satisfactory. Receipt of any deferred payments is dependent on continued employment at the date of payment except where an Executive Director has been recognised as a 'good leaver'.

Provisions for liabilities and charges

Provisions are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. Where the timing for the insurance claims is uncertain, both the liability and the receivable will be recognised as non-current; otherwise, if claims are assessed to be within the next 12 months, they will be recognised as current.

Provisions for environmental matters, regulatory matters and legal cases require estimates to be made regarding the amount for which the Group is liable. These estimates are made having considered legal counsel, experts' independence evaluation, available facts of the matter including the size of the claim/maximum liability, identification of other potentially responsible entities and their obligation to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances, the provision will be adjusted in the future period when the new information becomes available.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material. Provisions booked and released in the period are recognised through operating expenses, except for capital provisions that are booked and released against the value of additions of fixed assets.

Where a matter results in a possible but not probable outflow of resources or where a provision cannot be reliably estimated, a contingent liability is disclosed within our accounts. This requires significant judgement and relies upon guidance from legal counsel and other experts familiar with the matter to inform the accounting judgement made.

Outcome delivery incentives

The Asset Management Plan (AMP) is the five-year period covered by a water company's business plan. The current period 1 April 2025 to 31 March 2030 is known as AMP8, and the prior period 1 April 2020 to 31 March 2025 was known as AMP7.

Material accounting policy information (continued)

Outcome delivery incentives(continued)

The price review process is undertaken by Ofwat in which it determines the amount of revenue that can be earned from customer bills for delivering an agreed level of service. In December 2024, Ofwat provided its Final Determination for AMP8. The Group has asked Ofwat to refer its Final Determination to the Competition and Markets Authority (CMA) for a re-determination. Following constructive discussions with Ofwat, Ofwat agreed on in October 2025 to defer making the CMA reference for an indefinite period, while ongoing conversations seek a market-led solution to recapitalisation, without the need for a CMA reference.

Consistent with prior AMP (AMP7), outcome delivery incentives (ODIs) set rewards for providing a service which exceeds the level committed and the Group may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate-setting period and, therefore, is not an asset or liability (right or obligation) at the balance sheet date.

The majority of our AMP8 performance commitments have financial ODIs and are subject to either an in-period or an end-of-AMP revenue adjustment. For performance commitments with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For performance commitments with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 18.

Derivative financial instruments not designated as hedging instruments

Initially, recognition is at fair value, with transaction costs being taken to the Income Statement. Gains or losses on re-measurement to fair value are recognised immediately in the Income Statement within net gains/(losses) on financial instruments. Interest relating to derivative instruments are recognised in the Income Statement within finance income or finance expense as applicable.

The Group does not currently designate any financial instruments in hedge accounting relationships.

Financial assets and financial liabilities

Financial liabilities are derecognised upon initiating an electronic payment request where such a request cannot be amended or cancelled.

Financial assets are recognised and derecognised in the Group's Statement of Financial Position on the settlement date when the Group becomes or ceases to be a party to the contractual provisions of the instrument.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if there is currently, and in all circumstances, an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Power prices forward contracts

Contracts are entered into to buy future power for a predetermined price. The power is for the Group's own use and the contract is not settled in cash and as such falls outside the scope of IFRS 9.

Financial guarantees

Financial guarantee contracts

The Group is party to a number of financial guarantee contracts for the purposes of its principal activities. These arrangements include:

- the Whole Business Securitisation (WBS), where the Company guarantees the obligations of TWUF and TWUL; and TWUF and TWUL guarantee the obligations of each other
- TWUL and the Company guarantee the borrowings of TWUL's subsidiary Thames Water Super Senior Issuer plc (TWSSI)

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

On adoption of IFRS 17, management concluded that the fair value of financial guarantee contracts was immaterial. The existence of the guarantee arrangements has no material impact on the financial statements.

No economic value was assigned to the guarantee by TWUF of the debt of TWUL and TWUL of the debt of TWUF due to TWUF's liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked. All of TWUF's external debt has been on-lent to TWUL. TWUF also has a few external swaps which are not perfectly matched with intercompany arrangements with TWUL and, in these cases, the external cash settlements with counterparties have been matched with internal movements between TWUL and TWUF, and therefore there is no material credit impact from these unmatched arrangements.

Material accounting policy information (continued)

Financial guarantees (continued)

No economic value was assigned to the guarantee by TWUL of the debt of TWSSI due to the majority of TWSSI's liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked. TWSSI holds cash in relation to the majority of its liabilities which are not matched by an intercompany loan to TWUL and therefore we consider there to be an immaterial credit impact from these unmatched arrangements.

The credit status of TWSSI, TWUF, TWUL and the Company are highly linked to the creditworthiness of TWUL as an operating company, with the success of all of those companies dependent on the continuing performance of TWUL. Therefore, no economic benefit was assigned to the guarantees by the Company of TWUF and TWSSI debt.

Leases

Recognition of leases

As a lessee

The Group's leasing activities consist of rentals payable for office properties and other land and buildings. Other rentals are short-term or of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

Right-of-use asset

Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

Lease liability

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate (IBR). The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the Income Statement within 'Finance expense' so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option will be exercised, we have only included lease payments up to the assumed lease exit date as the rent payable is not contingent in nature; however, the Group has the ability to agree changes to the arrangement with the lessor if all parties agree.

Where there has been an extension option or early termination, the lease liability has been calculated based on the revised IBR at the time of the modification. Any gains or losses on modifications are recognised in the Income Statement within operating expenses.

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 1% during the stable platform period, which commenced on 25 February 2025 and will apply until the next senior debt maturity date (currently 22 March 2027). Prior to this, the higher specified ratio was 2% and will revert to this following the next senior debt maturity date.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Material accounting policy information (continued)

Leases (continued)

As a lessor

The Group has one material lease for which it is a lessor, which relates to the acquisition of a long leasehold of an office building, Camelford House. The primary purpose of acquiring the building was to provide access to a construction site as part of the construction of the Thames Tideway Tunnel. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other operating income.

Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale, and that are of material significance such that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals, and provisions in relation to contractual settlements associated with significant disputes and claims.

Exceptional items recognised in the financial statements in the current year relate to restructuring, transformation expenditure and expected credit losses on intercompany receivables. The Group continues to recognise exceptional items related to the process of raising equity and managing our creditors due to financial resilience challenges faced by the business, and these are expected to continue into FY27. These costs are deemed significant and outside our ordinary course of business and therefore are considered to be exceptional by value and by nature.

IBOR reform

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

The Group established a project to oversee the GBP LIBOR transition plan. This transition project included changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The transition has largely been completed, although some transactions with LIBOR references have not yet transitioned, and this is expected to be completed by year ended 31 March 2027.

Refer to the 'IBOR reform' section included in note 18 for details of all of the financial instruments that the Group holds at 31 March 2026 that contain references to GBP LIBOR but that have not yet transitioned to SONIA or an alternative interest rate benchmark.

Future standards and amendments

The Group is assessing the impact of the following new and amended standards, which have been issued:

IFRS 9 Recognition and derecognition of financial assets and liabilities (electronic cash payments)

The IASB has made amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7 to address diversity in accounting practice on the timing of de-recognition of financial liabilities settled through electronic payment systems. These amendments are effective for annual reporting periods beginning on or after 1 January 2026. Under the amendments financial liabilities are generally derecognised on settlement but provide an optional exception for earlier de-recognition if certain criteria are met.

The Group's current accounting policy choice is to de-recognise payables on payment initiation rather than settlement. Management have considered the impact of the amendments and will choose not to apply the exceptions. The impact from a change in accounting policy choice on initial application of amendment at the 1 April 2026 will be immaterial based on the value of payments that were initiated in the current reporting period but settled in April 2026.

IFRS 9 Contracts referencing nature-dependent Electricity

The IASB has made targeted amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures to help companies improve on their disclosure of the financial effects of nature-dependent electricity contracts. These amendments are effective for annual reporting periods beginning on or after 1 January 2026 and provide specific reliefs for the application of own use and hedge accounting.

As at 31 March 2026 the Group do not hold any contracts that fall within the scope of this amendment. The Power Purchase Agreement executed in the year is for a fixed volume of electricity and the own use criteria was met without needing to apply the reliefs available under the amendments.

As a result, the impact on initial application of these amendments is expected to be immaterial to the financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

Material accounting policy information (continued)

Future standards and amendments (continued)

IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements, sets out a new presentation requirement for the statement of profit or loss, and provides new definitions and disclosure related to non-IFRS performance measures. This standard is mandatory for annual reporting periods beginning on or after 1 January 2027. The Group will adopt IFRS 18 as at 1 April 2027 and apply the new rules retrospectively.

Management has considered the impact of IFRS 18 and expects the following impact on which further consideration is required:

- The format of the statement of profit or loss will change, and therefore further thought is required to determine if the current systems need to be adapted in order to comply with the new format per the standard.
- Management-defined performance measures (MPMs) will need to be disclosed within the financial statements as part of the new disclosure requirements, so consideration will need to be given regarding appropriate MPMs that increase the transparency of the Groups financial statements. These will be disclosed in addition to alternative performance measures (APMs), unless the APM meets the definition of an MPM per IFRS 18.
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 Subsidiaries without Public Accountability: Disclosures allows eligible subsidiaries to apply IFRS Accounting Standards with the reduced disclosure requirements of IFRS 19 and is effective from 1 January 2027.

A subsidiary may choose to apply the new standard in its consolidated, separate or individual financial statements provided that, at the reporting date:

- it does not have public accountability;
- its parent produces consolidated financial statements under IFRS Accounting Standards.

Management has considered the impact of IFRS 19 and have concluded that there is no impact on the Group, as it has public accountability.

IFRS 20 Regulatory Assets and Regulatory Liabilities

IFRS 20 was published in May 2026 and is effective for annual periods beginning on or after 1 January 2029. The standard has not yet been endorsed for use in the UK.

The Group expects the adoption of this standard to have a material impact on its financial statements. However, the Group has not yet completed its detailed assessment of the impact. This is due to the complexity of the standard and the need to evaluate its application across a number of significant contracts/arrangements.

At this stage, it is not practicable to provide a reasonable estimate of the financial effect. The Group is continuing to assess the impact and will provide further information in future financial statements.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various alternative performance measures (APMs). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. The Directors and management use APMs to provide additional useful information on the performance and position of the Group, and to enhance the comparability of information between reporting periods.

Capital expenditure (capex)

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year, including capitalised borrowing costs (see notes 9 and 10 respectively).

Net debt

Net debt is presented in note 18 on both a statutory (in line with IFRS) and covenant basis. The covenant basis of net debt is the measure used when assessing the TWUHL Group's gearing (see below) against the level stipulated in the Whole Business Securitisation covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of TWUL Group's borrowings less cash (excluding cash held by TWSSI), excluding amounts owed to other Group companies for which there is no related external debt, accrued interest, unamortised IFRS 9 transition costs, unamortised debt issuance costs and discounts, and including certain derivative financial liabilities as explained in note 18.

The TWUL Group must report on a covenant metric under which lease liabilities are classified as unsecured debt. Refer to the lease liability accounting policy, on pages 67 and 68, for more information. Under the court-sanctioned restructuring plan, the financial covenant ratios have been temporarily suspended until the end of the stable platform period (which commenced on 25 February 2025 and will apply until the next senior debt maturity date, currently 22 March 2027) in order to facilitate a subsequent recapitalisation transaction.

Material accounting policy information (continued)

Alternative performance measures (continued)

Regulatory Capital Value (RCV)

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Group needs, Ofwat considers the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing

Gearing is the percentage of the Group's covenant net debt to RCV and the covenant ratio must be reported for the Group's financing arrangements with its lenders, although testing of the covenant is suspended during the stable platform period. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio (PMICR)

PMICR measures the amount of underlying cash generated by the operating activities of TWUL, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio, which must be reported to lenders, and in modified forms, is also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure. Under the court-sanctioned restructuring plan, the financial covenant ratios have been temporarily suspended until the end of the stable platform period in order to facilitate a subsequent recapitalisation transaction.

Credit rating

TWUL is required to maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB or higher from Standard & Poor's and Baa3 or higher from Moody's. The current ratings are below the required level, and Ofwat has accepted undertakings from TWUL in lieu of enforcement action.

The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

EBITDA

Earnings before interest, taxation, depreciation and amortisation (EBITDA) is a key performance metric used by management. Underlying EBITDA excludes impairment in fixed and intangible assets, expected credit losses on intercompany loan and exceptional items. EBITDA has been reconciled to statutory profit before tax in note 1.

K-factor

K-factor is the adjustment factor, specific to each regulated water company in the UK, which is determined by Ofwat and used when determining the allowed revenue limits that a regulated water company can recover from its customers. There is no equivalent statutory measure.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. The actual results may differ from these estimates. The going concern significant judgement is set out within the basis of preparation' section of the material accounting policy information. The other significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2026 are contained in the sections below:

Revenue recognition

Accounting judgement – revenue recognition

Water and wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection, and hence the fair value of revenue recognised during the year, is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in underlying revenue for the current year of £74.3 million (2025: £42.5 million), with a corresponding decrease in receivables as shown in note 14.

Connections, requisitions and diversions

Management consider these types of income streams within other operating income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer or other third party.

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and the Group will have a present right to payment for work performed to date. The charges are an individual performance obligation with their own contracts and therefore separate from the ongoing performance obligation to supply the occupants of newly connected properties. Therefore, no deferral of connections/requisitions charges are made beyond the completion of the service to the developer.

Infrastructure charges

Infrastructure charges are fees charged for new connections to the network. This income earned enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. Management considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

As a result of this obligation and long-term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Accounting judgement and estimation – provision for expected credit losses

The directly billed model uses historical performance to determine the collectability of the debtors in the future. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The model takes the closing household debtors and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains is an estimate of the amount that will not be collected and will form the bad debt provision. Judgement is required in addition to our financially modelled bad debt charge where there are indicators future collections may differ from historical collection performance (see below).

The actual level of receivables collected may differ from the estimated level of recovery that could affect operating results positively or negatively. The bad debt provision at 31 March 2026 was £208.1 million (2025: £177.1 million). The increase was due to increases in the directly billed and Water Only Companies (WOC) provisions and rebilled revenue provisions. Where material operational changes occur during the period, or emerging economic factors are expected to affect customer payment behaviour, management performs a review of the provision model outputs to assess their appropriateness. Where necessary, management applies adjustments to ensure the provision reflects its best estimate of expected future credit losses at the reporting date.

Management has performed a sensitivity analysis on the key components of the directly billed and WOC bad debt models. The primary component of the bad debt model for directly billed customers is based on cash collection performance during the year across the various ageing buckets, which is used to determine the level of provision required. For WOCs, the provision applied is based on the average of the WOCs' own provision rates, as reported in their statutory accounts, and the provision rates applied to Thhmes Water's directly billed customers.

A decrease or increase of 5.0 percentage points in overall collection rates is considered a plausible sensitivity, as a movement of this magnitude would represent the largest variance in overall cash collections observed over a five-year period, including the years affected by Covid-19 and the cost-of-living crisis. The sensitivity analysis is summarised below.

Directly billed

Scenario	£ m	Outcome
Directly billed cash collection rates increase by 5.0 percentage points	(26.0)	Reduction in charge
Directly billed cash collection rates reduce by 5.0 percentage points	26.0	Increase in charge

Significant accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition (continued)

WOCs

Scenario	£m	Outcome
Increase in WOC collection rates by 5.0 percentage points	(4.2)	Reduction in charge
Reduction in WOC collection rates by 5.0 percentage points	4.2	Increase in charge

Property, plant and equipment and intangible assets

Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2026 were £2,623.5 million (2025: £2,180.8 million). Intangibles additions for the year ended 31 March 2026 were £56.4 million (2025: £44.3 million). Both figures include own works capitalised and capitalised borrowing costs.

In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria, and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangible assets for the year ended 31 March 2026 were £200.8 million (2025: £187.1 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives (UELs) of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods.

An assessment of the impact of climate change on accounting estimates was performed. Initiatives assessed include use of electric vehicles (and related infrastructure), producing renewable energy (biomethane) from wastewater for injection into the grid and use in powering our assets, generation of solar power and improved energy efficiency in operational processes. Procurement and construction of these investments will happen in future reporting periods and will replace assets that have reached the end of their useful lives. No impairment charges or changes in UELs were identified. These initiatives formed part of our delivery plan to reach net zero carbon by 2030 however, as disclosed in our Task Force on Climate-related Financial Disclosure on pages 13 to 21, we are reviewing our route map to achieve net zero to fully understand the challenges and opportunities which impact the plan.

The total depreciation charge for the year ended 31 March 2026 was £744.1 million (2025: £703.1 million) and the total amortisation charge for the year was £67.9 million (2025: £70.8 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome for the year ended 31 March 2026
5-year increase in average remaining useful life	(100.1)	Decrease in total depreciation and amortisation charge in the year
5-year decrease in average remaining useful life	133.4	Increase in total depreciation and amortisation charge in the year

Accounting estimate – own works capitalised

Own works capitalised for the year ended 31 March 2026 of £412.2 million (2025: £291.6 million) includes employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. These amounts will be depreciated in line with the underlying assets they are allocated to as these assets are commissioned.

The estimation applied is disaggregated at a cost centre level with no specific assumption being considered to be individually significant. However, given the long depreciation period of our asset base, as articulated in our accounting policies, meaning that these costs will accumulate on our balance sheet over time, we consider that the combination of individual estimates, in aggregate, is significant.

A decrease or increase of 10.0% of the total value of capitalised overheads (own works capitalised) is deemed a plausible sensitivity to apply when considering the level of variability which could be seen within a given year given the scale of change we see in our capital programme. The sensitivity analysis is summarised below:

Scenario	£m	Outcome for the year ended 31 March 2026
Increased capitalisation value of overheads by 10.0%	41.2	Increased capital expenditure (and reduced operational expenditure)
Reduced capitalisation value of overheads by 10.0%	(41.2)	Reduced capital expenditure (and increased operational expenditure)

Significant accounting judgements and key sources of estimation uncertainty (continued)

Provisions for other liabilities and charges

Accounting judgement – recognition of environmental, regulatory and legal provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial, regulatory and legal claims that are related to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters, how they will materialise in the financial statements (certain penalties can and have been settled through future revenue adjustments, adjustments to Regulatory Capital Value or investment commitments to deliver better outcomes to stakeholders) and makes a judgement about whether or not a provision should be recognised. Legal counsel provides input into this assessment.

Environmental, legal and other regulatory provisions, which are detailed in note 20, total £311.7 million as at the year ended 31 March 2026 (2025: £260.9 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances, the provision will be adjusted in the future period when the new information becomes available.

Provisions for liabilities and charges as at 31 March 2026 totalled £555.2 million (2025: £497.4 million) with the increase primarily driven by higher provisions for environmental incidents. Provisions are based on a range of possible outcomes of what the amount payable will be and, as a result of the uncertainty of the amounts, there is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided.

The value at the higher and lower range of the estimated fine provided by external legal counsel is deemed a plausible sensitivity to apply when considering the level of variability which could be seen within any year given the uncertainty around enforced fines for environmental incidents. For the lower range, consideration has been made around incidents with current enforcement undertakings offered given the possibility around these being accepted and paid in lieu of a fine. The sensitivity analysis is summarised below:

Scenario	£m	Outcome for the year ended 31 March 2026
Increase in provision based on top end of legal estimated ranges for fines on environmental incidents	80.4	Increase in provision
Decrease in provision based on low end of legal estimated ranges for fines on environmental incidents, or where applicable value of submitted enforcement undertakings to regulators being accepted in lieu of fines	(94.2)	Decrease in provision

The above sensitivity analysis includes the financial estimated range for the Environment Agency prosecution against the company for 5 pollution incidents across Berkshire, Buckinghamshire, Hampshire and Oxfordshire. The Environment Agency alleges the Company is at the highest level of culpability at “deliberate”. The Company has pleaded guilty to the offences but strongly disputes the allegation of deliberate culpability and will defend this in Court. If the Company is found deliberately culpable this could result in an increased risk of similar allegations in relation to other incidents. Any knock on financial impact is currently unknown and uncertain, therefore is not reflected in the sensitivities analysis above.

Retirement benefit obligations

Accounting estimate – actuarial assumptions

The Group operates two defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years.

The most recent Valuation for TWMIPS is as at 31 March 2025 signed off inside the deadline by end of June 2026 and showed a reduction of funding deficit of £7.9 million from the 2022 valuation to £22.4 million based upon assets of total assets of £465.2 million and total liabilities of £487.6million.

The most recent completed triennial valuation for TWPS is as at 31 March 2022 signed off in August 2024 and showed a deficit of £444.7 million based upon total assets of £1,639.2 million and total liabilities of £2,083.9 million. The triennial valuation in respect of 31 March 2025 for TWPS remains ongoing due to the different composition of this Scheme. Where an actuarial valuation is not completed by the legislative deadline, the Pensions Regulator may open an investigation and consider using its enforcement powers. No such investigation has been launched at this stage.

The pension liability and net cost recognised under IAS 19 Employee Benefits are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management, and are used to estimate the present value of the defined benefit obligations.

Significant accounting judgements and key sources of estimation uncertainty (continued)

Retirement benefit obligations (continued)

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the Income Statement and the net asset figure in the Statement of Financial Position and together represent a key source of estimation uncertainty. The significant assumptions include:

- the discount rate; and
- mortality rate

Other estimates include inflation (RPI and CPI), salary and pension increases.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit surplus for the two schemes as at 31 March 2026 was £3.5 million (2025: £86.2 million deficit), which includes a pension deficit of £27.0 million (2025: £112.1 million deficit) for the TWPS scheme, offset by a pension surplus of £30.5 million (2025: £25.9 million surplus) for the TWMIPS scheme. Refer to note 22 for more information on the key assumptions and sensitivities of the pension schemes.

Derivative financial assets and liabilities

Accounting estimates and judgement – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps;
- interest rate swaps; and
- consent fee derivatives (which are an integral part of index-linked and interest rate swaps).

A significant accounting estimate has been made in assessing the credit risk adjustment in the fair valuation of derivatives, and further detail is found in the *Credit Risk Adjustment* section below.

Consent Fee Derivatives

As part of the court-sanctioned restructuring plan, the TWUL Group amended its existing agreements with swap counterparties to include additional fees (the consent fee derivatives) and additional break clauses were included. The fees were applied under amended International Swaps and Derivative Association (ISDA) agreements and confirmations. Under the consent fee derivatives, the fees are due to be paid to counterparties with index-linked and interest rate swap exposures, based on the unadjusted market value of those derivatives (net of cross currency swap market values if offsetting) on 15 January 2025 and every anniversary of that date, whilst TWUL Group's debt does not have two investment grade credit ratings. There was an initial 3% fee payable in two equal instalments and then a 1% per annum fee payable semi-annually. The first 1.5% fee was paid on the first restructuring plan transaction effective date, 14 August 2025, which was the date when there was no longer an appeal risk on the court-approved restructuring plan. The second 1.5% instalment is due (with certain exclusions) on the date a recapitalisation transaction completes. The 1% per annum fee accrues from 15 January 2025 and is initially payable on the earlier of the expiry of the stable platform period (which commenced on 25 February 2025 and will apply until the next senior debt maturity date (currently 22 March 2027), or the implementation of a recapitalisation) and is then payable semi-annually whilst the Group's debt does not have two investment grade credit ratings.

The consent fee derivatives are considered integral to the interest rate and index-linked swaps and their cash flows are dependent on them. Management has made a judgement that they cannot be separated from the swaps which they are dependent on as they cannot be separately traded without changes to the documentation. Therefore, the consent fee derivative and original swap are assessed as one unit of account. As a result, the current and non-current classification is determined based on the legal maturity date of the original swap, which may differ from when the fees become payable. To assist readers to understand the impact of the restructuring plan and exceptional costs incurred we have presented consent fee derivatives separately.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement, which categorises inputs to valuation techniques into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed
Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Group's inputs to valuation techniques are Level 3 – the fair value is determined using management assumptions from inputs other than quoted prices. The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using the discounted cash flows of all of the transactions within each netting set. The future cash flows are projected based on observable forward interest rates and inflation rates, and future fair values are estimated under a wide range of market scenarios and valued taking into account the credit risk of the Group and counterparties, using observable market data and where necessary, management estimation.

Significant accounting judgements and key sources of estimation uncertainty (continued)

Derivative financial assets and liabilities (continued)

Credit risk adjustment

IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. The bilateral credit valuation method is used, which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than Class A debt and following the court-sanctioned restructuring plan, cross-currency swaps also rank higher than Class A debt. A super seniority adjustment is therefore applied in the valuation of all swaps, except for three accretion agreements which are accounted for as derivatives but are documented as Class A instruments, so rank alongside Class A debt and are valued by reference to the trading levels of Class A debt, using the weighted average trading price of a subset of Class A bonds.

In its valuation of its Level 3 derivatives, the Group uses observable market data as a starting point. The primary source of data is the trading spread of its Class A debt instruments. A spread curve is generated using the cubic spline methodology. This is then adjusted using observable market data which can be used to estimate the adjustment in the Class A credit curve appropriate for super senior instruments. If the observable market data is not considered to correlate sufficiently with the Group's own instruments, management judgement is then applied to adjust the derived curve to be an estimate that management judges to be reasonable. At the next reporting date, these data points and judgements will be reviewed and updated to maintain a reasonable approach and a decision will be made as to whether the transactions should be classified differently from Level 3.

An adjustment to the Class A credit curve has been estimated in order to determine a super senior credit curve for the valuation of super senior swaps. As at 31 March 2026, an additional 647 basis points differential has been applied for near term maturities, reducing to a 637 basis point differential applied for longer term maturities from 5 years. This adjustment is a management judgement as to what the overall difference in spread would be which market participants would take into consideration for super senior versus Class A instruments. This estimate has been informed by the trading level of TWSSI's super senior bond. Management considered the factors which could influence the pricing of the debt, including that the holders of the debt have priority allocations in any further issuance of super senior debt and that the debt would be due for early repayment, including a make-whole, at the time of any future holistic recapitalisation of TWUL. This analysis was used to derive a credit spread adjustment for the valuation of super senior swaps. This is an estimate by management, given a lack of any more appropriate data point in determining the credit spread for the Group's super senior instruments. As at 31 March 2025, the differential between the Class A credit curve and the super senior credit curve used in the valuation of swaps was 750 basis point for the first three years, reducing to 400 basis points by 15 years maturity.

Recovery rate assumptions to be used in the valuation of derivatives were also considered. As at 31 March 2026 the recovery rate for super senior instruments would be expected to be higher than for Class A debt, and management judgement has been used in the assumption of a recovery rate of 85%, to reflect this seniority, and is midway between Class A bond trading levels (c. 69%) and the maximum possible recovery rate of 100%. This recovery rate takes into account the higher ranking of the swaps versus Class A debt. At 31 March 2025 and 30 September a 85% recovery rate was also used for Thames Water risk. A recovery rate assumption of 35% to 40% has been used for swap counterparties at 31 March 2026, consistent with the prior reporting dates.

Management believe the assumptions used are reasonable, with the rationale set out above, although the credit related assumptions are not based on observable inputs. Management acknowledge that the interrelated assumptions on recovery rate and credit spread are significant assumptions in the valuation methodology and that reasonably possible changes in the estimates could have a material impact. For example, if the recovery rate assumption was reduced from 85% to 75%, the increase in credit adjustment on super senior swaps would be:

- £65 million using the same credit spread assumption as described above, meaning a different probability of default is implied
- £133 million if the probability of default implied by the methodology described above is used, meaning a different credit spread assumption has been applied.

Interest rate and index-linked swap counterparties have a mandatory or optional break clause from the first business day following 31 December 2028 if Thames Water does not have two investment grade ratings. They also have a break clause on 1 April 2030 if a recapitalisation transaction has happened before that date (unless the interest rate and index-linked hedge providers are a voting class in that transaction, Class A creditors do not vote on the transaction, or the hedge provider consents to the recapitalisation transaction). These break clauses would ordinarily be expected to reduce the size of the non-performance risk given the break will potentially bring cash flows forward for counterparties. An assessment has been carried out of the non-performance risk if interest rate and index-linked swaps were terminated on 2 January 2029 and on 1 April 2030 and the breaks are not considered to materially impact the valuations derived as described above.

The three Class A accretion agreements which are accounted for as derivatives, for which under the court-approved restructuring plan certain payments were delayed by two years, may be subject to a maturities flip back or the transactions may be subject to early repayment.

For consent fee derivatives, the timing of cash flows is linked to when the future recapitalisation is completed, the timing of when two investment grade credit ratings are achieved and whether break clauses will be exerciseable. The cash flows themselves are dependent on the valuation of interest rate and index linked swaps with the relevant counterparty at 15 January 2025 and each anniversary date. Management judgement has been used in estimating the quantum and timing of the cash flows in valuing these transactions, although no sensitivities on these assumptions are presented given the relatively low proportion of the overall fair value of derivatives which consent fee derivatives represent. The use of unobservable inputs for every type of derivative means they have all been classified as Level 3.

The use of significant unobservable inputs, means that at 31 March 2026 all derivatives are classified as Level 3 which is the same classification as at 31 March 2025.

Significant accounting judgements and key sources of estimation uncertainty (continued)

Derivative financial assets and liabilities (continued)

The uncertainty on appropriate inputs for valuation for derivatives may persist into the next financial year, depending on the success and timing of the Group's plans for a recapitalisation.

For the year ending 31 March 2026 there has been no movement in the categorisation of instruments which remain Level 3:

For the year ended 31 March	Group 2026
Level 3 instruments	
Opening balance	(1,418.2)
Transfers from Level 2 to Level 3 at 30 September 2025[1]	-
Transfers from Level 2 to Level 3 at 31 March 2026[1]	-
Gains and losses recognised through profit or loss	(80.3)
Closing balance	(1,498.5)

[1] The accounting policy is to transfer any fair value between fair value hierarchies (Level 1 – 3) at the end of each reporting period, being the statutory year end and half-year end.

The net total of derivative financial assets and liabilities as at 31 March 2026 was a liability of £1,498.5 million (31 March 2025: a liability of £1,418.2 million) of which £59.4 million (31 March 2025: £92.5 million) was the consent fee derivatives element. The valuation if no credit and any other adjustment is applied is £1,755.5 million net liability (31 March 2025: £1,643.6 million net liability). The credit and any other adjustment is £257.0 million (31 March 2025: £225.4 million). Credit risk sensitivity analysis is included in note 18.

Refer to note 18 for more information on the key assumptions and sensitivities of the financial instruments.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change in the Income Statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the Income Statement over the maturity period of the relevant restructured derivative.

During 2019/20, three index-linked swaps with a total notional value of £400 million were restructured. At the restructuring date, the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In Management's view, the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors, including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps. Therefore, such movement was deferred on the Statement of Financial Position in compliance with IFRS 9 and will be recognised in the Income Statement on a straight-line basis over the life of the underlying derivative instrument.

Unobservable inputs in the valuation of these swaps at 31 March 2026 mean that they remain categorised at Level 3. As at 31 March 2026, £25.2 million (2025: £27.3 million) remained capitalised within derivative financial liabilities and £2.1 million had been recognised in the Income Statement within net gains/(losses) on financial instruments (2025: £2.0 million).

Judgement that relates to Bazalgette Tunnel Limited (BTL)

Accounting judgement – principal vs. agent

BTL is the independent licensed utility company appointed by Thames Water to construct the Thames Tideway Tunnel (TTT). The appointment was subsequently approved by Ofwat in August 2015. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the TWUL's licence). Judgement has been exercised in assessing whether the Group is acting as principal or agent in its relationship with BTL.

Under IFRS 15, an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself or to arrange for it to be provided by another party. The Group is deemed to have primary responsibility for providing the 'end-to-end' services relating to the disposal of waste from its wastewater customers, from collection, transportation (through the existing infrastructure and the TTT) to processing in the Group's sewage treatment plants. The Group continues to charge its wastewater customers for the end-to-end waste management service.

Additionally, the Group, as the sole future user of the tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the tunnel). These risks include reputational risks. Management therefore considers the Group is operating as principal in the relationship with BTL.

Notes to the consolidated financial statements

1. Segmental analysis

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

In line with the Group's structure, all operational functions are included in a single business unit, enabling an end-to-end view of customer journeys and integrated resource management. Certain operational costs are split by Wastewater, Water and Retail services; however revenue and overheads 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.

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

Segmental performance

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

Year ended 31 March	2026 £m	2025 £m
Management revenue	3,689.6	2,645.1
Management net operating expenses before depreciation and amortisation	(1,741.3)	(1,479.1)
Management other operating income[1]	22.9	26.6
Capital income	125.3	123.7
Underlying management EBITDA	2,096.5	1,316.3
IFRS 16 adjustment[2]	17.1	7.5
Statutory reclassification of pension costs[3]	(2.3)	(2.9)
Other statutory adjustments[4]	(21.2)	13.7
Underlying EBITDA	2,090.1	1,334.6
Household BTL gross revenue[5]	117.0	111.2
Non-household BTL gross revenue[5]	24.2	24.4
BTL charge for bad and doubtful debt and expenses	(0.5)	(0.5)
Exceptional items – restructuring and transformation[6]	(61.8)	(97.7)
Exceptional items – Ofwat dividend investigation[6]	-	(18.2)
Exceptional items – Ofwat wastewater investigation[6]	-	(104.0)
Total EBITDA	2,169.0	1,249.8
Depreciation of property, plant and equipment	(744.1)	(703.1)
Depreciation of right-of-use assets	5.9	(7.8)
Amortisation of intangible assets	(67.9)	(70.8)
(Impairment)/impairment reversal of property, plant and equipment	(1.2)	2.9
Total statutory operating profit	1,361.7	471.0
Finance income	116.2	186.3
Finance expense	(1,048.1)	(886.1)
Exceptional items – finance expense restructuring[6]	(129.6)	(86.8)
Exceptional items – finance expense consent fees[7]	(8.6)	(105.7)
Net losses on financial instruments	(276.0)	(148.0)
Exceptional items – EIB loss on modification[7]	(16.6)	-
Exceptional items – financial instruments swap consent fees[7]	11.8	(92.5)
Total statutory profit/(loss) before tax	10.8	(661.8)

[1] Management other operating income includes £0.7 million loss on sale of property, plant and equipment (2025: £6.8 million gain).

[2] Management numbers recognise the lease expense proportionally over the lease term rather than interest and depreciation as required by IFRS 16, an adjustment is done to account for leases under IFRS 16.

[3] Contributions made into the defined benefit pension schemes are recognised on an accruals basis. So that the accounting is in line with IAS 19, any accruals made for contributions are reversed and are recognised on a cash basis for statutory purposes.

[4] These amounts relate to insurance, provisions and other statutory only adjustments not included in the management numbers.

[5] The portion of BTL revenue related to our household and non-household customers.

[6] Exceptional costs include £191.4 million related to restructuring expenditure (2025: £184.5 million) incurred due to significant restructuring of the business, of which £129.6 million (2025: £86.8 million) is classified in finance expense that relates to debt restructuring costs. Exceptional costs for the year ended 31 March 2025 included a £104.0 million provision related to Ofwat's regulatory investigation into our Wastewater Business and operation of sewage treatment work and a £18.2 million provision related to Ofwat's investigation into dividends paid.

[7] Exceptional costs include £nil (2025: £105.0 million) in relation the recognition of consent fee debt, that was issued in lieu of cash and £8.6 million (2025: £0.7 million) related to the amortisation of consent fee debt classified as finance expense. £16.6 million (2025: £nil) exceptional loss was recognised related a loss on modification of the EIB loan, which was converted from RPI to floating during the period. In addition to this, there is £11.8 million gain (2025: £92.5 million loss) of exceptional items relating to fair value movement on consent fee derivatives.

Notes to the consolidated financial statements (continued)

1. Segmental analysis (continued)

Revenue – Management to statutory reconciliation

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

Year ended 31 March	2026 £m	2025 £m
Management revenue	3,689.6	2,645.1
Household BTL revenue	117.0	111.2
Non-household BTL revenue	24.2	24.4
Statutory reclassification of bad debt from operational expenditure[1]	(74.3)	(42.5)
Total statutory revenue	3,756.5	2,738.2

[1] This relates to amounts billed that are not probable of being recovered and therefore are excluded from IFRS 15 revenue. In the current year, £74.0 million relates to management revenue (2025: £42.3 million) and £0.3 million relates to BTL revenue (2025: £0.2 million).

2. Revenue

Year ended 31 March	Note	2026 Underlying £m	2026 BTL £m	2026 Total £m	2025 Underlying £m	2025 BTL £m	2025 Total £m
Gross revenue		3,689.6	141.2	3,830.8	2,645.1	135.6	2,780.7
Charge for bad and doubtful debts	14	(74.0)	(0.3)	(74.3)	(42.3)	(0.2)	(42.5)
Total		3,615.6	140.9	3,756.5	2,602.8	135.4	2,738.2

Bazalgette Tunnel Limited (BTL) is responsible for the construction of the Thames Tideway Tunnel (TTT). The Group has included costs of the TTT within its bills to wastewater customers. As cash is collected, it is paid over to BTL under the 'pay when paid' principle. The revenue on this arrangement has been disclosed separately to the Group's underlying performance in the table above, which is consistent with our financial covenants.

We have presented a further disaggregation of our revenue below:

Gross revenue for the year ended 31 March	2026 £m	2025 £m
Household market		
Water services	1,210.8	935.1
Wastewater services	1,498.1	1,063.0
Retail services	264.6	129.1
Total gross revenue from household market	2,973.5	2,127.2
Non-household market		
Water services	349.8	254.9
Wastewater services	310.6	221.5
Retail services	-	-
Total gross revenue from non-household market	660.4	476.4
Gross revenue from principal services[1]	3,633.9	2,603.6
Other appointed revenue[2]	22.2	17.6
Total appointed revenue	3,656.1	2,621.2
Other non-appointed revenue (excluding amounts billed for the TTT)[3]	26.7	21.4
Statutory to regulatory accounting guidelines adjustment[4]	6.8	2.5
Total gross underlying revenue	3,689.6	2,645.1
Amounts billed for the TTT[5]	141.2	135.6
Total gross revenue	3,830.8	2,780.7

[1] Gross revenue from principal services relates to appointed revenue, which is revenue generated from the regulated activities of the Group 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 property searches and cess treatment (treatment of waste from private receptacles not linked to the network).
[4] This adjustment reflects that income from diversions and developer services is recorded as other income in regulatory reporting but as revenue in the statutory financial statements. Additionally, sludge cake sales are treated as negative expenditure in regulatory reporting, whereas they are recognised as revenue in the statutory financial statements.
[5] Amounts billed for the TTT include both household and non-household revenue, being derived from 83% household (2025: 82%) and 17% non-household (2025:18%) activities.

All revenue is derived from activities based in the UK.

Notes to the consolidated financial statements (continued)

2. Revenue (continued)

Other operating income

The Group has recognised the following amounts relating to other operating income in the Income Statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Year ended 31 March	2026 £m	2025 £m
Power income[1]	17.8	14.6
Requisitions and diversions charges[2]	43.3	90.6
Service connections charges	17.1	21.3
Amortisation of deferred income recognised on adoption of assets at nil cost	7.6	6.6
Release from deferred income – infrastructure charges	6.1	5.9
Rental income	4.3	3.0
(Loss)/ gain on sale of property, plant and equipment	(0.7)	6.8
Other income[3]	1.4	1.5
Total	96.9	150.3

[1] Power income comprises income from the sale of internally generated electricity.
[2] Requisitions relate to provisions of new water mains, and diversions relate to the process of altering or removing a water main and ancillaries.
[3] Other income includes £nil relating to excess payments received from customers in the past and recognised during the current year (2025: £0.8 million).

2.1 Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

As at 31 March	Note	2026 £m	2025 £m
Contract assets			
Current			
Accrued revenue for services provided to metered customers		320.7	259.8
Accrued income for other activities[1]		93.9	84.4
Total current contract assets	14	414.6	344.2
Total contract assets		414.6	344.2
Contract liabilities			
Non-current			
Deferred revenue from infrastructure charges		(623.2)	(580.4)
Deferred revenue from other activities[2]		(730.2)	(579.0)
Total non-current contract liabilities	16	(1,353.4)	(1,159.4)
Current			
Advance payments received		(76.6)	(74.8)
Deferred revenue from infrastructure charges		(6.6)	(6.1)
Deferred revenue from other activities[2]		(88.5)	(88.9)
Total current contract liabilities	16	(171.7)	(169.8)
Total contract liabilities		(1,525.1)	(1,329.2)

[1] Other activities include accrued income from capital projects and the BTL arrangement (discussed on pages 57 and 58).
[2] Other activities include deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Notes to the consolidated financial statements (continued)

2. Revenue (continued)

2.2 Revenue recognised in relation to contract liabilities

The following table shows how much revenue and other operating income recognised in the current reporting period relates to brought forward contract liabilities. No amounts were recognised in the current financial year that relate to performance obligations satisfied, or partially satisfied, in previous periods.

Year ended 31 March	2026 £m	2025 £m
Revenue and other operating income recognised that was included in the contract liability balance at the beginning of the period:		
Advance payments received	74.8	71.9
Deferred revenue from infrastructure charges	6.1	5.9
Deferred revenue from other activities	88.9	55.6
Total	169.8	133.4

2.3 Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue and other operating income is expected to be recognised in future reporting periods in respect of ongoing contracts that are partially or fully unsatisfied as at the reporting date.

Year ended 31 March	2026 £m	2025 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Service connections	7.7	5.5
Requisitions and diversions	56.6	73.5
Infrastructure charges	629.9	586.6
Nil cost adopted assets	722.9	572.1
Other	2.6	5.2
Total	1,419.7	1,242.9

The Group considers the combination of activities comprising a service connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically, amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with requisitions and diversions to be the delivery of the associated asset and, accordingly, recognises this income over time. Requisitions and diversions encompass a wide variety of schemes, from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges, the Group considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total unamortised amount which will be recognised as income as the assets continue to depreciate.

For nil cost adopted assets, the Group considers its performance commitment to align with its obligation to service the end customer over the adopted asset's useful economic life. Accordingly, the total amounts disclosed in the table above represent the total unamortised amount which will be recognised as income as the assets continue to depreciate.

For water and wastewater services, the Group has a right to consideration from customers to an amount that corresponds directly with the value to the customer of the entity's performance completed to date, being the provision of such services. As such, revenue is recognised to the amount the Group has a right to invoice. Therefore, as allowed by the practical expedient set out in IFRS 15, these revenues are not included in the table above.

Notes to the consolidated financial statements (continued)

3. Operating expenses

	2026 Underlying £m	2026 BTL £m	2026 Total £m	2025 Underlying £m	2025 BTL £m	2025 Total £m
Wages and salaries	494.5	-	494.5	425.3	-	425.3
Social security costs	62.8	-	62.8	45.6	-	45.6
Pension costs – defined benefit schemes	5.3	-	5.3	5.1	-	5.1
Pension costs – defined contribution schemes	39.2	-	39.2	34.1	-	34.1
Apprenticeship levy	3.6	-	3.6	2.6	-	2.6
Total employee costs	605.4	-	605.4	512.7	-	512.7
Power	223.1	-	223.1	219.7	-	219.7
Raw materials and consumables	104.4	-	104.4	87.7	-	87.7
Rates	149.0	-	149.0	148.1	-	148.1
Research and development expenditure	25.4	-	25.4	16.3	-	16.3
Insurance	65.4	-	65.4	70.7	-	70.7
Legal and professional fees	35.3	-	35.3	24.0	-	24.0
Third party costs	789.0	-	789.0	587.3	-	587.3
Own works capitalised	(412.2)	-	(412.2)	(291.6)	-	(291.6)
Net operating expenses before depreciation and amortisation	1,584.8	-	1,584.8	1,374.9	-	1,374.9
Depreciation of property, plant and equipment	744.1	-	744.1	703.1	-	703.1
Depreciation of right-of-use assets	(5.9)	-	(5.9)	7.8	-	7.8
Amortisation of intangible assets	67.9	-	67.9	70.8	-	70.8
Impairment/(impairment reversal) of property, plant and equipment	1.2	-	1.2	(2.9)	-	(2.9)
Net operating expenses excluding exceptional costs	2,392.1	-	2,392.1	2,153.7	-	2,153.7
Exceptional costs						
Financial restructuring and transformation	61.8	-	61.8	97.7	-	97.7
Ofwat dividend investigation	-	-	-	18.2	-	18.2
Ofwat wastewater investigation	-	-	-	104.0	-	104.0
Net operating expenses	2,453.9	-	2,453.9	2,373.6	-	2,373.6
Expected credit losses on trade receivables and contract assets	37.6	0.2	37.8	43.6	0.3	43.9
Total operating expenses	2,491.5	0.2	2,491.7	2,417.2	0.3	2,417.5

Exceptional costs reflect the following:

- restructuring expenditure of £61.8 million (2025: £64.5 million) including legal and professional fees, some of which have been incurred on behalf of lenders and prospective equity investors, and turnaround and transformation expenditure of £nil (2025: £33.2 million) incurred as a result of significant restructuring of the business
- a provision related to Ofwat's dividend investigation of £nil (2025: £18.2 million)
- a provision related to Ofwat's regulatory investigation into our Wastewater Business and operation of sewage treatment works of £nil (2025: £104.0 million)

These costs are considered exceptional in nature and represent additional significant expenditure to be incurred that is not in the ordinary course of business. The tax impact of exceptional items is a reduction in the tax charge in the Income Statement of £nil (2025: £24.4 million) applying the 25% corporation tax rate (2025: 25%).

Notes to the consolidated financial statements (continued)

3. Operating expenses (continued)

Auditor remuneration

Amounts payable to the Group's auditor are shown below in respect of the following services to the Group:

	2026 £'000	2025 £'000
Fees payable to the Group's auditor:		
Fees payable for the audit of the Group and Company financial statements	83.0	80.0
Fees payable for the audit of the subsidiary financial statements	4,034.0	3,417.7
Fees payable to the Group's auditor for other services:		
Audit related assurance services	900.0	893.8
Other assurance services	-	-
Total aggregate remuneration	5,017.0	4,391.5

Fees payable for the audit of the Group and Company financial statements in the current financial year include £312,000 (2025: £450,000) in respect of the prior year audit and exclude £16,000 (2025: £13,000) for out-of-pocket expenses incurred for delivery of the audit.

Other audit-related assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements for Ofwat.

4. Employees and Directors

Employees

All employees are based in the United Kingdom. All employees are employed by the Company's subsidiary Thames Water Utilities Limited (TWUL). The Company, and its other two subsidiaries, Thames Water Utilities Finance plc (TWUF) and Thames Water Super Senior Issuer plc (TWSSI), had no employees during the period.

The monthly average number of persons employed on a permanent basis by the Group (including Executive Directors) during the year, analysed by category, was as follows:

	2026 Number	2025 Number
Asset, operations and capital delivery	6,051	5,738
Retail	1,319	1,194
Group services	679	534
Digital transformation	423	358
Total persons employed by the Group	8,472	7,824

Directors emoluments

The Directors of the Company are remunerated by TWUL, no additional fees or salaries are paid to the Directors by the Company. The Directors' emoluments for the Group were as follows:

Year ended 31 March	2026 £'000	2025 £'000
Director's fees in respect of services to the Company	-	-
Director's fees in respect of services to the Company's subsidiaries	4,948.0	4,127.0
Total	4,948.0	4,127.0

Included in the table above is £3.5 million (2025: £1.8 million) for salaries to the Executive Directors who sit on the Board, and £1.0 million (2025: £1.0 million) for fees paid to Non-Executive Directors for their services to TWUL.

In the current and preceding financial years, no amounts were accruing to any Directors under the Group's defined benefit scheme in respect of services to TWUL. TWUL contributed cash of £163,000 (2025: £158,000) as a pension supplement for two Directors (2025: two Directors). In the current and preceding years, TWUL made no contributions into the Group's defined contribution pension scheme in relation to the Directors.

Payment on loss of office was £nil (2025: £680,000 including settlement payments). Payment in lieu of notice was £nil (2025: £296,530). 2025 figures relate to Alistair Cochran, who stepped down as CFO and from the Board with immediate effect on 27 March 2025.

Other benefits include medical benefits, car allowances, relocation costs, salary adjustments and pay in lieu of leave.

Highest paid Director

No fees were paid to directors in the current year by the Company. The total emoluments of the highest paid Director in respect of services to TWUL, the Company's immediate subsidiary, during the year were £1,162,664 (2025: £1,611,254).

Notes to the consolidated financial statements (continued)

5. Finance income and expense

Finance income

During the year ended 31 March 2026, the Group recognised finance income of £116.2 million (2025: £186.3 million) relating mainly to interest income on swaps, intercompany loans receivable, money market funds and short-term investments.

Year ended 31 March	2026 £m	2025 £m
Interest income on money market funds, short-term investments and cash at bank and in hand	26.7	46.7
Interest income on swaps	89.1	139.2
Trading interest income	0.4	0.4
Total finance income	116.2	186.3

Finance expense

During the year ended 31 March 2026, the Group recognised finance expenses of £1,186.3 million (2025: £1,078.6 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and other finance fees.

Year ended 31 March	Note	2026 £m	2025 £m
Interest expense in relation to bank and other loans		(840.5)	(705.1)
RPI accretion on bank and other loans		(163.4)	(141.6)
Interest in relation to intercompany borrowings		(215.8)	(215.5)
Net interest expense on defined benefit obligation	22	(0.9)	(5.2)
Interest expense on leases	12	(25.7)	(3.5)
Trading interest expense		(0.3)	(0.2)
Other finance fees		(2.3)	(2.1)
Gross finance expense		(1,248.9)	(1,073.2)
Capitalised borrowing costs		200.8	187.1
Exceptional items		(138.2)	(192.5)
Total finance expense		(1,186.3)	(1,078.6)

The exceptional items of £138.2 million (2025: £192.5 million) reflect the following:

- £8.6 million (2025: £0.7 million) related to the unwind of consent fee debt discount, that was issued in in lieu of cash.
- £129.6 million (2025: £86.8 million) advisory fees, including legal and professional fees related to the debt restructuring plan.
- £nil (2025: £105.0 million) related to the recognition of consent fee debt, that was issued in lieu of cash.

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 £2.2 million (2025: £48.1 million) applying the 25% corporation tax rate (2025: 25%).

Notes to the consolidated financial statements (continued)

6. Net losses on financial instruments

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

Year ended 31 March	2026 £m	2025 £m
Net exchange (losses)/gains on foreign currency borrowings	(72.2)	79.3
Net losses arising on swaps where hedge accounting is not applied[1]	(203.8)	(224.5)
Losses on cash flow hedge transferred from equity[2]	-	(2.8)
Gross net losses on financial instruments	(276.0)	(148.0)
Exceptional items	(4.8)	(92.5)
Total	(280.8)	(240.5)

[1] Net losses arising on swaps where hedge accounting is not applied primarily reflect higher interest rate expectations and RPI expectations. The amount includes the fair value of £218.2 million (2025: £219.0 million) accreted on index-linked swaps during the year.
[2] Refer to note 18 for more information on the losses on cash flow hedge transferred from equity.

The exceptional items of £4.8 million (2025: £92.5 million) reflect the following;

- £16.6 million (2025: £nil) relate to a loss on modification of a loan, which was converted from RPI to floating rate during the period
- £11.8 million gain (2025: £92.5 million loss) relating to fair value movement on consent fee derivatives.

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 £1.2 million (2025: £23.1 million) applying the 25% corporation tax rate (2025: 25%).

7. Tax charge/(credit) on profit/(loss) on ordinary activities

	2026				2025			
Year ended 31 March	Underlying £m	Exceptional items £m	BTL £m	Total £m	Underlying £m	Exceptional items £m	BTL £m	Total £m
Current tax:								
Current tax charge/(credit)	3.7	(3.7)	-	-	95.7	(95.7)	-	-
Adjustments in respect of prior periods	-	-	-	-	23.0	11.0	(29.2)	4.8
Current tax subtotal	3.7	(3.7)		-	118.7	(84.7)	(29.2)	4.8
Deferred tax:								
Origination and reversal of timing differences	72.7	-	-	72.7	(227.1)	-	-	(227.1)
Effect of tax rate change	-	-	-	-	(3.3)	-	-	(3.3)
Adjustments in respect of prior periods	16.5	-	-	16.5	0.3	-	-	0.3
Deferred tax subtotal	89.2	-	-	89.2	(230.1)	-	-	(230.1)
Tax charge/(credit) on profit/(loss) on ordinary activities	92.9	(3.7)	-	89.2	(111.4)	(84.7)	(29.2)	(225.3)

Notes to the consolidated financial statements (continued)

7. Tax charge/(credit) on profit/(loss) on ordinary activities (continued)

The tax charge for the year ended 31 March 2026 is higher (2025: lower charge) than the standard rate of corporation tax in the UK. The differences are explained below:

	2026					2025				
Year ended 31 March	Underlying £m	Exceptional items £m	BTL £m	Total £m	Effective tax rate %	Underlying £m	Exceptional items £m	BTL £m	Total £m	Effective tax rate %
Profit/(loss) on ordinary activities before taxation	74.9	(204.8)	140.7	10.8		(292.0)	(504.9)	135.1	(661.8)	
Corporation tax at 25% (2025: 25%) on profit/(loss) on ordinary activities before taxation	18.7	(51.2)	35.2	2.7	25.0%	(73.0)	(126.2)	33.8	(165.4)	25.0%
Effects of:										
Recurring items:										
Depreciation on assets that do not qualify for tax relief	4.1	-	-	4.1		6.4	-	-	6.4	
Disallowable expenditure[1]	27.2	47.5	-	74.7		10.9	30.5	-	41.4	
Non-taxable income[2]	(6.2)	-	-	(6.2)		(15.5)	-	-	(15.5)	
Property disposals	-	-	-	-		-	-	-	-	
Impact of tax losses not paid for at standard rate[3]	35.8	-	(35.2)	0.6		33.8	-	(33.8)	-	
Tax losses carried forwards	3.9	-	-	3.9		45.2	-	-	45.2	
Other		-	-	-		-	-	-	-	
Tax charge/(credit) as adjusted for recurring items	83.5	(3.7)	-	79.8	738.9 %	7.8	(95.7)	-	(87.9)	13.3%
Non-recurring items:										
Effect of tax rate change[4]	-	-	-	-		(3.3)	-	-	(3.3)	
Recognition of previously unrecognized deferred tax	-	-	-	-		(139.2)	-	-	(139.2)	
Impairment losses	(7.1)	-	-	(7.1)		-	-	-	-	
Adjustments in respect of prior periods – group relief[4]	-	-	-	-		23.0	11.0	(29.2)	4.8	
Adjustments in respect of prior periods – deferred tax	16.5	-	-	16.5		0.3	-	-	0.3	
Total tax charge/(credit)	92.9	(3.7)	-	89.2	825.9 %	(111.4)	(84.7)	(29.2)	(225.3)	34.0%

[1] Disallowable expenditure primarily relates to fines and restructuring costs included in operating expenses.
[2] Non-taxable income relates primarily to income received towards fixed assets such as new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new fixed assets is not eligible for capital allowances.
[3] In the current year, all taxable profits of the Group will be covered by group relief bought from a Group company for which no payment will be made. Tax losses arising in the underlying business will be used to cover the taxable profits of BTL, for which no payment will be made as all amounts arose within the Group. Tax charges for BTL are calculated based on the profit before tax and any non-taxable/non-allowable transactions related to BTL.
[4] In the current year, the Group resubmitted the TWUL corporation tax returns for the period ending 31 March 2024. TWUL previously claimed group relief from TWUHL for no payment. However, it was agreed that group relief would not be claimed from TWUHL but instead additional capital allowances would be claimed instead.

Notes to the consolidated financial statements (continued)

7. Tax charge/(credit) on profit/(loss) on ordinary activities (continued)

The effective tax rate (ETR) on the profit before tax in the current year, as adjusted for recurring tax items, is 738.9%, which is higher than the standard tax rate for the year of 25%. The Group is not currently in a cash tax paying position with HMRC primarily due to tax deductions for borrowing costs.

The Group has considered its position under the OECD's Global Anti-Base Erosion Model Rules (Pillar Two) and the UK's implementation of Multinational Top-up Tax and Domestic Top-up Tax legislation. While the Group is of sufficient size that it will be required to make filings in compliance with these rules for FY26, no material liability to top-up tax (either multinational or domestic) is expected to arise.

The differences between profit/(loss) on ordinary activities before taxation at the standard corporation tax rate and the current tax charge/(credit) for the year are set out below.

Year ended 31 March	2026				2025			
	Underlying	Exceptional items	BTL	Total	Underlying	Exceptional items	BTL	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Profit/(loss) on ordinary activities before taxation	74.9	(204.8)	140.7	10.8	(292.0)	(504.9)	135.1	(661.8)
Corporation tax at 25% (2025: 25%) on profit/(loss) on ordinary activities before taxation	18.7	(51.2)	35.2	2.7	(73.0)	(126.2)	33.8	(165.4)
Effects of:								
Depreciation on assets that do not qualify for relief	4.1	-	-	4.1	6.4	-	-	6.4
Disallowable expenditure	27.2	47.5	-	74.7	10.9	30.5	-	41.4
Non-taxable income	(6.2)	-	-	(6.2)	(15.5)	-	-	(15.5)
Impact of tax losses not paid for at standard rate	35.8	-	(35.2)	0.6	33.8	-	(33.8)	-
Capital allowances for the year lower than depreciation[5]	(20.2)	-	-	(20.2)	140.7	-	-	140.7
Capitalised borrowing costs allowable for tax[6]	(50.2)	-	-	(50.2)	(46.7)	-	-	(46.7)
Losses on financial derivatives[7]	14.5	-	-	14.5	4.2	-	-	4.2
Pension cost charge in lower than pension contributions	(40.6)	-	-	(40.6)	(3.0)	-	-	(3.0)
Other short-term timing differences	23.8	-	-	23.8	(7.3)	-	-	(7.3)
Impairment losses	(7.1)	-	-	(7.1)	-	-	-	-
Tax losses carried forward	3.9	-	-	3.9	45.2	-	-	45.2
Adjustments in respect of prior periods – current tax	-	-	-	-	23.0	11.0	(29.2)	4.8
Current tax charge/(credit) for the year	3.7	(3.7)	-	-	118.7	(84.7)	(29.2)	4.8

[5] Capital allowances claimed were higher than depreciation but were restricted in order to avoid tax losses arising in the current year. Additional capital allowances were claimed in the prior year which generated tax losses carried forward.
[6] Capitalised borrowing costs are eligible for a full tax deduction in the year.
[7] Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Consent fee derivatives are an exception. Deferred tax is provided on all temporary differences.

Uncertain tax positions

At 31 March 2026 the total value of uncertain tax positions was £nil (2025: £nil).

Tax credited/(charged) directly to other comprehensive income

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

Year ended 31 March	2026 £m	2025 £m
Deferred tax credit/(charge) on net actuarial (loss)/gain in the year	18.2	(5.2)
Deferred tax charge on cash flow hedges in the year	-	(0.7)
Total tax credited/(charged) directly to other comprehensive income	18.2	(5.9)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for deferred tax liability on the surplus on the TWMIPS pension scheme, which continued to be provided at 35% as at 31 March 2024. From 1 April 2024 the rate for pension fund surplus on the TWMIPS pension scheme has been reduced to 25%. The impact of the rate change affects deferred tax amounts in the Income Statement and in other comprehensive income in 2025.

Notes to the consolidated financial statements (continued)

8. Dividends

During the year ended 31 March 2026, the Company paid total dividends of £nil (2025: £nil) to its immediate parent Thames Water Limited (TWL).

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2025: £nil).

9. Intangible assets

	Software £m	Assets in development £m	Total £m
Cost:			
At 1 April 2024	580.9	18.5	599.4
Additions	-	44.3	44.3
Disposals	(11.3)	-	(11.3)
Transfers between categories[1]	33.9	(33.7)	0.2
At 31 March 2025	603.5	29.1	632.6
Additions	-	56.4	56.4
Transfers between categories[1]	54.3	(50.3)	4.0
At 31 March 2026	657.8	35.2	693.0
Accumulated amortisation:			
At 1 April 2024	(365.5)	-	(365.5)
Amortisation charge	(70.8)	-	(70.8)
Disposals	11.3	-	11.3
Transfers between categories[1]	(0.1)	-	(0.1)
At 31 March 2025	(425.1)	-	(425.1)
Amortisation charge	(67.9)	-	(67.9)
Transfers between categories[1]	0.1	-	0.1
At 31 March 2026	(492.9)	-	(492.9)
Net book value:			
At 31 March 2026	164.9	35.2	200.1
At 31 March 2025	178.4	29.1	207.5

[1]The net amount relates to a transfer between intangible assets and property, plant and equipment.

The intangible assets include a Customer Relationship Management Billing (CRM Billing) system. As at 31 March 2026, the CRM billing system has a carrying value of £39.5 million and remaining useful life of 3.4 years remaining on its 10-year useful economic life.

The amount of borrowing costs capitalised as intangible assets is £nil (2025: £0.4 million). The effective annual capitalisation rate for borrowing costs for the financial year ended 31 March 2026 was 6.1% (2025: 6.6%).

The gross carrying amount of intangible assets that was fully amortised at 31 March 2026 amounted to £244.2 million (2025: £215.5 million). Meanwhile, the Group disposed of £nil (2025: £11.3 million) intangible assets which relate to assets with a £nil Net Book Value.

Notes to the consolidated financial statements (continued)

10. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network Assets £m	Assets under construction £m	Total £m
Cost:					
At 1 April 2024	4,242.9	8,012.8	10,427.7	3,085.4	25,768.8
Additions	-	0.1	77.0	2,103.7	2,180.8
Disposals	(15.5)	(93.7)	(34.5)	-	(143.7)
Transfers between categories	141.6	652.0	607.8	(1,401.6)	(0.2)
At 31 March 2025	4,369.0	8,571.2	11,078.0	3,787.5	27,805.7
Additions	-	0.3	97.7	2,525.5	2,623.5
Disposals	(5.6)	(15.6)	(3.0)	-	(24.2)
Transfers between categories	221.4	877.0	688.1	(1,790.5)	(4.0)
At 31 March 2026	4,584.8	9,432.9	11,860.8	4,522.5	30,401.0
Accumulated depreciation and impairment:					
At 1 April 2024	(1,309.5)	(3,701.5)	(1,338.0)	(48.0)	(6,397.0)
Depreciation charge	(80.2)	(461.2)	(161.7)	-	(703.1)
Impairment reversal	-	2.9	-	-	2.9
Disposals	-	93.1	34.5	-	127.6
Transfers between categories[1]	-	0.1	-	-	0.1
At 31 March 2025	(1,389.7)	(4,066.6)	(1,465.2)	(48.0)	(6,969.5)
Depreciation charge	(81.3)	(491.9)	(170.9)	-	(744.1)
Impairment loss	-	(1.2)	-	-	(1.2)
Disposals	5.2	14.7	2.3	-	22.2
Transfers between categories[1]	-	(0.1)	-	-	(0.1)
At 31 March 2026	(1,465.8)	(4,545.1)	(1,633.8)	(48.0)	(7,692.7)
Net book value:					
At 31 March 2026	3,119.0	4,887.8	10,227.0	4,474.5	22,708.3
At 31 March 2025	2,979.3	4,504.6	9,612.8	3,739.5	20,836.2

[1]The net amount relates to a transfer between intangible assets and property, plant and equipment.

The amount of borrowing costs capitalised as property, plant and equipment in the period is £200.8 million (2025: £186.7 million). The effective annual capitalisation rate for borrowing costs for financial year ended 31 March 2026 was 6.1% (2025: 6.6%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2026 amounted to £1.3 billion (2025: £1.1 billion).

During the year, the Group disposed of £20.2 million (2025: £120.9 million) of property, plant and equipment assets with a £nil net book value following internal review of asset data.

As at 31 March 2026, land and buildings within the property, plant and equipment note included purchases made in relation to the Thames Tideway Tunnel (TTT) project acquired to perform necessary works relating to the construction and integration of the tunnel into our network. Land and buildings consists of both land and buildings that will be disposed of in line with the agreement with Ofwat once the asset has been brought into use, forming part of the asset to be depreciated, and land and buildings that will be retained for operational use and remain in land and buildings.

Notes to the consolidated financial statements (continued)

11. Investment property

	Total £m
Cost:	
At 1 April 2024	50.0
At 31 March 2025	50.0
At 31 March 2026	**50.0**
Accumulated depreciation:	
At 1 April 2024	(48.0)
At 31 March 2025	(48.0)
At 31 March 2026	**(48.0)**
Net book value at 31 March 2025	2.0
Net book value at 31 March 2026	**2.0**

Investment property is held at cost less accumulated depreciation.

An independent property valuation undertaken in a prior period, valued the investment property at £2.0 million, equivalent to the net book value and materially to the residual value.

The property was acquired to facilitate the building of interfaces to the Thames Tideway Tunnel (TTT), by nature resulting in an expected reduction in the investment value of the property. The accumulated depreciation charged has been disclosed as a cost within assets under construction within the property, plant and equipment note, as this cost is a necessary condition for the TTT to operate in the manner it was intended and it is expected to.

In accordance with Condition T of the TWUL regulatory licence, all net economic gains or losses from disposals of TTT investment property will be borne by customers in the future through an adjustment to TWUL regulatory capital value.

Amounts recognised for rental income in the year ended 31 March 2026 received on investment property amounted to £0.8 million (2025: £1.7 million).

Amounts recognised for operating expenses, including business rates and ground rent on investment property amounted to £3.3 million (2025: £4.3 million).

12. Leases

(i) Amounts recognised in the Statement of Financial Position

Right-of-use assets

As at 31 March	2026 £m	2025 £m
Land and buildings	63.5	37.4
Total	**63.5**	37.4

Additions to right-of-use assets during the year ended 31 March 2026 were £11.0 million as a result of new leases in the period (2025: £0.3 million) and £9.6 million which arose as a result of lease modifications in the period (2025: £8.3 million additions).

Lease liabilities

As at 31 March	2026 £m	2025 £m
Current	(5.7)	(6.5)
Non-current	(81.4)	(46.7)
Total	**(87.1)**	(53.2)

Notes to the consolidated financial statements (continued)

12. Leases (continued)

(ii) Amounts recognised in the Income Statement

Year ended 31 March	2026 £m	2025 £m
Depreciation charge of right-of-use assets	(5.9)	7.8
Interest expense included in finance costs	25.7	3.5
Expense relating to short-term leases, low-value assets and variable lease payments not included in lease liabilities	22.9	25.4
Total	42.7	36.7

The total cash outflow for leases during the year ended 31 March 2026 was £10.5 million (2025: £11.1 million).

The total leases repayments expected over the next year are £5.7 million (2025: £6.5 million), over the next 1 to 5 years are £23.7 million (2025: £25.9 million) and over more than 5 years are £57.7 million (2025: £20.8 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

13. Inventories

As at 31 March	2026 £m	2025 £m
Raw materials and consumables	19.4	22.5
Total	19.4	22.5

14. Trade and other receivables

As at 31 March	2026			2025		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments	-	-	-	-	623.9	623.9
Insurance claims receivable	45.8	-	45.8	42.6	-	42.6
Other receivables	43.6	-	43.6	2.5	-	2.5
	89.4	-	89.4	45.1	623.9	669.0
Current:						
Gross trade receivables[1]	618.6	31.5	650.1	551.0	29.2	580.2
Less expected credit losses provision	(202.4)	(5.7)	(208.1)	(171.9)	(5.2)	(177.1)
Net trade receivables	416.2	25.8	442.0	379.1	24.0	403.1
Other receivables[2]	115.2	-	115.2	45.0	-	45.0
Prepayments	62.2	750.7	812.9	58.0	-	58.0
Insurance claims receivable	11.6	-	11.6	9.8	-	9.8
Amounts owed by group undertakings	0.4	-	0.4	0.1	-	0.1
	605.6	776.5	1,382.1	492.0	24.0	516.0
Current:						
Contract assets	399.3	15.3	414.6	337.9	6.3	344.2
	1,004.9	791.8	1,796.7	829.9	30.3	860.2
Total	1,094.3	791.8	1,886.1	875.0	654.2	1,529.2

[1] This includes an amount representing billed items where collection is not probable at the point of delivery; the value is disclosed within the CFO Report and note 2.
[2] Other current receivables includes amounts owed to the Group by Southern Water and Affinity Water in relation to the development of a large strategic water storage project in Oxfordshire (the White Horse Reservoir), and other tax debtors.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to its fair value.

Current prepayments at 31 March 2026 are £812.9 million of which £750.7 million (2025: Non-current £623.9 million) relate to the Bazalgette Tunnel Limited (BTL) arrangement. The prepayment has been reclassified from non-current to current as the handover of the tunnel from BTL to the Group is expected to be within the next 12 months. The prepayment is created and recorded for the use of the Thames Tideway Tunnel once the tunnel is made

Notes to the consolidated financial statements (continued)

14. Trade and other receivables (continued)

available for use. The BTL prepayment will be realised over the useful economic life of the assets recognised when control of the tunnel transfers to the Group.

Contract assets at 31 March 2026 includes £320.7 million (2025: £259.8 million) of services provided to metered customers. Included within this amount is a provision of £5.5 million (2025: £4.3 million) for bad debt. The remaining amount relates to accrued capital contributions and accrued income from the BTL arrangement.

BTL receivables relates to the value of receivables collected from other parties and passed onto BTL.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2026 £m	2025 £m
At 1 April	(177.1)	(154.7)
Charge for bad and doubtful debts – charged against revenue[1]	(85.2)	(47.4)
Charge for bad and doubtful debts – included within operating expenses	(37.8)	(43.9)
Amounts written off (utilised)	91.9	75.4
Amounts reclassified to accrued income	(1.0)	(5.0)
Other adjustments included within operating expenses	1.1	(1.5)
Total at 31 March	(208.1)	(177.1)

[1]Included within this is a £10.9 million increase (2025: £4.9 million increase) in the cancel rebill provision. This covers amounts that have been billed but will be cancelled at a later date and then not rebilled. The increase (2025: increase) of the provision in the current financial year is debited (2025: debited) to gross revenue. The remaining amount relates to the £74.3 million (2025: £42.5 million) charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

As at 31 March	2026 £m	2025 £m
Up to 365 days	474.7	380.8
1 – 2 years	112.0	99.8
2 – 3 years	33.5	47.8
More than 3 years	29.9	51.8
Total	650.1	580.2

The ageing of gross BTL receivables is as follows:

As at 31 March	2026 £m	2025 £m
Up to 365 days	24.1	21.1
1 – 2 years	5.7	5.5
2 – 3 years	1.7	2.6
Total	31.5	29.2

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

As at 31 March	2026 £m	2025 £m
Up to 365 days	119.3	86.9
1 – 2 years	40.9	28.8
2 – 3 years	17.2	18.5
More than 3 years	30.7	42.9
Total	208.1	177.1

Notes to the consolidated financial statements (continued)

14. Trade and other receivables (continued)

Ageing of impaired BTL receivables is as follows:

As at 31 March	2026 £m	2025 £m
Up to 365 days	3.8	3.4
1 – 2 years	1.3	1.1
2 – 3 years	0.6	0.7
Total	5.7	5.2

15. Cash and cash equivalents

As at 31 March	2026			2025		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand[1]	9.1	-	9.1	79.0	-	79.0
Money market funds and short-term investments	531.7	16.5	548.2	201.6	25.8	227.4
Cash and cash equivalents[2]	540.8	16.5	557.3	280.6	25.8	306.4
Bank overdraft[3]	(3.5)	-	(3.5)	(71.2)	-	(71.2)
Total	537.3	16.5	553.8	209.4	25.8	235.2

[1]Within cash and cash equivalents there was £1.4 million (2025: £72.2 million) which had been placed in a pre-funding account to cover committed BACs runs mentioned below.
[2]As at 31 March 2026, £6.3million (2025: £45.6 million) of cash and cash equivalents were held subject to WBS terms and conditions. While these restrictions do not prevent the Group from accessing these funds, the funds are only permitted under the WBS terms to be withdrawn for the specific purpose of servicing debt. Separately, £1.4 million (2025: £71.0 million) held in a pre-funding account was restricted to the extent that a committed BACs run has been confirmed; there was a £0.3 million committed BAC run on 31 March 2026 (2025: £71.0 million). A further £197.0 million (2025: £nil) in TWSSI, is only available to on lend to TWUL subject to creditor consent.
[3]Bank overdraft at 31 March 2026 includes the impact of a committed BACs run mentioned above, as well as pending cheques and direct debits. This presentation follows our accounting policy, whereby committed payments are accounted for on the date of payment instruction, which may be in advance of the cash settlement. Cash at bank and in hand on 31 March 2026 was sufficient to cover the cash outflows on the settlement date.

For the purposes of the consolidated Statement of Cash Flows, the total balance above includes cash and cash equivalents net of outstanding bank overdrafts. The net cash and cash equivalents at the end of the reporting period as shown in the consolidated Statement of Cash Flows can be reconciled to the related items in the consolidated Statement of Financial Position as per the above within current assets and current liabilities.

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

16. Trade and other payables

As at 31 March	2026			2025		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities	1,353.4	-	1,353.4	1,159.4	-	1,159.4
Current:						
Trade payables	329.1	-	329.1	276.6	-	276.6
Other taxation and social security	15.2	-	15.2	11.2	-	11.2
Accruals	648.1	-	648.1	559.4	-	559.4
Amounts owed to Bazalgette Tunnel Limited	-	8.9	8.9	-	20.8	20.8
Other payables	123.2	-	123.2	131.7	-	131.7
	1,115.6	8.9	1,124.5	978.9	20.8	999.7
Current:						
Contract liabilities	171.7	-	171.7	169.3	0.5	169.8
	1,287.3	8.9	1,296.2	1,148.2	21.3	1,169.5
Total	2,640.7	8.9	2,649.6	2,307.6	21.3	2,328.9

Notes to the consolidated financial statements (continued)

16. Trade and other payables (continued)

Non-current contract liabilities at 31 March 2026 includes £623.2 million (2025: £580.4 million) of deferred infrastructure charges and £722.9 million of deferred income for nil cost 'adopted' assets (2025: £572.1 million) and £7.3 million (2025: £6.9 million) of other deferred income.

Current contract liabilities at 31 March 2026 includes £76.6 million (2025: £74.8 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payments in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Other payables at 31 March 2026 includes £94.9 million (2025: £103.4 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example, by those customers who pay by direct debit who are yet to be billed. The remainder of the balance includes various other payables such as credit balances reclassified from debtors, customer security deposits and defined contribution pension creditor amounts.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to its fair value as outlined in the 'Comparison of fair value of financial instruments with their carrying amounts' section of note 18.

17. Borrowings

As at 31 March	2026 £m	2025 £m
Secured bank loans and private placements	5,840.3	5,548.0
Bonds	12,836.6	11,103.9
Amounts owed to group undertakings	2,282.2	2,282.2
	20,959.1	18,934.1
Interest payable on borrowings	305.1	324.1
Interest payable on group undertakings	1,572.2	1,356.2
	1,877.3	1,680.3
Total	22,836.4	20,614.4
Disclosed within non-current liabilities	21,842.8	20,290.3
Disclosed within current liabilities	993.6	324.1
Total	22,836.4	20,614.4

The Company, TWUL and TWUL's wholly owned financing subsidiary, TWUF, are the Obligors within a Whole Business Securitisation (WBS) group. Secured bank loans, private placements and bonds are in an arrangement whereby each Obligor (representing each of the companies within the WBS group) has entered into a Security Trust and Intercreditor Deed (STID) with the Security Trustee which secures assets in favour of creditors.

Pursuant to this arrangement, the Company guaranteed the obligations of each of the other Obligors under the finance agreement. Additionally, TWUL and TWUF have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. The guaranteed debt on a post swap basis as at 31 March 2026 was £18,202.6 million (2025: £17,902.3 million). TWUL and the Company guarantee the borrowings of their subsidiary TWSSI, and outstandings as at 31 March 2026 were £1,836.5 million (2025: £nil). 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 pages 66 and 67 for more information.

Between October 2024 and February 2025, the TWUL executed a financial restructuring programme that resulted in extension of the Group's debt maturities by two years, subject to flip back if the Group achieve two investment grade ratings, and a new £1.5 billion super senior debt facility from creditors via the TWUL's new financing subsidiary, TWSSI. Each draw down into TWSSI and on-lend into TWUL requires creditor consent while conditions remain unsatisfied and unwaived. At 31 March 2026, £1,426.5 million of the initial £1.5 billion super senior facility was drawn down on. There is a mandatory early redemption requirement of TWSSI's debt upon the occurrence of a recapitalisation transaction, which is subject to a make-whole element. Certain of the Group's other debt instruments contain make-whole clauses applicable on acceleration or early repayment.

A further result of the restructuring programme was an uncommitted £1.5 billion accordion facility. Super senior creditors obtained rights to participate in a book-build allocation process. The first accordion tranche of £823.5 million was fully subscribed for in February 2026 and therefore became committed. As at 31 March 2026 TWSSI has drawn down £410.0 million, of which only £205.0 million was on-lent to TWUL at 31 March 2026.

Notes to the consolidated financial statements (continued)

17. Borrowings (continued)

Breakdown of secured bank loans and private placements:

As at 31 March	2026 £m	2025 £m
THAMES WATER UTILITIES LIMITED		
£144.8m 3.44% index-linked loan due 2033 (a), (e), (g), (j), (l)	157.1	151.2
£180.1m 3.67% index-linked loan due 2033 (a), (e), (g), (k), (l)	193.6	186.0
£168.0m floating rate loan due 2032 (a), (b), (i), (n), (l)	187.8	172.9
£100.0m 3.261% index-linked loan due 2043 (a), (d), (g), (l)	169.7	163.5
£70.0m Class B 3.867% fixed rate loan due 2026 (l)	70.0	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 (l)	50.0	50.0
£39.0m Class B 3.918% fixed rate loan due 2026 (l)	39.0	38.9
£20.0m Class B floating rate loan due 2026 (i), (l)	20.0	20.0
£50.0m Class B floating rate loan due 2025 (i), (l)	50.0	50.0
£100.0m Class B floating rate loan due 2028 (a), (i), (l)	99.6	99.5
£150.0m Class B floating loan rate due 2029 (a), (i), (l)	149.3	149.0
$285.0m 3.570% private placement due 2025 (l)	215.9	220.6
£216.0m 2.450% private placement due 2028 (a), (l)	215.8	215.8
£210.0m 2.550% private placement due 2030 (a), (l)	209.7	209.6
£40.0m 2.620% private placement due 2033 (a), (l)	39.9	39.9
$95.0m 4.890% private placement due 2029 (a), (f), (l)	71.8	73.4
£18.0m 4.800% private placement due 2029 (a), (l)	18.0	18.0
$256.0m 5.010% private placement due 2032 (a), (f), (l)	193.5	197.7
$81.0m 5.300% private placement due 2037 (a), (f), (l)	61.2	62.5
£150.0m 4.940% private placement due 2037 (a), (l)	149.6	149.6
£90.0m 5.120% private placement due 2042 (a), (l)	89.8	89.7
£51.1m floating rate loan due 2029 (a), (i), (l)	51.1	51.1
£63.1m floating rate loan due 2031 (a), (i), (l)	62.9	62.9
£100.0m floating rate loan due 2029 (a), (i), (l)	99.8	99.7
£98.5m floating rate loan due 2029 (a), (i), (l)	98.3	98.2
£65.0m Class B floating loan rate due 2027 (a), (i), (l)	64.8	64.7
£80.0m Class A floating rate loan due 2026 (h), (i), (l)	80.0	79.9
£725.0m Class A floating rate loan due 2026 (h), (i), (l)	725.0	721.8
Consent fee debt – Loans (m)	19.9	18.4
THAMES WATER UTILITIES FINANCE PLC		
$106.0m 4.070% private placement due 2026 (a), (f), (l)	80.3	82.0
$250.0m 4.220% private placement due 2027 (f), (l)	189.4	193.5
$131.0m 4.270% private placement due 2029 (a), (f), (l)	99.1	101.2
€50.0m 2.100% private placement due 2030 (a), (f), (l)	43.6	41.7
£200.0m Class B floating rate loan due 2026 (a), (i), (l)	199.3	199.3
£150.0m floating rate loan due 2025 (c), (i), (l)	150.0	150.0
£260.0m floating rate loan due 2025 (c), (i), (l)	260.0	260.0
£280.0m floating rate loan due 2025 (c), (i), (l)	280.0	280.0
£250.0m floating rate loan due 2025 (c), (i), (l)	250.0	250.0
£365.8m floating rate loan due 2025 (c), (i), (l)	365.8	365.8
THAMES WATER SUPER SENIOR ISSUER PLC		
£86.4m 9.75% Super Senior Facility (a)	82.5	-
£194.9m 9.75% Super Senior Accordion Facility (a), (o)	187.2	-
Total secured bank loans and private placements	5,840.3	5,548.0

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of TWUL as assigned by both S&P and Moody's and may be reduced if the Group has a GRESB score within a certain range.
(d) This debt amortises from 2023 to 2033 in semi-annual tranches of £3.0 million, followed by semi-annual tranches of £750,000 until maturity, where there will be a bullet payment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Group entered into cross currency swap agreements which convert this debt into sterling debt. The maturity date of the swaps continue to align with the original maturity date of the debt instruments.
(g) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI).
(h) The interest margin of this loan is based on a ratings grid and varies depending on the credit rating of the Class A debt guaranteed by TWUL as assigned by both S&P and Moody's.
(i) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
(j) In October 2023, the £100.0 million Class A RPI loan originally due in February 2025, with accreted principal of £144.8 million, was extended to 2033. In addition to the extension, the interest rate on the loan was amended to 3.44% with effect from the original maturity date. As the extension and amendment were a substantial modification, a gain on extinguishment of £1.0 million was recognised in the Income Statement under net gains on financial instruments.
(k) In October 2023, the £125.0 million Class A RPI loan originally due in March 2026, with accreted principal of £180.1 million, was extended to 2033. In addition to the extension, the interest rate on the loan was amended to 3.67% with effect from the original maturity date. As the extension and amendment was a substantial modification, a gain on extinguishment of £3.6 million was recognised in the Income Statement under net gains on financial instruments.

Notes to the consolidated financial statements (continued)

17. Borrowings (continued)

Breakdown of secured bank loans and private placements:

(l) On 25 February 2025, all debts had their maturity dates extended by two years, and all RCF facilities were cancelled or converted to term loans. However, the maturity dates will revert back to original maturities if, amongst other requirements, the Group meets investment grade with two rating agencies. As discussed on page 56, there is significant judgement on when the Group will meet investment grade. The maturity dates in the table above reflect the original maturity date, although classification is based on the revised maturity date.

(m) Consent fee debt was issued to lenders in the form of bonds, loans and fee letters, depending on their preference, in lieu of cash to obtain their consent for inserting higher-ranking debt in the form of the super senior facility and extending debt maturities. The aggregate face value of the consent fee debt was £123.6 million, with a zero coupon which matures when the next senior debt is due to be repaid, which is currently 22 March 2027.

(n) In May 2025 the counterparty exercised the right to convert from RPI to floating rate. Management assessed the impact as a non-substantial modification and a £16.6 million modification loss was recognised in the income statement.

(o) In March 2026 the Group drew down on its accordion facility; this facility was priced as part of RP1, but there was no loan commitment until the conclusion of the bookbuild process on 27 February 2026. The fair value has been assessed to be the consideration received under the arm's length commitment that took place at this date. Therefore, the fair value is the transaction price agreed and the debt is initially recognised at the transaction price less transaction costs incurred.

Breakdown of bonds:

As at 31 March	2026 £m	2025 £m
THAMES WATER UTILITIES FINANCE PLC		
£330.0m 6.750% fixed rate bond due 2028 (b), (g)	329.0	328.7
£200.0m 6.500% fixed rate bond due 2032 (b), (g)	198.7	198.6
£600.0m 5.125% fixed rate bond due 2037 (b), (g)	597.4	597.3
£300.0m 1.680% index-linked bond due 2053 (b), (c), (g)	628.4	599.4
£300.0m 1.681% index-linked bond due 2055 (b), (c), (g)	628.4	599.4
£300.0m 4.375% fixed rate bond due 2034 (b), (g)	297.3	297.0
¥20.0bn 3.280% fixed rate bond due 2038 (b), (g)	95.3	103.4
£50.0m 3.853% index-linked bond due 2040 (d), (g)	83.4	80.4
£500.0m 5.500% fixed rate bond due 2041 (b), (g)	491.8	491.5
£50.0m 1.980% index-linked bond due 2042 (b), (c), (g)	98.2	94.2
£55.0m 2.091% index-linked bond due 2042 (b), (c), (g)	104.6	100.8
£40.0m 1.974% index-linked bond due 2045 (b), (c), (e), (g)	54.4	52.4
£300.0m 4.625% fixed rate bond due 2046 (b), (g)	294.3	294.1
£100.0m 1.846% index-linked bond due 2047 (b), (c), (g)	196.3	188.4
£200.0m 1.819% index-linked bond due 2049 (b), (c), (g)	392.2	376.2
£200.0m 1.771% index-linked bond due 2057 (b), (c), (g)	391.7	375.8
£350.0m 1.760% index-linked bond due 2062 (b), (c), (g)	685.1	657.2
£500.0m (now £314.5m) 4.000% fixed rate bond due 2025 (b), (f), (g)	314.4	314.3
£40.0m 0.750% index-linked bond due 2034 (b), (c), (g)	62.6	60.3
£45.0m 0.721% index-linked bond due 2027 (b), (c), (g)	70.4	67.8
£300.0m 3.500% fixed rate bond due 2028 (b), (g)	299.2	298.8
£400.0m 7.738% fixed rate bond due 2058 (b), (g)	415.5	415.6
£250.0m 2.625% fixed rate bond due 2032 (b), (g)	248.7	248.5
£250.0m 2.875% Class B fixed rate bond due 2027 (b), (g)	249.5	249.1
£350.0m 2.375% fixed rate bond due 2040 (b), (g)	346.8	346.6
£40.0m 2.442% fixed rate bond due 2050 (b), (g)	39.9	39.9
$57.0m 2.060% fixed rate bond due 2030 (a), (b), (g)	43.0	44.0
$40.0m 1.604% fixed rate bond due 2027 (a), (b), (g)	30.3	30.9
€575.0m 0.875% fixed rate bond due 2028 (a), (b), (g)	500.9	479.8
€575.0m 1.250% fixed rate bond due 2032 (a), (b), (g)	497.4	476.2
€650.0m 4.000% fixed rate bond due 2027 (a), (b), (g)	566.0	541.5
€1.0bn 4.375% fixed rate bond due 2031 (a), (b), (g)	870.2	833.9
£300.0m 8.250% fixed rate bond due 2040 (b), (g)	294.8	294.6
£275.0m 7.125% fixed rate bond due 2031 (b), (g)	272.5	272.1
£575.0m 7.750% fixed rate bond due 2044 (b), (g)	568.0	567.8
THAMES WATER UTILITIES LIMITED		
Consent fee debt - Bonds (h)	94.5	87.4
THAMES WATER SUPER SENIOR ISSUER PLC		
£1,340.1m 9.75% Super Senior Facility (b)	1,278.8	-
£215.1m 9.75% Accordion Facility (b), (i)	206.7	-
Total bonds	12,836.6	11,103.9

All bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(b) These bonds are shown net of issuance costs.
(c) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index (RPI).
(d) This is a Limited Price Index (LPI) bond. Accretion is calculated using an adjusted UK Retail Price Index.

Notes to the consolidated financial statements (continued)

17. Borrowings (continued)

(e) The bond amortises semi-annually between October 2015 and October 2045 in accordance with a published schedule.

(f) In January 2024, the Group repurchased £185.5 million principal (out of the £500.0 million external debt principal due in 2025) at a £7.0 million discount.

(g) On 25 February 2025, all debts had their maturity dates extended by two years, and all RCF facilities were cancelled or converted to term loans. However, the maturity dates will revert to their original maturity dates if, amongst other requirements, the Group meets investment grade with two rating agencies. As discussed on page 56, there is significant judgement on when the Group will meet investment grade. The maturity dates in the table above reflect the original maturity date, although classification is based on the revised maturity date.

(h) Consent fee debt was issued to lenders in the form of loans or bonds, depending on their preference, in lieu of cash to obtain their consent for inserting higher-ranking debt in the form of the super senior facility and extending debt maturities. The aggregate face value of the consent fee debt was £123.6 million, with a zero coupon which matures when the next senior debt is due to be repaid, which is currently 22 March 2027. The super senior facility was only partly drawn down post year end, with £715 million drawn of the £1.5 billion facility.

(i) In March 2026 the Group drew down on its accordion facility; this facility was priced as part of RP1, but there was no loan commitment until the conclusion of the bookbuild process on 27 February 2026. The fair value has been assessed to be the consideration received under the arm's length commitment that took place at this date. Therefore, the fair value is the transaction price agreed and the debt is initially recognised at the transaction price less transaction costs incurred.

Breakdown of amounts owed to group undertakings:

As at 31 March	2026 £m	2025 £m
THAMES WATER LIMITED		
£1,980m 10% fixed rate loan due 2056 (b)	1,980.1	1,980.1
£220m 5.47% fixed rate loan due 2027 (a) (b)	220.1	220.1
£50m 5.4% fixed rate loan due 2027 (a) (b)	50.0	50.0
£30m 5.46% fixed rate loan due 2028 (a) (b)	30.0	30.0
£2m 5.47% fixed rate loan due 2027 (a) (b)	2.0	2.0
Total amounts owed to group undertakings (c)	2,282.2	2,282.2

(a) The loans were repayable on demand.

(b) On 25 February 2025, the terms of the debt were modified such that the maturity date was extended by two years, and were no longer repayable on demand until the end of the stable platform period. However, the maturity dates will revert to their original maturity dates if, amongst other requirements, the Group meets investment grade with two rating agencies. As discussed on page 56, there is significant judgement on when the Group will meet investment grade. The maturity dates in the table above reflect the original maturity date, although classification is based on the revised maturity date.

(c) The above table excludes £0.1 million (2025: £0.1 million) owed to Kemble Water Holdings Limited, the Company's ultimate parent. This amount is not a documented loan and hence doesn't form part of the borrowings listed above. This payable is only due when the Company has access to an alternative source of funds.

18. Financial instruments

Categories of financial instruments

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

Financial assets:

As at 31 March	2026 £m	2025 £m
Fair value through profit or loss		
Cross currency swaps	80.1	55.9
Interest rate swaps	180.7	211.2
Index-linked swaps	27.1	33.0
Cash and cash equivalents – money market funds	539.4	147.7
	827.3	447.8
Amortised cost		
Trade and other receivables (excluding non-financial assets)	544.6	503.1
Cash and cash equivalents – short term investments	8.8	79.7
Cash and cash equivalents – cash at bank and in hand	9.1	79.0
	562.5	661.8
Total	1,389.8	1,109.6

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

Financial liabilities:

As at 31 March	2026 £m	2025 £m
Fair value through profit or loss		
Cross currency swaps	(27.0)	(120.0)
Interest rate swaps	(209.7)	(248.6)
Index-linked swaps	(1,490.3)	(1,257.2)
Consent fee derivatives[1]	(59.4)	(92.5)
	(1,786.4)	(1,718.3)
Amortised cost		
Trade and other payables (excluding non-financial liabilities)	(1,109.3)	(988.5)
Borrowings	(22,836.4)	(20,614.4)
Lease liabilities	(87.1)	(53.2)
Bank overdraft[2]	(3.5)	(71.2)
	(24,036.3)	(21,727.3)
Total	(25,822.7)	(23,445.6)

[1] Consent fee derivatives were entered into as part of the restructuring in order to obtain consent from interest rate and index-linked swap counterparties for the insertion of the super senior facility and extension of the debt and are integral to the related interest rate and index-linked swaps. The fees are considered integral to the original swap as the cashflows depend on their fair value. Therefore, the swap fees and original swap are a single unit of account. These have been presented separately to reflect the impact of the restructuring.
[2] Bank overdraft at 31 March 2026 includes the impact of a committed BACs run, as well as pending cheques and direct debits. This presentation follows our accounting policy, whereby committed payments are accounted for on the date of payment instruction, which may be in advance of the cash settlement. Cash at bank and in hand on 31 March 2026 was sufficient to cover the cash outflows on the settlement date.

Fair value measurements

Refer to significant accounting judgements and key sources of estimation uncertainty on pages 74 to 76. See also accounting estimates and judgement - valuation of derivatives on pages 74 to 76 for details of the fair value measurements methodology and categorisation as Level 3 instruments for the Group.

Management believe the assumptions used in the valuation of derivatives are reasonable, although the credit related assumptions are not based on observable inputs. Management acknowledge that the assumption on recovery rate and credit spread is a significant assumption in the valuation methodology and that reasonably possible changes in the estimates could have a material impact. For example, see the sensitivity to recovery rate assumptions in the 'own credit risk sensitivity analysis' set out within this note.

The table below sets out the valuation basis of financial instruments (excluding cash and cash equivalents – money market funds which are classified as Level 1) held at fair value through profit or loss as at 31 March 2026:

	Level 2/3[1,2]	
As at 31 March	2026 £m	2025 £m
Financial assets – derivative financial instruments		
Cross currency swaps	80.1	55.9
Interest rate swaps	180.7	211.2
Index-linked swaps	27.1	33.0
	287.9	300.1
Financial liabilities – derivative financial instruments		
Cross currency swaps	(27.0)	(120.0)
Interest rate swaps	(209.7)	(248.6)
Index-linked swaps	(1,490.3)	(1,257.2)
Consent fee derivatives	(59.4)	(92.5)
	(1,786.4)	(1,718.3)
Net total	(1,498.5)	(1,418.2)

[1] The fair values of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured by analysing future 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 valued taking into account the credit risk of the Group and counterparties.
[2] Cross currency swaps, interest rate swaps and index linked swaps are Level 3 (31 March 2025: Level 3). Consent fee derivatives were entered into in the prior year as part of the financial restructuring; these are considered integral to the original swap as the cashflows depend on their market to market value. Therefore the swap fees and original swap are a single unit of account and also Level 3. These have been presented separately to reflect the impact of the restructuring.

Notes to the consolidated financial statements (continued)

18. 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 31 March	2026		2025	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Derivative financial instruments				
Cross currency swaps	51.4	51.4	55.9	55.9
Interest rate swaps	180.7	180.7	211.2	211.2
Index-linked swaps	27.1	27.1	33.0	33.0
Trade and receivables (excluding non-financial assets)	43.6	43.6	45.1	45.1
	302.8	302.8	345.2	345.2
Current				
Cash and cash equivalents	557.3	557.3	306.4	306.4
Trade and other receivables (excluding non-financial assets)	501.0	501.0	458.0	458.0
Derivative financial instruments	-	-	-	-
Cross currency swaps	28.7	28.7	-	-
Interest rate swaps	-	-	-	-
	1,087.0	1,087.0	764.4	764.4
Total	1,389.8	1,389.8	1,109.6	1,109.6

Financial liabilities:

As at 31 March	2026		2025	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	(5,604.5)	(3,512.6)	(5,548.0)	(3,751.4)
Bonds	(12,742.2)	(9,060.5)	(11,103.9)	(7,776.0)
Amounts owed to group undertakings	(1,980.1)	-	(2,282.2)	-
Interest payable on borrowings	(1,572.2)	-	(1,356.2)	-
Derivative financial instruments				
Cross currency swaps	(25.7)	(25.7)	(62.8)	(62.8)
Interest rate swaps	(209.7)	(209.7)	(248.6)	(248.6)
Index-linked swaps	(1,490.3)	(1,490.3)	(1,248.2)	(1,248.2)
Consent fee derivatives	(59.4)	(59.4)	(92.5)	(92.5)
Lease liabilities	(81.4)	(81.4)	(46.7)	(46.7)
	(23,765.5)	(14,439.6)	(21,989.1)	(13,226.2)
Current				
Borrowings				
Secured bank loans and private placements	(235.8)	(168.4)	-	-
Bonds	(94.4)	(94.1)	-	-
Amounts owed to group undertakings	(302.1)	-	-	-
Interest payable on borrowings	(305.1)	(305.1)	(324.1)	(324.1)
Derivative financial instruments				
Cross currency swaps	(1.3)	(1.3)	(57.2)	(57.2)
Index-linked swaps	-	-	(9.0)	(9.0)
Trade and other payables (excluding non-financial liabilities)	(1,109.3)	(1,109.3)	(988.5)	(988.5)
Lease liabilities	(5.7)	(5.7)	(6.5)	(6.5)
Bank overdraft[1]	(3.5)	(3.5)	(71.2)	(71.2)
	(2,057.2)	(1,687.4)	(1,456.5)	(1,456.5)
Total	(25,822.7)	(16,127.0)	(23,445.6)	(14,682.7)

[1] Bank overdraft at 31 March 2026 includes the impact of a committed BACs run, as well as pending cheques and direct debits. This presentation follows our accounting policy, whereby committed payments are accounted for on the date of payment instruction, which may be in advance of the cash settlement. Cash at bank and in hand on 31 March 2026 was sufficient to cover the cash outflows on the settlement date.

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

The fair value of borrowings is represented by the market value of the publicly traded underlying liquid bonds (Level 1 inputs to valuation technique).

For all other debt instruments the fair value is based on the outstanding nominal value (including accrued accretion for index-linked debt instruments) to which the weighted average price of publicly traded liquid bonds of the same ranking (Super Senior, Class A or Class B) is applied. Foreign currency values are translated at the spot rate. Accrued interest is then added. Traded bond prices are not necessarily reliable indicators of a final outcome, given bond prices are inherently speculative, reflect credit risk and are not reflective of fundamental value during periods of forced selling by investment grade bond portfolios post a credit rating downgrade to sub-investment grade.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To regain and maintain the TWUL Group's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis
- To maintain customer bills at a level that is both affordable and sustainable

It is recognised that at the date of signing the financial statements, the Group is not meeting its objective to maintain a minimum of 15-months' liquidity. The going concern section provides further information on the assessment of access to funding and liquidity.

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken, although consent fee derivatives, which are integrally linked to interest rate and inflation-linked swaps, represent a liability and are not a hedge. The Group is part of a Whole Business Securitisation (WBS) group of companies. The other companies in the securitisation group (TWUL and TWUF) guarantee the funding activity of each other, and the Company guarantees the funding activity of TWUL and TWUF, which raise debt finance in external debt markets through the issuance of secured bonds and the entry into loans. The securitisation group is usually required to comply with certain covenants, although these are suspended during the stable platform period, which commenced on 25 February 2025 and will apply until the next senior debt maturity date (currently 22 March 2027), which include, amongst others:

- Interest cover ratios;
- Gearing ratios;
- An obligation to manage the maturity profile of debt arrangements;
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked; and
- Unsecured debt ratios

A Trigger Event is deemed to be continuing during the stable platform period.

Between October 2024 and February 2025 the Group executed a financial restructuring programme that resulted in an additional £1.5 billion debt facility from creditors via the Group's additional financing subsidiary, TWSSI. TWSSI is only able to draw upon the facility following a creditor consent for each drawdown while conditions remain unsatisfied and unwaived. A further £1.5 billion super senior facility may be made available by creditors to TWSSI and £823 million of the accordion was committed by creditors in February 2026. The £677 million balance is currently uncommitted. £73 million of the original £1.5 billion facility is only available for drawing once the full accordion is drawn, following an amendment to the terms at the time of the first drawdown relating to a subset of non-participating lenders in that drawdown.

A Backstop Agreement was entered into with a subset of creditors, to ensure that the Group could secure the initial £1.5 billion Super Senior Facility. The backstop fee of £52.5 million, which is 3.5% of the principal, was known at 31 March 2025. However, the timing of the payment was linked to conditions relating to the transaction effective date of the 2025 court-sanctioned restructuring. Following the ending of the Transaction Support Agreement, which was terminated on 29 June 2025, the backstop fees became payable on 29 June 2025. The fees are accounted for as a commitment fee for a facility that is expected to be drawn, it is then incorporated into the amortised cost of the resulting borrowing. The proportion of this fee which relates to the £73 million undrawn amount was prepaid as at 31 March 2026.

A bookbuild fee, which is 1% of principal, was agreed in relation to the accordion facility, which is netted from proceeds on drawdown by TWSSI.

In addition, there is an intercompany agreement between TWUL and TWSSI for both the initial £1.5 billion facility and accordion facility whereby, TWSSI is compensated by TWUL in the form of commitment fees for periods where there is a timing delay between TWSSI's external drawdown and on-lend to TWUL. These fees are also accounted for as a commitment fee for a facility that is expected to be drawn, it is then incorporated into the amortised cost of the resulting intercompany borrowing and loan receivable once drawn.

Note that TWUL is not permitted to drawdown under its on-loan facility from TWSSI after 31 July 2026 unless a lock-up agreement is in place supported by 66.6% of Class A and 66.6% of super senior lenders. Unless extended with the agreement of creditors, this is a significant liquidity risk to TWUL and therefore to the Group. As part of the court-sanctioned restructuring plan, additional covenants were introduced into the WBS documentation, which include:

- provision of a 13 week cash flow forecast to creditors and their advisers with each drawdown request by TWUL on its facility with TWSSI;
- the 13 week cash flow forecast should not show negative liquidity prior to 31 August 2025 or, following a CMA reference, prior to 28 February 2026;

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

- no voluntary prepayments of Class A or Class B debt or early swap terminations (aside from cash settlement of cross currency swaps at maturity) no upstream distributions aside from VAT rebates or payments for services up to £5 million per annum are permitted;
- using reasonable efforts to engage with creditors to develop a creditor-led recapitalisation on an equal and open basis and to use reasonable endeavours, taking into account circumstances at the time, to enable relevant secured creditors to participate in a manner which avoids material adverse capital or other economic treatment for some secured creditors relative to other pari passu secured creditors; and
- two restructuring independent NEDs to be appointed to the TWUL Board

These covenants have been complied with during the reporting period. Testing of financial covenants has been suspended during the stable platform period.

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

As at 31 March	2026 £m	2025 £m
Secured bank loans and private placements	(5,840.3)	(5,548.0)
Bonds	(12,836.6)	(11,103.9)
Amounts owed to group undertakings	(2,282.2)	(2,282.2)
Lease liability	(87.1)	(53.2)
Bank overdraft	(3.5)	(71.2)
Interest payable on borrowings	(1,877.3)	(1,680.3)
	(22,927.0)	(20,738.8)
Cash and cash equivalents	557.3	306.4
Net debt (statutory basis)	(22,369.7)	(20,432.4)
Reconciliation to net debt (covenant basis)		
Interest payable on borrowings	1,877.3	1,680.3
Amounts owed to group undertakings	2,282.2	2,282.2
Unamortised debt issuance costs and discount	(156.4)	(86.7)
Relevant derivative financial liabilities (Accretion and FX)	(1,233.8)	(1,163.8)
Unamortised IFRS 9 fair value adjustment	6.9	(21.7)
Unamortised IFRS 9 transition adjustment	21.2	21.8
Bank overdraft not relevant for covenant	3.5	71.2
Cash not relevant for covenant	(202.9)	(75.5)
Net debt (covenant basis)	(19,771.7)	(17,724.6)
Equity attributable to owners of the Group	(3,332.3)	(3,199.4)

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, and 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 currency swaps held in the Group. Bank overdraft is not relevant for covenant purposes, and cash is added for covenants purposes (which is based on cash and investments in the securitisation group whereas the accounting definition adjusts for other items including cash and cash equivalents in TWSSI). Note that the testing of the gearing ratio covenant, which is based on Net debt (covenant basis), is suspended during the stable platform period which commenced on 25 February 2025 and will apply until the next senior debt maturity date (currently 22 March 2027).

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

As at 31 March	2026			2025		
	Borrowings	Net derivative financial liabilities	Lease liabilities	Borrowings	Net derivative financial liabilities	Lease liabilities
	£m	£m	£m	£m	£m	£m
Opening balance	(20,614.4)	(1,418.2)	(53.2)	(19,771.7)	(1,347.6)	(53.0)
Non-current	(20,290.3)	(1,352.0)	(46.7)	(18,526.6)	(1,135.2)	(45.2)
Current	(324.1)	(66.2)	(6.5)	(1,245.1)	(212.4)	(7.8)
Cash flows						
New loans raised[1]	(1,725.0)	-	-	(1,167.1)	-	-
Repayment of borrowings	-	-	-	790.0	-	-
Repayment of lease principal	-	-	10.5	-	-	11.1
Proceeds from derivative settlement[2]	-	-	-	-	(19.8)	-
Payment for derivative settlement[3]	-	110.9	-	-	278.7	-
Interest paid[4]	809.6	-	-	601.0	-	-
Interest received[5]	-	(88.3)	-	-	(151.9)	-
	(915.4)	22.6	10.5	223.9	107.0	11.1
Non-cash changes						
Interest accrued / Fees amortised	(1,049.4)	89.1	-	(1,004.6)	139.4	-
Foreign exchange movement	(72.2)	-	-	79.3	-	-
Indexation	(163.4)	-	-	(141.6)	-	-
Unamortised IFRS 9 fair value adjustment	(22.3)	-	-	(0.4)	-	-
Unamortised IFRS 9 transition adjustment	0.7	-	-	0.7	-	-
Fair value changes	-	(192.0)	-	-	(317.0)	-
Lease additions	-	-	(18.7)	-	-	(7.8)
Interest accrued for IFRS 16 leases	-	-	(25.7)	-	-	(3.5)
	(1,306.6)	(102.9)	(44.4)	(1,066.6)	(177.6)	(11.3)
Closing balance	(22,836.4)	(1,498.5)	(87.1)	(20,614.4)	(1,418.2)	(53.2)
Non-current	(21,842.8)	(1,525.9)	(81.4)	(20,290.3)	(1,352.0)	(46.7)
Current	(993.6)	27.4	(5.7)	(324.1)	(66.2)	(6.5)

[1] New loans raised are shown net of fees of £111.5 million (2025: £3.7 million).
[2] There were no proceeds from derivative settlement during the year (2025: £19.8 million).
[3] Payment for derivative settlement of £110.9 million (2025: £278.7 million) includes £11.4 million (2025: £143.5 million) relating to accretion paydown on index-linked swaps, £78.2 million (2025: £135.2 million) relating to settlement of swaps and £21.3 million (2025: £nil) relating to consent fee derivatives.
[4] Interest paid on borrowings of £809.6 million (2025: £601.0 million) includes £200.8 million of capitalised borrowing costs (2025: £187.1 million) and excludes £0.5 million of bank charges (2025: £0.5 million) and £nil million other interest expense (2025: £0.2 million), resulting in interest paid per the consolidated Statement of Cash Flows of £609.3 million (2025: £414.6 million).
[5] Interest received on net derivative financial liabilities of £88.3 million (2025: £151.9 million) excludes £26.1 million interest received on bank deposits (2025: £49.3 million) and £0.5 million other interest income (2025: £0.5 million), resulting in interest received per the consolidated Statement of Cash Flows of £114.9 million (2025: £201.7 million).

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group, excluding amounts owed by group undertakings, after taking into account the derivative financial instruments used to manage market risk.

As at 31 March 2026:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ sterling	8,587.0	2,515.1	8,809.0	19,911.1

As at 31 March 2025:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ sterling	6,859.1	2,302.9	8,636.3	17,798.3

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below.:

	Weighted average interest rate		Weighted average period until maturity	
Year ended 31 March	2026 %	2025 %	2026 Years	2025 Years
Fixed	5.8%	4.9%	9.0	11.9
Index-linked	5.4%	5.4%	16.7	17.3

The Group has one swap, which has fixed interest until 2032 and variable thereafter until its maturity in 2038; this has been allocated to fixed rate for the purposes of the tables below. Excluded from the tables above is the impact of the consent fee derivatives as these are not used to manage market risk, despite being a source of market risk themselves and being linked to interest rate and index-linked swaps. However, included in the tables is the impact of the consent fee debt, despite having a zero rate coupon.

The assumptions used for interest rate, exchange rate and inflation risk sensitivity analysis is included in the relevant sections below. The assumptions are based on reasonably possible changes and their impact on financial instruments held at the reporting date. This does not represent the actual impact, which will depend on actual future changes on external market variables.

Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps where hedge accounting has previously applied, please see the 'Cash flow hedges' section of this note on pages 105 and 106.

The table below summarises the impact, on pre-tax profits, of an absolute 1% increase or decrease in GBP interest rates at 31 March 2026. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	2026	2026	2025	2025
	+1% £m	-1% £m	+1% £m	-1% £m
Profit/(loss)	260.0	(292.7)	300.4	(342.8)
Equity	260.0	(292.7)	300.4	(342.8)

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

Exchange rate sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than sterling. The Group uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. Due to the extension of debt maturities on 25 February 2025 without a corresponding extension to swaps, there was an unhedged USD position in relation to the USPP originally due to mature in March 2025. Further, since a JPY swap terminated in January 2026 due the counterparty exercising the break option, the JPY exposure on the debt has also become unhedged.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2026. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2026	2026	2025	2025
	+10% £m	-10% £m	+10% £m	-10% £m
Profit/(loss)	12.7	(58.8)	17.4	(46.2)
Equity	12.7	(58.8)	17.4	(46.2)

Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore, the Group's RPI-linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates on financial instruments at 31 March 2026. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2026	2026	2025	2025
	+1% £m	-1% £m	+1% £m	-1% £m
(Loss)/profit	(549.5)	488.7	(595.8)	528.9
Equity	(549.5)	488.7	(595.8)	528.9

Own credit risk sensitivity analysis

Refer to Significant accounting judgements and key sources of estimation uncertainty on pages 74 to 76.

The Group has entered into swaps which are measured at fair value including the impact of credit risk as per IFRS 13. An absolute decrease of 10% in the recovery rate assumption will result in:

- £65 million increase in profit. using the same credit spread assumptions, meaning a different probability of default is implied
- £133 million increase in profit, using the same probability of default assumptions, meaning a different credit spread assumption has been applied.

Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, contract assets, its loans to its immediate parent entity TWL, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. For household customers, due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk; however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 14. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties, there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets and contract assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the Whole Business Securitisation agreement. During the year ended 31 March 2026, no collateral was held (2025: nil).

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

The following table summarises the amounts held as cash at bank and in hand, in money market funds and short-term investments by credit rating of counterparties.

Credit risk (continued)

As at 31 March	2026 £m	2025 £m
AAA	539.6	147.7
A+	17.7	128.8
A	-	29.9
Total	557.3	306.4

Funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2026 £m	2025 £m
AA-	63.2	68.3
A+	202.4	216.1
A	22.3	15.7
Total	287.9	300.1

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed facilities provided by a range of financial institutions. Details of the Group's borrowings are disclosed in note 17.

On 25 February 2025 the maturity dates of all debt were extended by two years, with the maturity dates reverting when, amongst other requirements, the Group reaches two investment grade ratings. Management have used the contractual maturities for the purposes of presenting the maturity profile of interest bearing loans and borrowings and anticipated future cash flows of non-derivative financial liabilities disclosed below. The impact of break clauses has been reflected in the prior year for one transaction where notice of the exercise of the break clause had been given and was settled in January 2026.

On 25 February 2025, the new financing subsidiary of the Group, Thames Water Super Senior Issuer (TWSSI) could access up to £3.0 billion in new super senior funding. This consisted of an initial £1.5 billion committed facility and a £1.5 billion uncommitted accordion facility and the rate of interest at which TWSSI is permitted to borrow and fees were determined as part of the court-sanctioned restructuring on 25 February 2025, and TWSSI is unable to fund on different financial terms without the consent of creditors. There are certain conditions precedent which remain unsatisfied and accordingly the Group are required to seek consent and waivers to access this facility and draw down in tranches in line with the Group's liquidity needs. On 31 March 2026 £1,426.5 million of the initial £1.5 billion committed facility and £410 million of the accordion facility had been drawn. A further £413 million of accordion was committed but not drawn. There is a mandatory early redemption requirement for TWSSI's debt, with a make-whole element, upon the occurrence of a recapitalisation transaction. Certain of the Group's other debt instruments contain make-whole clauses applicable on acceleration or early repayment.

The maturity profile of the interest bearing borrowings disclosed in the statement of financial position are given below. Note that there are a number of factors which could significantly change the timing of the cashflows for borrowings and derivatives from those shown, for example the debt maturities which have been extended by two years could flip back, debt may be required to be repaid early under RP2 or insolvency or SAR, break clauses in swaps may be exercised in certain circumstances and the timing of consent fee derivative cash flows might change from those assumed.

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

The maturity date of the Group's debt maturities are shown below:

As at 31 March	2026 £m	2025 £m
Within one year[1]	(342.9)	(409.9)
Between one and two years	(3,438.2)	(1,854.2)
Between two and three years	(1,466.7)	(1,291.4)
Between three and four years	(1,844.6)	(1,918.1)
Between four and five years	(739.1)	(13,461.1)
After more than five years	(13,127.6)	(409.9)
Total	(20,959.1)	(19,344.6)

[1] On 25 February 2025 all revolving credit facilities were cancelled and the drawn down element converted to term loans. Therefore £nil (2025: £nil million) of the amount due within one year relates to revolving credit facility drawdowns that can be rolled over.

Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables and amounts owed to group undertakings), which, therefore, differs from both the carrying value disclosed in the Statement of Financial Position and fair values, is as follows:

As at 31 March Undiscounted amounts payable[1]	2026 £m	2025 £m
Within one year[2]	(2,332.3)	(1,622.5)
Between one and two years	(4,418.2)	(1,138.7)
Between two and three years	(1,839.7)	(2,896.4)
Between three and four years	(2,316.6)	(1,685.5)
Between four and five years	(1,185.3)	(2,380.6)
After more than five years	(24,339.6)	(23,707.2)
Total	(36,431.7)	(33,430.9)

[1] On 25 February 2025 all outstanding debt of the Company and TWUF had its maturity date extended by two years. This extension is reflected in the above table. The maturity dates will revert to their original maturity when, amongst other things, both TWSSI's debt is repaid and the Group's Class A and B debt is investment grade with two rating agencies. This would bring forward the payment due date of the majority of amounts payable shown above.
[2] On 25 February 2025 all revolving credit facilities were cancelled and the drawn down element converted to term loans. Therefore £nil (2025: £nil million) of the amount due within one year relates to revolving credit facility drawdowns that can be rolled over.

There is a mandatory early redemption of TWSSI's debt requirement upon the occurrence of a recapitalisation transaction, which is subject to a make-whole element, which could increase and accelerate a portion of the cash flows within two years shown in the table above.

Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps together with the integral consent fee derivatives), based on undiscounted cash flows, is as follows:

As at 31 March Undiscounted amounts payable	2026 £m	2025 £m
Within one year	119.5	(35.5)
Between one and two years	(18.1)	109.4
Between two and three years	(335.3)	16.7
Between three and four years[1]	(421.6)	(316.1)
Between four and five years[1]	112.3	(391.5)
After more than five years[1]	(2,368.2)	(2,097.9)
Total	(2,911.4)	(2,714.9)

[1] Break clauses at 31 December 2028 and 1 April 2030 which allow early termination at the option of counterparties, subject to certain conditions, would bring the instrument's undiscounted cash flows forward to the relevant break date.

Cash flow hedges

The Group had designated a number of forward starting swaps which qualified, in accordance with IFRS 9 Financial Instruments, as cash flow hedges.

As at 31 March 2026, £nil (2025: £2.8 million) was recycled from the cash flow hedge reserve to the Income Statement, see the Statement of Changes in Equity on page 49 resulting in the closing cash flow hedge reserve of nil (2025: £nil).

The Group's cash flow hedge reserve is disclosed on the Statement of Changes in Equity on page 49.

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

Cash flow hedge reserve	£m
At 1 April 2024	(2.1)
Cash flow hedge transferred to Income Statement	2.8
Deferred tax charge on cash flow hedges	(0.7)
At 31 March 2025	-
Cash flow hedge transferred to Income Statement	-
Deferred tax charge on cash flow hedges	-
At 31 March 2026	-

The following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

As at 31 March	2026 £m	2025 £m
Quantitative		
Cash flow hedge transferred to Income Statement	-	2.8

As at 31 March	2026	2025
Qualitative		
Line item affected in Income Statement due to reclassification	Net (losses)/gains on financial instruments	Net (losses)/gains on financial instruments

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated Statement of Financial Position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as an early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2026 and 31 March 2025. The column 'net amount' shows the impact on the consolidated Statement of Financial Position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the Consolidated Statement of Financial Position				
As at 31 March 2026	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated Statement of Financial Position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	287.9	-	287.9	(214.5)	73.4
Financial liabilities					
Derivative financial instruments	(1,786.4)	-	(1,786.4)	214.5	(1,571.9)
Total	(1,498.5)	-	(1,498.5)	-	(1,498.5)

Notes to the consolidated financial statements (continued)

18. Financial instruments (continued)

As at 31 March 2025	Effects of offsetting on the Consolidated Statement of Financial Position[1] Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated Statement of Financial Position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	300.0	-	300.0	(240.6)	59.4
Financial liabilities					
Derivative financial instruments	(1,718.2)	-	(1,718.2)	240.6	(1,477.6)
	(1,718.2)	-	(1,718.2)	240.6	(1,477.6)
Total	(1,418.2)	-	(1,418.2)	-	(1,418.2)

[1] Management have presented the tables above on a simplified basis compared to prior year. The above presentation is more reflective of the offsetting in an event of default, with the total liability the same with and without a master netting arrangement.

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 31 March 2026 and 31 March 2025 with an interest rate linked to GBP LIBOR that have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying value at 31 March 2026		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2026	
	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]	-	(26.9)	-	(26.9)
Total assets and liabilities exposed to GBP LIBOR	**-**	**(26.9)**	**-**	**(26.9)**

[1] On 17 October 2025 an index linked swap agreement was updated to reference SONIA, leaving one remaining index linked swap agreement, valued at £26.9 million liability position at 31 March 2026, to transition to alternative benchmark interest rates.

	Carrying value at 31 March 2025		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2025	
	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]	-	(69.3)	-	(69.3)
Total assets and liabilities exposed to GBP LIBOR	-	(69.3)	-	(69.3)

[1] Consists of £69.3 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.

Notes to the consolidated financial statements (continued)

19. Deferred tax

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

	Accelerated tax depreciation	Retirement benefits	Cash flow hedges	Tax losses carried forward	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2024	(1,406.3)	26.5	65.6	-	18.8	(1,295.4)
Credit/(charge) to income statement including impact of tax rate change	94.7	0.3	4.2	139.2	(8.3)	230.1
Charge to other comprehensive income	-	(5.2)	(0.7)	-	-	(5.9)
At 31 March 2025	(1,311.6)	21.6	69.1	139.2	10.5	(1,071.2)
Current year (charge)/credit to income statement including impact of tax rate change	(70.5)	(40.7)	14.6	-	23.9	(72.7)
Prior year adjustment (charge)/credit to income statement	(287.2)	-	-	270.7	-	(16.5)
Credit to other comprehensive income	-	18.2	-	-	-	18.2
At 31 March 2026	(1,669.3)	(0.9)	83.7	409.9	34.4	(1,142.2)

Deferred taxes reflected in the financial statements at the balance sheet date have been measured using standard tax rate of 25% and are reflected in these financial statements.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

As at 31 March	2026	2025
	£m	£m
Deferred tax assets	528.0	240.4
Deferred tax liabilities	(1,670.2)	(1,311.6)
Net deferred tax liabilities	(1,142.2)	(1,071.2)

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of the Group's capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences normally increase every year. This year, capital allowances claimed are more than accounting depreciation so the deferred tax liability arising in respect of accelerated tax depreciation has increased.

Deferred tax assets have arisen on the following temporary differences:

- **Retirement benefit obligations:** A net deferred tax liability is recognised on the retirement benefit obligations booked in the financial statements. The £0.9 million deferred tax liability at 31 March 2026 is the net of an asset of £6.9 million (deficit on the TWPS pension scheme of £27.7 million at 25% tax rate) less a liability of £7.8 million (surplus on the TWMIPS pension scheme of £31.2 million at 25% tax rate). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- **Cash flow hedges:** A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- **Tax losses carried forward:** Under IFRS, a deferred tax asset (DTA) is required to be set up in respect tax losses carried forward in the Company. This is because Thames Water Utilities Ltd (TWUL) has deferred tax liabilities (DTLs) in excess of other DTAs and the assumption under IFRS is that the future unwind of such DTLs would create sufficient future taxable profits to enable utilisation of the tax losses arising via group relief at the TWUHL group level. Therefore, a DTA of £163.5 million (£139.2 million) on £653.9 million (2025: £556.8 million) tax losses carried forward at the 25% (2025: 25%) future CT rate has been recognised. A deferred tax asset of £246.5 million (2025: £nil) is also recognised on carried forward losses of £985.9 million in TWUL based on the assessment that it is probable that sufficient taxable profits will be generated in future periods against which these losses can be utilised.
- **Other:** A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

Notes to the consolidated financial statements (continued)

20. Provisions for liabilities and charges

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Environmental, legal and other regulatory provisions £m	Other provisions £m	Total £m
At 1 April 2025	134.2	51.2	10.8	260.9	40.3	497.4
Utilised during the period	(27.1)	(21.4)	(0.3)	(24.5)	(18.8)	(92.1)
Additional provisions recognised	66.7	12.5	2.0	91.3	28.3	200.8
Unused amounts reversed	(23.1)	(4.0)	(2.8)	(16.0)	(5.0)	(50.9)
At 31 March 2026	150.7	38.3	9.7	311.7	44.8	555.2
Disclosed within current liabilities	30.4	9.0	-	214.7	35.1	289.2
Disclosed within non-current liabilities	120.3	29.3	9.7	97.0	9.7	266.0
Total at 31 March 2026	150.7	38.3	9.7	311.7	44.8	555.2

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate an outflow of economic benefits occurring, and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. Contingent liabilities identified have been disclosed in note 24. The timing of settlement of provisions has been estimated based on the nature of the provision and informed by both timelines set and historical benchmarks. Amounts have been classified between current and non-current.

The insured liabilities provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 14. The provision is split between current and non-current based on management estimate of the timing in which claims will be settled.

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. The provision is split between current and non-current based on management estimate of the timing of when claims will be settled.

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our internal property surveyor. During the year, no leases were extended.

Environmental, legal and other regulatory provisions relate to legal claims including environmental and commercial matters. Environmental matters are in relation to TWUL's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. Included within this is a provision recognised of £83.1 million related to Ofwat's investigation into non-compliance of our sewage treatment works, and a provision of £14.6 million related to Ofwat's investigation into dividends paid in the year ended 31 March 2024. The amount is classified as current, based on expected payment date following agreed payment plan with Ofwat. An increase in the provision has been recognised in the period due to developments and associated revised estimates of liabilities related to future prosecutions for environmental incidents and other legal matters. This includes five historical pollution and rising mains incidents, which have been formally joined for prosecution. Refer to the provisions for other liabilities and charges significant accounting judgement on page 73 for further details on provisions for environmental incidents.

Other provisions relate to other claims and obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations. Unused amounts reversed relate to previously recognised provisions where the value was reassessed, or it was concluded there is no longer an obligation for these. The provision is split between current and non-current based on management's estimate of the timing of when claims will be settled.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is a risk that the final outcome of legal claims could be materially different to amounts provided – further details can be found within our accounting policies under our significant accounting judgements and key sources of estimation uncertainty.

Notes to the consolidated financial statements (continued)

21. Called up share capital and other reserves

Called up share capital

As at 31 March	2026			2025		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Authorised, allotted, called up and fully paid: 547,500,000 ordinary shares of £1 each (2025: 547,500,000 ordinary shares of £1 each)	547.5	-	547.5	547.5	-	547.5

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

As at 31 March	2026			2025		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Revaluation reserve	726.6	-	726.6	748.6	-	748.6
(Accumulated losses)/retained earnings	(5,405.8)	799.4	(4,606.4)	(5,154.2)	658.7	(4,495.5)
Total	(4,679.2)	799.4	(3,879.8)	(4,405.6)	658.7	(3,746.9)

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS in the 2015/16 financial year, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the consolidated financial statements (continued)

22. Retirement benefit obligations

Background

The Group operates two defined benefit pension schemes and one defined contribution pension scheme. The Group notes that they have a small number of members and are a participating employer within the Merchant Navy Officers Pension Fund, an industry scheme; however this is considered immaterial for disclosure within these accounts.

	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 Group that are not active 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 £39.2 million (2025: £34.1 million) was recognised in the Income Statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £5.8 million of outstanding contributions (2025: £4.8 million) at the year-end recognised in the Statement of Financial Position. The Group has no exposure to investment or other experience risks.

	What are they?	How do they impact the financial statements?
Defined Benefit Schemes Defined benefit arrangements for the Group'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 Group.	A charge was recognised in the Income Statement of £6.2 million (2025: £10.3 million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; and • the net interest expense on pension scheme assets and liabilities. An actuarial loss of £72.7 million (2025: gain of £21.0 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic assumptions when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense. A pension asset of £30.5 million (2025: £25.9 million surplus) is recognised in the Statement of Financial Position for the TWMIPS scheme. A pension deficit of £27.0 million (2025: £112.1 million) is recognised in the Statement of Financial Position for the TWPS scheme. As at 31 March 2026, the net pension surplus is £3.5 million (2025: £86.2 million). A Group contribution of £168.6 million (2025: £22.2 million) was made during year ended 31 March 2026. The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2026, these related payments amounted to £nil (2025: £nil).

The defined benefit pension schemes are required to complete full actuarial valuations every three years using assumptions agreed between the Trustees of the pension schemes and the Group in line with the Pensions Act 2004 and Occupational Pension Schemes Regulations 2005. The purpose of this triennial valuation is to evaluate and, if necessary, modify the funding plans of the pension schemes so that the schemes have sufficient funds to meet future benefit payments of all members of the schemes. The Group has 15 months under legislation to complete the triennial valuations from the valuation date of 31 March 2025.

Notes to the consolidated financial statements (continued)

22. Retirement benefit obligations (continued)

The most recent Valuation for TWMIPS is as at 31 March 2025 signed off inside the above deadline by end of June 2026 showed a reduction of funding deficit of £7.9 million from the 2022 valuation to £22.4 million based upon total assets of £465.2 million and total liabilities of £487.6 million.

The most recent completed triennial valuation for TWPS is as at 31 March 2022 signed off in August 2024 showed a deficit of £444.7 million based upon total assets of £1,639.2 million and total liabilities of £2,083.9 million. The triennial valuation in respect of 31 March 2025 for TWPS remains ongoing due to the different composition of this Scheme. Where an actuarial valuation is not completed by the legislative deadline, the Pensions Regulator may open an investigation and consider using its enforcement powers. No such investigation has been launched at this stage.

This triennial funding valuation is different from the annual accounting valuation presented in the financial statements due to different legislation and reporting requirements under the IAS19 reporting on Employee Benefits. These standards use different assumptions to measure the change in assets and liabilities to those of the triennial valuations as referenced above to update for market conditions over the reporting year. The 2025 triennial valuation roll forward data has been updated to be utilized for the annual accounting values as at 31 March 2026 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary.

The Group acknowledges that recent pensions legislation passed in April 2026 has introduced legislation allowing retrospective approval of amendments as a result of the Virgin Media case, and hence the Group currently expect no impact to their current liability position regarding this matter. The Group acknowledges that the Financial Reporting Council has published guidance for actuaries as to how to implement the retrospective fixes, and now awaits confirmation from the Trustees and their Actuary as to the timescale and completion of this task in respect of the TWPS and TWMIPS schemes.

A review of our external providers defined benefits schemes administration practices is being conducted to ensure compliance to all statutory checks. Work is being carried out to refine the population in scope for review, any cases found that fall outside of the statutory minimum requirements will be corrected. This work is at an early stage and therefore the Scheme Actuary is unable to reliably estimate the value of the possible financial liability at this time.

Amounts recognised in the financial statements in respect of the defined benefit pension schemes

Income Statement

The amounts recognised in the Income Statement with respect to the defined benefit pension schemes are detailed below:

Year ended 31 March	2026		2025	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Current service cost	-	0.5	-	0.7
Scheme administration expenses	2.7	2.1	1.6	2.8
Net interest cost/(income)	2.8	(1.9)	6.7	(1.5)
Total	5.5	0.7	8.3	2.0

The net expense is recognised in the following captions within the Income Statement:

Year ended 31 March	2026		2025	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Operating expenses	2.7	2.6	1.6	3.5
Net finance expense/(income)	2.8	(1.9)	6.7	(1.5)
Total	5.5	0.7	8.3	2.0

Notes to the consolidated financial statements (continued)

22. Retirement benefit obligations (continued)

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

Year ended 31 March	2026 £m	2025 £m
Actual return less expected return on pension scheme assets	(14.2)	(149.6)
Experience (loss)/gain arising on scheme liabilities	(71.6)	(2.5)
Gain arising due to change in financial assumptions	28.6	189.0
(Loss)/Gain arising due to change in demographic assumptions	(15.5)	(15.9)
Total actuarial (loss)/gain	(72.7)	21.0
Cumulative actuarial losses recognised	(471.2)	(398.5)

Statement of Financial Position

The net pension liability recognised within the Statement of Financial Position is as follows:

As at 31 March	2026			2025		
	TWPS £m	TWMIPS £m	Total £m	TWPS £m	TWMIPS £m	Total £m
Fair value of scheme assets	1,122.8	463.4	1,586.2	997.8	462.9	1,460.7
Present value of defined benefit obligations	(1,149.8)	(432.9)	(1,582.7)	(1,109.9)	(437.0)	(1,546.9)
(Deficit)/surplus	(27.0)	30.5	3.5	(112.1)	25.9	(86.2)
Net pension surplus/(deficit)			3.5			(86.2)

Reconciliation of defined benefit plan assets and liabilities

The movements in the present value of the defined benefit obligations were as follows:

	2026		2025	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,109.9	437.0	1,246.5	489.6
Current service cost	-	0.5	-	0.7
Interest cost	62.3	23.7	58.9	22.8
Benefits paid	(68.5)	(40.7)	(61.4)	(39.6)
Actuarial losses/(gains)	46.1	12.4	(134.1)	(36.5)
At 31 March	1,149.8	432.9	1,109.9	437.0

The movements in the fair value of scheme assets were as follows:

	2026		2025	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	997.8	462.9	1,094.4	522.6
Interest income on scheme assets	59.5	25.6	52.2	24.3
Contributions by sponsoring employers	150.5	18.1	21.0	1.2
Administration costs paid from scheme assets	(2.7)	(2.1)	(1.6)	(2.8)
Benefits paid	(68.5)	(40.7)	(61.4)	(39.6)
Actuarial losses	(13.8)	(0.4)	(106.8)	(42.8)
At 31 March	1,122.8	463.4	997.8	462.9

Notes to the consolidated financial statements (continued)

22. Retirement benefit obligations (continued)

Analysis of assets

As at 31 March	2026				2025			
	Quoted £m	Unquoted £m	Total £m	Total (%)	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	7.5	-	7.5	0.5		-	8.0	0.5
Rest of World	32.1	3.2	35.3	2.2	8.0	-	38.2	2.6
Bonds								
Government – UK	42.7	-	42.7	2.7	25.7	-	25.7	1.8
Government – Rest of World	37.8	-	37.8	2.4	77.6	-	77.6	5.3
Corporates – UK	18.7	-	18.7	1.2	48.0	-	48.0	3.3
Corporates – Rest of World	130.0	46.3	176.3	11.1	158.6	42.6	201.2	13.8
Property								
UK	-	-	-	-	-	-	-	-
Rest of world	-	-	-	-	-	-	-	-
Alternative assets								
Liability driven instruments	1,020.6	-	1,020.6	64.3	903.5	8.4	911.9	62.4
Other (including derivatives)	89.4	33.2	122.6	7.7	78.8	(0.1)	78.7	5.4
Cash	123.4	-	123.4	7.8	67.6	-	67.6	4.6
Other	1.3	-	1.3	0.1	3.8	-	3.8	0.3
Total market value of assets	1,503.5	82.7	1,586.2	100.0	1,409.8	50.9	1,460.7	100.0

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment adviser, Redington. 64.3% (2025: 62.4%) of the scheme assets are invested in Liability Driven Investment (LDI) portfolios managed by Schroder Investment Management Limited. The remaining portfolio of assets is invested in pooled investment vehicles in which the underlying breakdowns have been analysed to derive the table above. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Under the LDI strategies, if interest rates fall, the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in the discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

In the current period, index-linked gilts amount to £1,067.6 million (2025: £1,039.9 million) and fixed interest gilts amount to £380.9 million (2025: £269.2 million) of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

IAS 19 Assumptions

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

	Approach to set the assumptions
Discount rate	As per IAS 19, the discount rate is determined using the market yields on high-quality corporate bonds as at the reporting date, with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-rated corporate bond yield curve as at 31 March 2026.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS, with an adjustment made for an inflation risk premium.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	Both defined benefit schemes provide benefits on a Career Average (CARE) benefit structure whereby past entitlements are linked to movements in CPI; therefore, an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

Notes to the consolidated financial statements (continued)

22. Retirement benefit obligations (continued)

Financial assumptions

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

As at 31 March	2026		2025	
	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	3.35%	3.40%	3.10%	3.20%
Price inflation – CPI	3.00%	2.95%	2.70%	2.70%
Rate of increase to pensions in payment – RPI	3.35%	3.40%	3.10%	3.20%
Discount rate	6.15%	6.05%	5.80%	5.70%

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 2025 model. The table below illustrates the life expectancies of an average member retiring at age 60 at the year end reporting data and a member reaching age 60 at the year end reporting date in 20 years.

As at 31 March	2026		2025	
	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60 – current age 60:				
Male	27.2	26.1	26.7	25.7
Female	29.5	28.4	29.3	28.4
Life expectancy from age 60 - current age 40:				
Male	28.3	27.6	27.7	27.0
Female	30.7	29.9	30.3	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 investments underperform these assumptions in the long-term, then additional contributions will need to be made to the schemes in order to fund the payment of future benefits.
Discount rate risk	A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings.
Inflation risk	The benefits payable to the members of the schemes are linked to inflation and, as such, higher inflation will lead to higher liabilities. Additionally, the Group's contributions to the schemes are based on assumptions about the future levels of inflation; therefore, an increase in inflation above that assumed in the actuarial calculations will create a deficit.
Longevity risk	An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities.

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below. The impact of the 1% change in the other direction would largely be the same, in the opposite direction, as the movement presented in the table:

As at 31 March	2026		2025	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Change in assumptions resulting in a (decrease)/increase in liabilities				
Change in discount rate (+ 1% p.a.)	(125.0)	(35.0)	(140.0)	(40.0)
Change in rate of inflation (- 1% p.a.)	(90.0)	(25.0)	(80.0)	(25.0)
Change in life expectancy (+ 1 year)	45.0	15.0	40.0	15.0

Notes to the consolidated financial statements (continued)

22. Retirement benefit obligations (continued)

Future expected cash flows

The Group made a pension deficit repair payment of £69.7 million on 30 March 2021 covering the financial years from 2021/22 to 2024/25, which was treated as an exceptional cash flow item in the year ended 31 March 2021. The average duration of the benefit obligation at the end of the year is 12 years for TWPS and 9 years for TWMIPS (2025: 13 years for TWPS and 9 years for TWMIPS).

The most recent Valuation for TWMIPS is as at 31 March 2025 signed off inside the deadline by end of June 2026 showed a reduction of funding deficit of £7.9 million from the 2022 valuation to £22.4 million based upon total assets of £465.2 million and total liabilities of £487.6 million.

The most recent completed triennial valuation for TWPS is as at 31 March 2022 signed off in August 2024 showed a deficit of £444.7 million based upon total assets of £1,639.2 million and total liabilities of £2,083.9 million. The triennial valuation in respect of 31 March 2025 for TWPS remains ongoing due to the different composition of this Scheme. Where an actuarial valuation is not completed by the legislative deadline, the Pensions Regulator may open an investigation and consider using its enforcement powers. No such investigation has been launched at this stage.

In order to address the combined funding deficit, the Group is scheduled to make future deficit repair payments (see tables below) to both schemes. These are cash payments made as agreed in the Statement of Contributions at the last triennial valuation period.

Year to 31 March	2026	2027	2028	2029	2030
Deficit contributions TWPS (£m)	102.3	-	60.1	36.0	36.0

Year to 31 March	2026	2027	2028	2029	2030
Deficit contributions TWMIPS (£m)	16.4	-	7.3	-	-

The payments for TWPS contributions are reviewable for RPI inflation each year.

The following internal inflation mechanism (IIM) payments are also scheduled to be made in the future for the TWPS scheme. The IIM was a mechanism introduced as an off-balance sheet inflation hedge, where the difference between IIM assumed inflation and market inflation on pension liabilities is spread as cash contributions over five years.

Year to 31 March	2026	2027	2028	2029	2030
IIM TWPS (£m)	46.9	-	16.5	6.3	-

23. Capital commitments

As at 31 March	2026 £m	2025 £m
Property, plant and equipment	1,170.0	822.0
Intangible assets	29.0	13.0
Total contracted for but not provided	1,199.0	835.0

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments represent the value of orders committed to with our supply chain. Capital commitments have increased during the year due to the initiation of a significant number of projects, coinciding with the start of Asset Management Period 8 (AMP8) in the financial year end 31 March 2026.

24. Contingent liabilities

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

1. Environment Agency Wastewater regulatory investigation
   TWUL is subject to an ongoing investigation by the Environment Agency under the Environmental Permitting (England and Wales) Regulations 2016 into compliance with storm sewerage discharges in line with environmental permits. The Group is providing information requested by the Environment Agency to support with this ongoing investigation. The potential penalty for an environmental offence is a criminal conviction and an unlimited fine (in accordance with the Environmental Offences Sentencing Guidelines). The outcome of the investigation and the existence of any potential future financial obligations, or other consequences, cannot be reliably determined at this time.

2. Collective proceeding in the Competition Appeal Tribunal
   The Group is subject to a collective proceedings claim in the Competition Appeal Tribunal (CAT) alleging a breach of competition law in relation to the historic reporting of pollution incidents. The estimated quantum of damages provided by the class representative is £159 million (the Household Claim). This is an industry-wide issue and five other water companies have had similar claims made against them. The certification hearing took place

Notes to the consolidated financial statements (continued)

24. Contingent liabilities (continued)

in September 2024 and judgment was handed down on 7 March 2025. The CAT determined that the class representative's claims are excluded by section 18(8) of the Water Industry Act 1991 and has dismissed the claim. On 28 March 2025, the class representative sought permission to appeal the CAT's judgment. The application for permission to appeal was refused by the CAT on 20 May 2025. The Proposed Class Representative (PCR) subsequently applied, on 4 June 2025, to the Court of Appeal for permission to appeal. On 26 June 2025, the Court of Appeal granted the PCR permission to appeal the judgment. In March 2026, the Court of Appeal upheld the CAT's judgement. The PCR subsequently sought permission to appeal the Court of Appeals judgement to the Supreme Court, and this was granted in June 2026. The hearing of the appeal has not yet been listed. As the claim is still at a very early stage, it is not possible to determine merits or whether this would likely have any effect on the financial position of the Group.

The following matter is not deemed to meet the criteria for recognising a provision or disclosing a contingent liability. On 20 December 2024 (before the certification judgment in the Household Claim had been handed down), the class representative wrote to TWUL and Kemble Water Holdings Limited (KWHL), indicating that it would seek to bring a similar, additional claim on behalf of non-household customers (the Non-Household Claim). The Non-Household Claim adopts a very similar theory of harm as the Household Claim. The class representative estimates that the claim value of the Non-Household Claim is between £44 million – £56 million (including interest). It is not yet known whether the class representative will proceed with the Non-Household Claim. As a Non-Household Claim has not been issued or served the likelihood of economic outflow related to this matter is deemed remote.

3. Water Industry National Environment Programme (WINEP) – EA
TWUL has not completed all WINEP 7 schemes during the course of AMP7 as required. TWUL has not completed all WINEP 8 schemes due in the first year of AMP8 as required. This means that new environmental permits have come into effect before the works necessary to achieve compliance with those new environmental permits have been carried out. Delayed WINEP 7/8 sites are at risk of operating outside the conditions of their environmental permits. Operating in breach of an environmental permit is a criminal offence. The potential penalty is a criminal conviction and an unlimited fine (in accordance with the Environmental Offences Sentencing Guidelines). The Environment Agency is aware of all delayed WINEP 7/8 schemes but has not, to date, taken formal enforcement action. This is not to be taken as an indication that it will not take action. The risks and consequences of formal enforcement action cannot be reliably determined at this time. Consequently, the outcome of these matters and the existence of any possible future financial consequences are not yet conclusive.

4. WINEP – Ofwat
Ofwat issued TWUL with a notice under section 203 of the Water Industry Act 1991 (WIA91) on 11 February 2025, requesting the production of documents and information in relation to potential delays in TWUL's delivery of the AMP7 WINEP schemes by the original PR19 delivery date and the potential effects this may have on the delivery of the AMP8 WINEP schemes. Ofwat is concerned that TWUL may have breached Condition P of its licence, in addition to Section 94 of the WIA91 and Regulations 4 and 5 of the Urban Waste Water Treatment (England & Wales) Regulations 1994. TWUL responded to the notice on 14 March 2025. Ofwat have issued a second and third Section 203 notice in January and February 2026 respectively, seeking further evidence regarding this matter. TWUL responded to these notices in February 2026 and in March 2026. The risks and consequences of formal enforcement action cannot be reliably determined at this time. Consequently, the outcome of this matter and the existence of any possible future financial consequences of the investigation is not yet conclusive. Ofwat's regulatory enforcement powers include the potential imposition of an enforcement order, the acceptance of enforceable undertakings and/or the imposition of a financial penalty on TWUL of up to 10% of annual turnover of the relevant regulated business.

5. Industrial Emissions Directive (IED)
TWUL has not completed the works necessary to comply with the IED by the end of AMP7 as required. This means that new environmental permits have or are due to come into effect before the works necessary to achieve compliance with those new environmental permits have been carried out. IED sites are at risk of operating outside the conditions of their environmental permits. Operating in breach of an environmental permit is a criminal offence. The potential penalty is a criminal conviction and an unlimited fine (in accordance with the Environmental Offences Sentencing Guidelines). The Environment Agency is aware of all delayed IED schemes and TWUL's original plans to remediate this (the IED Compliance Delivery, or Best Endeavours, Plan) but has not accepted the Best Endeavours Plan. TWUL has revisited the Best Endeavours Plan and has now submitted the New Direction Plan to the Environment Agency. The Environment Agency has not, to date, taken formal enforcement action. The outcome of these matters remain uncertain. The risk and consequences of formal enforcement action cannot be reliably determined at this time. Consequently, the outcome of this matter and the existence of any possible future financial consequences from it is not yet conclusive.

Other contingent liabilities include other contractual matters with suppliers incurred in the ordinary course of business, which may result in a liability that could have a material effect on the Group's financial statements. These contractual matters are unquantifiable and subject to significant uncertainties. The Group has considered these contractual matters as contingent liabilities.

As of the 31 March 2026, the following matter is no longer deemed to meet the criteria for disclosure as a contingent liability:

- Turnover fees. Under the turnover agreement a fee was payable to relevant Class A lenders in the event that a court gave permission for an appeal of the restructuring plan to be heard. £32.0 million of turnover fees was paid to Escrow on 15 April 2025. On 4 August 2025 £32.2 million (which included £0.2 million interest) was returned to Thames following the Supreme Court's decision to refuse permission to appeal on 30 July 2025.

Notes to the consolidated financial statements (continued)

25. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the Statement of Financial Position. These are:

- leases not in the scope of IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In November 2025 TWUL executed a physical power purchase agreement, which enables the Group to hedge price fluctuations of renewable energy over a five-year time horizon. Management concluded that the contract met the own use exemption and is therefore not recorded on the balance sheet. The undiscounted forecast annual committed contractual cashflows under this contract are between £11.8 million and £14.6 million per annum over the five-year period.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Group.

As described in the BTL arrangement section within the material accounting policies on pages 57 and 58, BTL is separately regulated by Ofwat and is subject to its own price reviews. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Group for its services. The charge represents the recovery of costs incurred in delivering the Thames Tideway Tunnel (TTT) and a regulated return on BTL's investment.

As at 31 March 2026, the Group has paid £0.8 billion to BTL which compares to a construction cost of the TTT of £6.1 billion (as disclosed in BTL's FY26 annual report). The Group will continue to charge its wastewater customers over the +120 year life of the project (based on modifications to the Group's licence) – these amounts are charged as wastewater services. As cash is collected, these amounts are subsequently paid to BTL, under the 'pay when paid' principle, these amounts are presented within the BTL column in the financial statements. This arrangement will be accounted for as a lease upon handover of the TTT.

26. Post balance sheet events

On the 13 April 2026, TWUF's cross currency swaps used to hedge $106 million USPP, matured. At the same time the intercompany loan from TWUF to TWUL, which was formally denominated in GBP on a post swap basis, converted to USD. The $106 million USPP remains unhedged.

On 24 April 2026 TWSSI on-lent the remainder of the first drawdown of the accordion facility, being £196.8 million (net of discount and fees of £8.2 million) to TWUL.

On 10 June 2026 the remaining committed accordion funding of £397.0 million (net of discount and fees of £16.5 million) was drawn down by TWSSI. On 22 June 2026 £192.0 million (net of discount and fees of £8.0 million) was on-lent to TWUL by TWSSI.

On 10 July 2026 Moody's downgraded the WBS Class A debt rating from Caa3 (stable outlook) to Ca (stable outlook).

On 14 July 2026 the residual £205.0 million (net of discount and fees of £8.5 million) was on-lent to TWUL by TWSSI.

Notes to the consolidated financial statements (continued)

27. Statement of Cash Flows

Reconciliation of operating profit to operating cash flows

Year ended 31 March	2026			2025		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	(219.1)	140.7	(78.4)	(600.8)	164.3	(436.5)
Less finance income	(116.2)	-	(116.2)	(186.3)	-	(186.3)
Add finance expense excluding interest on lease liabilities	1,160.6	-	1,160.6	1,075.1	-	1,075.1
Add interest expense on lease liabilities	25.7	-	25.7	3.5	-	3.5
Add net (gains)/losses on financial instruments	280.8	-	280.8	240.5	-	240.5
Add/(less) taxation on profit/(loss) on ordinary activities before taxation	89.2	-	89.2	(196.1)	(29.2)	(225.3)
Operating profit	1,221.0	140.7	1,361.7	335.9	135.1	471.0
Depreciation on property, plant and equipment	744.1	-	744.1	703.1	-	703.1
Amortisation of intangible assets	67.9	-	67.9	70.8	-	70.8
Depreciation of right of use asset	(5.9)	-	(5.9)	7.8	-	7.8
Impairment/(reversal) of property, plant and equipment	1.2	-	1.2	(2.9)	-	(2.9)
Loss/(gain) on sale of property, plant and equipment	0.7	-	0.7	(6.8)	-	(6.8)
Difference between pension charge and cash contribution	(163.3)	-	(163.3)	(17.1)	-	(17.1)
Decrease in inventory	3.1	-	3.1	0.8	-	0.8
Increase in trade and other receivables[1]	(62.3)	(128.6)	(190.9)	(15.8)	(128.7)	(144.5)
(Increase)/decrease in contract assets	(61.4)	(9.0)	(70.4)	(49.3)	1.2	(48.1)
Increase/(decrease) in trade and other payables	61.9	(11.9)	50.0	(12.5)	11.9	(0.6)
Increase/(decrease) in contract liabilities[2]	40.4	(0.5)	39.9	47.6	-	47.6
Increase in provisions[3]	70.8	-	70.8	208.0	-	208.0
Net cash generated by operating activities[4]	1,918.2	(9.3)	1,908.9	1,269.6	19.5	1,289.1

[1] Movement in trade and other receivables excludes the movement in group relief receivable/payable; any amounts paid/received in the period are disclosed within group relief received.

[2] Movement in contract liabilities will not agree to the movement in the balance sheet due to it excluding the movement in the non-cash item deferred income for nil cost adopted assets.

[3] Movement in provisions will not agree to the movement in the balance sheet due to it excluding the movement in capital infrastructure provisions.

[4] Net cash generated by operating activities for the year ended 31 March 2026 includes £50.7 million (2025: £80.4 million) of payments made during the year ended 31 March 2026 related to the exceptional operating costs recognised in the Income Statement of £61.8 million (2025: £219.9 million) for restructuring expenditure, refer to note 3. Net cash generated by operating activities (excluding payments relating to exceptional items and BTL) for the year ended 31 March 2026 would be £1,968.9 million (2025: £1,350.0 million).

Movement in cash and cash equivalents

Year ended 31 March	2026 £m	2025 £m
Unrestricted cash movement	48.9	(7.0)
Restricted cash movement	86.9	71.0
Bank Overdraft	67.7	55.5
Movement in money market funds	115.1	(1,038.8)
Total	318.6	(919.3)

Notes to the consolidated financial statements (continued)

28. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'Transactions with associates and the non-appointed business' disclosure in the Annual Performance Report, which will be published on our website following their approval.

Trading transactions

Year ended 31 March	2026		2025	
	Services provided by the Group £'000	Services provided to the Group £'000	Services provided by the Group £'000	Services provided to the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	776	-	703	-
Intermediaries between the immediate and ultimate parent				
Kemble Water Eurobond plc	9	-	9	-
Kemble Water Finance Limited	275	-	402	-
Thames Water (Kemble) Limited	242	-	343	-
Immediate parent				
Thames Water Limited	846	215,759	787	215,466
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	171	-	220	-
Thames Water Property Services Limited	-	144	-	118
Thames Water Pension Trustees Limited	76	-	-	23
Trinzic Operations Limited	-	-	15	44
Trinzic Connected Limited	-	-	5	-
Entities external to the Kemble Water Holdings group				
AlixPartners UK LLP	-	18,469	-	16,343
Arqiva Limited	-	25,872	-	-
Cadent Gas Limited	-	-	-	32
Inframonik Advisory Limited	-	18	-	23
Major Projects Association	-	20	-	11
SGN Commercial Services Limited	-	-	-	5,839
Southern Gas Networks plc	-	-	-	10
Water UK Limited	-	915	-	720
Total	2,395	261,197	2,484	238,629

During the year, the Group paid its immediate parent company, Thames Water Limited, dividends of £nil (2025: £nil).

Notes to the consolidated financial statements (continued)

28. Related party transactions (continued)

Outstanding balances

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

As at 31 March	2026		2025	
	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	61	131	-	131
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	20	-	-	-
Thames Water (Kemble) Finance plc	20	-	-	-
Immediate parent				
Thames Water Limited	61	3,854,191	132	3,638,432
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	90	9	44	9
Thames Water Property Services Limited	71	-	-	56
Total	323	3,854,331	176	3,638,628

The amounts outstanding are unsecured. There have been no payments given or received under the guarantee arrangements outlined in the material accounting policy information section during the year.

Key management personnel

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

The remuneration of the Directors per note 4 is included within the amounts disclosed below. The value includes £nil (2025: £nil) remuneration for services provided to other group companies.

Year ended 31 March	2026 £'000	2025 £'000
Fees	2,845	661
Salary	3,982	3,981
Pension and pension allowance	382	336
Bonus	4,085	2,831
Payment in lieu of notice	-	297
Payment on loss of office	-	680
Other benefits	196	528
Total	11,490	9,314

Information regarding transactions with post-employment benefits plans is included in note 22.

The bonus amounts for the year ended 31 March 2026 are in relation to the Performance Related Pay Plan (PRPP), and Management Retention Plan (MRP).

Other benefits includes long-term incentive plan, medical benefits, car allowances, relocation costs, salary adjustments and other incentive payments.

29. Intermediate and ultimate parent Company and controlling party

The immediate parent company of Thames Water Utilities Holdings Limited is Thames Water Limited, a company incorporated in the United Kingdom, which owns 100% of the issued share capital of the Company.

Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate controlling party and ultimate parent company. Kemble Water Holdings Limited is owned by nine shareholders, of which the largest is Ontario Municipal Employees Retirement System (OMERS) with a 31.777% holding.

Notes to the consolidated financial statements (continued)

29. Intermediate and ultimate parent Company and controlling party (continued)

The address of the registered office of Thames Water Utilities Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. and the address of the registered office of Kemble Water Holdings Limited is 7th Floor 3 More London Riverside, London, SE1 2AQ. Copies of the financial statements for all entities may be obtained from the Group Secretary's Office at this address.

Company Income Statement

For the year ended 31 March 2026

	Note	2026 £m	2025 £m
Operating expenses	30	0.1	(0.2)
Other income		0.6	-
Finance expenses	32	(274.9)	(285.4)
Loss before taxation		(274.2)	(285.6)
Tax charge on loss	33	-	(46.8)
Loss for the year		(274.2)	(332.4)

All amounts relate to continuing operations.

The Company has no recognised gains or losses other than the items set out above and therefore no separate Statement of Comprehensive Income has been presented.

Company Statement of Financial Position

As at 31 March 2026

	Note	31 March 2026 £m	31 March 2025 £m
Non-current assets			
Investment in subsidiary undertakings	34	-	-
Current assets			
Other receivables	35	16.6	16.6
Current liabilities			
Borrowings	36	(953.6)	-
Total current liabilities less assets		(937.0)	16.6
Non-current liabilities			
Borrowings	36	(4,348.7)	(5,028.1)
Net liabilities		(5,285.7)	(5,011.5)
Equity			
Called up share capital	37	547.5	547.5
Accumulated losses		(5,833.2)	(5,559.0)
Total shareholders' deficit		(5,285.7)	(5,011.5)

The financial statements were approved by the Board of Directors on 14 July 2026 and signed on its behalf by

A Montague
Director

Registered number: 06195202 (United Kingdom)

Company Statement of Changes in Equity

For the year ended 31 March 2026

	Called up Share capital £m	Accumulated Losses £m	Total shareholders' deficit £m
1 April 2024	547.5	(5,226.6)	(4,679.1)
Loss for the year	-	(332.4)	(332.4)
31 March 2025	547.5	(5,559.0)	(5,011.5)
Loss for the year	-	(274.2)	(274.2)
31 March 2026	547.5	(5,833.2)	(5,285.7)

Notes to the Company financial statements

30. Operating expenses

Year ended 31 March	2026 £m	2025 £m
Professional fees for services rendered	(0.1)[1]	0.2
Total operating expenses	(0.1)	0.2

[1] Amounts in credit relate to release of over accruals in the period.

Auditor's remuneration
The total amount relating to the Company for the independent auditors, PricewaterhouseCoopers LLP's remuneration was £83,000 (2025: £80,000). No other fees were payable to PricewaterhouseCoopers LLP in respect of this Company during the year (2025: £nil). The current year audit fees will be paid by the Company; whereas the prior year audit fees were paid by the Company's immediate subsidiary, Thames Water Utilities Limited.

31. Employees and Directors

Employees

The Company had no employees during the year (2025: none).

Directors

During the year, the Company had seven directors (2025: twenty-two) who are all Executive or Non-Executive Directors of the Group. Directors who are also directors of TWUL have their costs borne by TWUL; all other directors have agreed to waive their fees for the current year and receive no emoluments in respect of their services as Directors of the Company. No other remuneration, pension and pension allowances, or other benefits are paid to the directors of the Company.

Highest paid Director

As no fees were paid to directors in the current year, the total emoluments of the highest paid Director during the year were £nil (2025: £nil).

32. Finance Expenses

Year ended 31 March	2026 £m	2025 £m
Amounts owed to group undertakings		
Interest payable on TWL loan	215.8	215.5
Interest payable on TWUL loan	58.6	69.9
Other finance fees	0.5	-
Total	274.9	285.4

33. Tax charge on loss

Year ended 31 March	2026 £m	2025 £m
Current tax:		
Amounts payable in respect of group relief	-	-
Adjustments in respect of prior years	-	(46.8)
Total tax (charge) on loss	-	(46.8)

Notes to the Company financial statements (continued)

33. Tax charge on loss (continued)

The tax charge for the year ended 31 March 2026 is lower (2025: lower charge) than the standard rate of corporation tax in the UK. The differences are explained below:

Year ended 31 March	2026 £m	2025 £m
Loss before taxation	(274.2)	(285.6)
Current tax credit at 25% (2025: 25%)	68.6	71.4
Effect of:		
Tax losses in year carried forward	-	(45.2)
Group relief surrendered for no payment	(68.7)	(26.2)
Adjustment to tax in respect of prior years	-	(46.8)
Other adjustments	0.1	-
Total Tax (charge) on loss	-	(46.8)

The Company does not have any recognised deferred tax assets or liabilities, however it does have unrecognised deferred tax assets in respect of tax losses of £653.9 million (2025: £556.8 million). The Company does not anticipate sufficient future taxable profits, against which these losses could be utilised. The amount of deferred tax assets not recognised was £163.5 million (2025: £139.2 million) at 25% (2025: 25%). These tax losses do not time expire.

34. Investments in subsidiary undertakings

The Company has no interest in joint ventures or associates. The subsidiary undertakings are wholly owned by the Company.

As at 31 March	2026 £m	2025 £m
Cost:	4,297.5	4,297.5
Accumulated impairment:		
Impairment in investment in Thames Water Utilities Limited	(4,297.5)	(4,297.5)
Net book value	-	-

As at 25 February 2025, TWUL invested in a new subsidiary, Thames Water Super Senior Issuer plc (TWSSI); with an investment value of £50,000. As part of the court-sanctioned restructuring plan, the Company agreed to acquire a new financing subsidiary to act as issuer of the super senior debt facility. The acquisition by TWUL of TWSSI enabled the new debt facility to be separated from the existing debt in TWUL and TWUF, in order to enable the bespoke terms of the facility, the drawdown process and on-lending to operate as agreed with creditors.

The Company holds the following investment in a subsidiary undertaking:

Entity	Holding	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights and shares held
Thames Water Utilities Limited	Direct	Water and wastewater	United Kingdom	£1 Ordinary	100%
Thames Water Utilities Finance plc	Indirect	Financing Company	United Kingdom	£1 Ordinary	100%
Thames Water Super Senior Issuer plc	Indirect	Financing Company	United Kingdom	£1 Ordinary	100%

The address of the registered office of all the above companies is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

The Company holds an investment in Thames Water Utilities Limited. In the prior period, management identified indications of impairment, and as a result performed impairment testing in line with the requirements of IAS 36 and determined the recoverable value of the investment to be £nil.

Notes to the Company financial statements (continued)

35. Other receivables

As at 31 March	2026 £m	2025 £m
Group relief receivable	16.6	16.6
Total	16.6	16.6

Management has assessed the recoverability of the receivable due for the prior surrender of group relief and have identified no impairment of the balance as it is expected that TWUL will either settle this balance or it will be net settled against part of TWUL's loan to the Company.

36. Borrowings

As at 31 March	2026 £m	2025 £m
Amounts owed to group undertakings		
Thames Water Limited	2,282.2	2,282.3
Thames Water Utilities Limited	1,249.1	1,249.1
Kemble Water Holdings Limited	0.1	0.1
	3,531.4	3,531.5
Interest payable on amounts owed to group undertakings		
Thames Water Limited	1,571.9	1,356.2
Thames Water Utilities Limited	199.0	140.4
	1,770.9	1,496.6
Total	5,302.3	5,028.1
Disclosed within non-current liabilities	4,348.7	5,028.1
Disclosed within current liabilities	953.6	-

Amounts owed to group undertakings have specific terms as follows:

- £1,980.1 million (2025: £1,980.1 million) owed to Thames Water Limited, the Company's immediate parent, is unsecured and represent amounts of unpaid deferred consideration on the purchase of Thames Water Utilities Limited. Interest on this balance is payable at 10% (2025: 10%) with interest repayment determined by agreement between both parties. Repayment of the loan is at the discretion of the Company but must be repaid by 2056. On 25 February 2025 its terms were modified such this date was extended to 2058, until such a time as the Group gets two investment grade credit ratings, when the maturity will return to 2056 and was classified as non-current. During the year ended 31 March 2026, the Company did not repay any of the loan (2025: nil) or accrued interest to TWL (2025: £nil).
- £220.1 million (2025: £220.1 million) owed to Thames Water Limited is unsecured. Interest is charged at a rate of 5.47% (2025: 5.47%) with interest repayment determined by agreement between both parties. Due to the financial restructuring the loan is no longer repayable on demand until the end of the stable platform period. During the year ended 31 March 2026, the Company did not repay any of the loan balance (2025: £nil) or accrued interest (2025: £nil).
- £50.0 million (2025: £50.0 million) owed to Thames Water Limited is unsecured. Interest is charged at a rate of 5.40% (2025: 5.40%) with interest repayment determined by agreement between both parties. The loan was originally repayable on demand with a maturity date of 23 July 2027. On 25 February 2025 its terms were modified such that it is no longer repayable on demand until the end of the stable platform period and its maturity was extended to 23 July 2029, until such a time the Group get two investment grade credit ratings when the maturity will return to its original date. During the year ended 31 March 2026, the Company did not repay any of the loan balance (2025: £nil) or accrued interest (2025: £nil).
- £30.0 million (2025: £30.0 million) owed to Thames Water Limited is unsecured. Interest is charged at a rate of 5.46% (2025: 5.46%) with interest repayment determined by agreement between both parties. The loan was originally repayable on demand with a maturity date of 14 August 2028. On 25 February 2025 its terms were modified such that it is no longer repayable on demand until the end of the stable platform period and its maturity was extended to 14 August 2030, until such a time the Group get two investment grade credit ratings when the maturity will return to its original date. During the year ended 31 March 2026, the Company did not repay any of the loan balance (2025: £nil) or accrued interest (2025: £nil).
- £2.0 million (2025: £2.0 million) owed to Thames Water Limited is unsecured. Interest is charged at a rate of 5.47% (2025: 5.47%) with interest repayment determined by agreement between both parties. Due to the financial restructuring the loan is no longer repayable on demand until the end of the stable platform period. During the year ended 31 March 2026, the Company did not repay any of the loan balance (2025: £nil) or accrued interest (2025: £nil).
- £735.7 million (2025: £735.7 million) owed to Thames Water Utilities Limited (TWUL, the Company's direct subsidiary): the loan is unsecured and interest is charged at a rate of SONIA + 0.6266% (2025: SONIA + 0.6266%). The loan was originally repayable on 30 August 2037, but on the 25 February 2025 had its maturity extended to 30 August 2039 as part of the court approved restructuring process. In the event the Group's Class A debt obtains two investment grade ratings, amongst other requirements, the maturity date will revert to the original maturity date. At 31 March 2026 its contractual maturity date remains 30 August 2039 and was classified as non-current in line with contractual terms of the loan.

Notes to the Company financial statements (continued)

36. Borrowings (continued)

- £513.4 million (2025: £513.4 million) owed to TWUL: is unsecured and interest is charged at a rate of SONIA + 0.6266% (2025: SONIA + 0.6266%). On 25 February 2025 its terms changed such that it is no longer repayable on demand so long as the Group remains in the stable platform period, which commenced on 25 February 2025 and will apply until the next senior debt maturity date (currently 22 March 2027). At 31 March 2026 the loan was classified as current in line with contractual terms of the loan.
- £0.1 million (2025: £0.1 million) owed to Kemble Water Holdings Limited, the Company's ultimate parent, the payable is unsecured and has no interest charged. This balance accrued under a letter of support issued in September 2024, per the terms of the letter this is only repayable when the Company has access to alternative sources.

37. Called up share capital

As at 31 March	2026 £m	2025 £m
Allotted, called up and fully paid:		
547.5 million (2025: 547.5 million) ordinary shares of £1 each	547.5	547.5

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

38. Guarantees and capital commitments

The Company is part of a whole business Securitisation Group. The Company, TWUL and its financing subsidiary TWUF are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed (STID). Pursuant to this arrangement, the Company guaranteed the obligations of each other Obligor under the finance agreement. Additionally, TWUL, and TWUF, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. The guaranteed debt on a post swap basis as at 31 March 2026 was £18,202.6 million (2025: £17,902.3 million). At 31 March 2026, the Company had no capital commitments (2025: £nil).

The Company also guarantees the debt of TWSSI, and outstandings at 31 March 2026 were £1,836.5 million (2025: £nil).

39. Post balance sheet events

On 10 July 2026 Moody's downgraded the WBS Class A debt rating from Caa3 (stable outlook) to Ca (stable outlook).