Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance plc

Annual report and financial statements
For the year ended 31 March 2024

Contents

Directors and advisors

Directors

D Gregg
A Black (Resigned 5 May 2023)
J Mogg (Resigned 5 May 2023)
I Dearnley (Appointed 5 May 2023)
J Read (Appointed 5 May 2023)
N Land (Appointed 22 May 2024)
A Montague (Appointed 22 May 2024)
I Pearson (Appointed 22 May 2024)
C Weston (Appointed 22 May 2024)

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH
United Kingdom

Company secretary and registered office

A Fraiser
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB
United Kingdom

Strategic Report

The Directors present their Strategic Report for Thames Water Utilities Finance plc ("the Company") for the year ended 31 March 2024.

Review of the business and strategy
The principal activity of the Company is to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL").

TWUL, alongside the Company, represents the "TWUL Group". TWUL is the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year. The TWUL Group's principal operating activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through TWUL in accordance with its Instrument of Appointment.

The major transactions of the Company constitute the raising of debt finance and subsequent lending to TWUL. Proceeds from external debt issued by the Company, including the impact of associated derivatives, are passed onto TWUL through intercompany loans with a margin charged. However, a small minority of external transactions are not perfectly matched with intercompany transactions and on a small minority of intercompany transactions no margin is charged (refer to Note 9 Intercompany loans receivable for more information).

The Company remains part of a group of three companies ("the Securitisation Group") that are party to financing arrangements constituting a Whole Business Securitisation ("WBS"). The Securitisation Group comprises the Company and two other companies as follows:

- TWUL, the Company's immediate parent;
- Thames Water Utilities Holdings Limited ("TWUHL"), TWUL's immediate parent.

The payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by the other companies in the Securitisation Group. In addition, the Company guarantees the external debt issued by TWUL. The guaranteed gross debt on a post swap basis for companies in the Securitisation Group as at 31 March 2024 was £17,302.8 million (2023: £16,443.3 million) (Refer to "IFRS 17 'Insurance Contracts' impact assessment" on pages 32 to 33 for analysis on the financial guarantee).

It has been a turbulent year for the TWUL Group as TWUL seeks a financially resilient future by turning its business around to deliver improved operational performance and to rebuild trust, against a backdrop of financial, regulatory and political uncertainty. The price review process ("PR24") has seen the UK water industry forecast an unprecedented doubling of investment in the next regulatory period to £96 billion, which will require significant capital to meet upfront funding requirements.

Therefore, key priorities for the TWUL Group are securing capital on a timely basis to fund TWUL's ambitious PR24 business plan, its turnaround and to increase financial resilience. This will be dependent on a PR24 outcome that is financeable and investible for the next regulatory period covering the five years to March 2030. The Company will continue to support these priorities through the raising of new debt to provide funding to TWUL for its forecast increased investment and to refinance maturing debt.

Credit rating
Under the terms of TWUL's Instrument of Appointment, TWUL is required to maintain investment grade credit ratings for two credit ratings issued by external rating agencies, being Moody's Corporate Family Rating and S&P's Class A debt rating. This supports the ability for TWUL and the Company to access efficiently priced debt across a range of markets to fund TWUL's investment programmes, whilst keeping bills affordable for its customers.

During the financial year there had been no change in Moody's credit ratings, which remained: Baa2 (Corporate Family Rating), Baa1 (Class A debt rating); and Ba1 (Class B debt rating); all with a stable outlook. However, in April 2024, Moody's downgraded their Corporate Family Rating to Baa3, their Class A debt rating to Baa2 and their Class B debt rating to Ba3; all with negative outlook.

In June 2023, S&P placed their Class A and Class B debt ratings (BBB and BB+ respectively) on negative CreditWatch as a result of uncertainty on equity support, where they remained at 31 March 2024. In April 2024, due to concerns on delayed shareholder support, S&P downgraded their Class A debt rating to BBB- and their Class B debt rating to BB; both with negative outlook.

Credit rating (continued)
As a result of the rating downgrades by Moody's and S&P in April 2024, TWUL is currently operating in a licence 'cash lock-up', which restricts certain payments to associated companies without prior approval of Ofwat. Following the downgrade, investment grade credit ratings are still maintained for Class A debt ratings issued by Moody's and S&P, and for Moody's Corporate Family Rating.

The long-term ratings target for the TWUL Group is unchanged and aims for stronger investment grade ratings of Baa1 / BBB+ for Class A debt, being the main class of debt raised by the Company and TWUL.

Gearing and interest cover
The WBS agreement provides an extensive package of financial covenants for Secured Creditors, including a requirement to keep gearing and interest cover ratios for the Securitisation Group within certain limits. Under these covenant conditions, a number of financial ratios are tested and a senior gearing level above 85.0%, a Class A gearing level above 75.0%, a senior interest cover ratio of below 1.1x or a Class A interest cover ratio of below 1.3x would impose certain conditions, including a restriction on distributions by TWUL.

TWUL's investments are funded by a combination of equity from shareholders and from borrowings by the TWUL Group under long-term secured financing arrangements, including bank loans and bonds. The Securitisation Group's senior gearing level is 80.6% (2023: 77.4%), measured by comparing the sum of the Securitisation Group's net debt (covenant basis) of £16,071.3 million (2023: £14,664.2 million) against TWUL's stated Regulatory Capital Value ("RCV") of £19,946.8 million (2023: £18,945.1 million). Interest cover measures the ratio of operating cashflow to net cash interest expense. As at 31 March 2024, this ratio was 1.76x (2023: 1.60x) versus a covenant level of 1.10x (2023: 1.10x).

Results and performance
The Directors have determined that the result before tax, total assets and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company.

During the financial year ended 31 March 2024, finance income decreased by £94.9 million to £654.7 million (2023: £749.6 million) mainly reflecting a decrease in accretion on intercompany loans receivable, partially offset by an increase in interest income recognised on intercompany loans receivable due to new debt issuance. Finance expense decreased by £48.1 million to £612.1 million (2023: £660.2 million) mainly reflecting a decrease in accretion on borrowings, partially offset by an increase in interest expense recognised on borrowings due to new debt issuance.

The Company made a profit before tax of £106.8 million (2023: £264.3 million) principally due to £119.3 million net gains on financial instruments (2023: £175.1 million) mainly reflecting higher interest rate expectations, higher own credit spread and lower Retail Price Index ("RPI") expectations as compared to 31 March 2023 expectations; partially offset by £55.0 million of impairment losses on intercompany loans receivable (2023: £nil).

As at 31 March 2024, the Company had £1.6 million of cash and cash equivalents (2023: £1.2 million). The limited cash and cash equivalents in the Company requires TWUL to settle its intercompany obligations in order for the Company to service its external debt obligations and so the Company is reliant on TWUL's liquidity. As at 31 March 2024, TWUL Group had total liquidity of £2,456 million, comprising cash and cash equivalents of £1,285 million[1] and undrawn committed bank facilities of £1,171 million, which excluded £550 million of undrawn Debt Service Reserve and Operation and Maintenance Reserve liquidity facilities that are only available in limited circumstances. Since 31 March 2024, Class A revolving credit facilities and term loans totalling £2,231 million have been fully drawn, thereby significantly increasing the amount of cash held on balance sheet. Consequently, the TWUL Group has 11 months of available liquidity from the date of approving the financial statements.

Net assets of the Company at 31 March 2024 were £216.6 million (2023: net assets of £135.9 million) mainly reflecting a year-on-year non-cash movement in derivative fair values. The Company's performance is in line with expectations.

The Company uses derivatives to manage inflation risk and foreign currency risk and these are held at fair value through profit or loss. The fair value of the derivatives is dependent upon expected future inflation rates, interest rates and spot foreign currency rates. This can result in large movements in the income statement within net gains on financial instruments relating to changes in fair value of the derivatives. The external borrowings and intercompany loans with TWUL are held at amortised cost.

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

Strategic Report (continued)

Results and performance (continued)

The Company does not recharge the year-on-year movement in derivative fair values to TWUL as the derivatives are in relation to debt obligations which the Company expects to hold to maturity. The cash flows of the derivatives are recharged to TWUL via the matching terms of intercompany loans from the Company to TWUL, with the exception of swaps restructured, where the relevant intercompany loans have matured or the terms are yet to be amended, and any swaps which are not linked to the Company's external debt.

Principal risks and uncertainties

The Company is the financing subsidiary of TWUL and part of the Securitisation Group. The net proceeds of financing transactions and obligations entered into by the Company are lent to TWUL, the regulated operating company, by way of intercompany loans. Consequently, to service these external debt obligations, there is a reliance on TWUL's ability to settle its intercompany obligations and the Company's creditworthiness is closely linked with that of TWUL.

The Company's operations expose it to a variety of capital and financial risks. Treasury operations are managed centrally, by a specialist team, operating with delegated authority of, and under policies approved by, TWUL Board. The operation of the treasury function is governed by specific policies and procedures that set out guidelines for the management of liquidity, credit and market risks associated with financing activities. The key elements of the treasury policies and procedures are incorporated in the TWUL Group's Annual Report.

Copies of the TWUL Group's Annual Report may be obtained from the Company Secretary's Office at the address included in note 17.

Capital risk management

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the investment grade credit rating of the Company's debt and provide liquidity sufficient to fund ongoing obligations. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

The capital structure of the Company consists of borrowings and equity. Quantitative information in relation to the capital structure is included in 'Note 12 Financial Instruments'.

The Securitisation Group is required to comply with an extensive set of financial and non-financial covenants. The financial covenants include interest cover ratios and net debt to RCV ratios. The Securitisation Group complied with these ratios throughout the financial year.

The TWUL Group's funding policy is to ensure that it has adequate funding at all times to meet short term and long-term requirements. The TWUL Group maintains a broad portfolio of debt (diversified by source and maturity) and seeks to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis without reliance on the £550.2 million liquidity facilities (discussed below), although currently this is not achieved. Derivative financial instruments are used to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

The Company has access to a total of £1,796.4 million (2023: £1,796.4 million) Revolving Credit Facilities (RCF) including £1,425.7 million Class A and £370.7 million Class B, as at 31 March 2024. As at 31 March 2024, £365.7 million (2023: £1,425.7 million) Class A was undrawn and £nil (2023: £nil) Class B was undrawn. Since 31 March 2024, the Company has fully drawn its Class A RCF, refer to Note 18 Post balance sheet events for more information.

The Company also has £550.2 million (2023: £550.0 million) of undrawn liquidity facilities which can only be drawn in limited circumstances. The liquidity facilities are renewed in August every year (and were amended in February 2024) with the annual renewal process having commenced in July 2024.

Strategic Report (continued)

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 Company's income or the value of its holdings of financial instruments.

Financial instruments entered into by the Company include fixed rate debt, floating rate debt, RPI-linked debt and swaps. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. RPI-linked instruments are exposed to future movements in the RPI index and real rates. All debt raised by the Company is lent to TWUL, a regulated water company with RPI-linked revenue which forms a partial economic hedge for RPI linked borrowings.

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency interest rate swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All foreign currency hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate and foreign currency interest rate fluctuations. Further disclosures regarding financial instruments can be found in note 12.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to its immediate parent entity TWUL and cash flows receivable from counterparties to its derivative financial instruments. Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables from TWUL including, where appropriate, a review of TWUL's budget and forecasts. Additionally, payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by all companies within the Securitisation Group.

Under the terms of the WBS agreement, counterparties to the Company's derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. In respect of the derivative counterparties there is also a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount. No collateral was posted for the current or prior year.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Securitisation 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 diverse debt maturity profiles are maintained. The Company matches the majority of its financial obligations with receivables due from its parent.

Details of the Company's borrowings and other financial instruments are disclosed in notes 11 and 12 respectively.

As stated in the accounting policies to these financial statements, the Directors have concluded it is reasonable to assume that actions can be taken by TWUL such that the Company has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. However, given the material uncertainties in relation to the TWUL Group going concern basis and the Company's reliance on the credit worthiness of TWUL, the Directors have concluded that there exists material uncertainties in relation to the going concern basis adopted in the preparation of the Company's financial statements.

Future outlook

It is expected that the Company will continue with its current business model for the foreseeable future, with the proceeds from the Company's debt raising activities (including impact of associated derivatives) being lent to TWUL with a margin charged in addition to the underlying external costs. This is dependent upon TWUL's ability to settle its intercompany obligations, as they fall due, to fund the servicing and repayment of external debt obligations, more details of which are explained in the going concern section within the Directors' report.

Strategic Report (continued)

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, as part of their induction on becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group’s main trading company, TWUL.

During the year, the Company has continued to act as a financing company for TWUL. Day-to-day running of the Company is managed by the Company’s management team, consisting of employees from TWUL. During the year, the Board of Directors have approved the entering into new debt issues, updates of debt issuance programme documentation, the entering into intercompany loans and the approval of the Company’s annual report and financial statements. The Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Likely consequences of decisions in the long-term

The Board’s decision to enter into new debt issues were consistent with the purpose of the Company acting as a financing vehicle for its immediate parent company, and the lending of external borrowings drawn down under debt facilities also enabled the Company to earn a margin on these activities.

Stakeholder management

The Company’s stakeholders are considered to be external debt investors, credit rating agencies and its immediate parent company with whom intercompany loan relationships exist. The Company places considerable importance on communication with debt investors and credit rating agencies and regularly engages on a wide range of topics relevant to the TWUL Group. TWUL’s Director of Corporate Finance is responsible for facilitating communication with investors, credit rating agencies and analysts and an active investor relations programme is maintained. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally. During the year several debt investor update meetings and calls took place involving the TWUL Chief Executive Officer and TWUL Chief Financial Officer. Over the past year, individual debt investor queries have increased significantly in volume and have been responded to by phone or email. Regular update meetings have taken place throughout the year with investors and credit rating agencies.

Community and Environment

In raising funding for TWUL, the Board supports the commitment to seek 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 Group’s Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited.

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.

Strategic Report (continued)

This Strategic Report was approved by the Board of Directors on 9 July 2024 and signed on its behalf by:

D Gregg
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report

The Directors present their annual report and the financial statements of the Company for the year ended 31 March 2024. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for stakeholders to assess the Company's performance and strategy.

The registered number of the Company is 02403744 (England & Wales).

Directors

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

D Gregg
A Black (Resigned 5 May 2023)
J Mogg (Resigned 5 May 2023)
I Dearnley (Appointed 5 May 2023)
J Read (Appointed 5 May 2023)
N Land (Appointed 22 May 2024)
A Montague (Appointed 22 May 2024)
I Pearson (Appointed 22 May 2024)
C Weston (Appointed 22 May 2024)

During the year under review, none of the Directors had significant contracts with the Company or any other body corporate within the Group other than their contracts of service with TWUL (2023: none).

Future outlook
The future outlook of the Company is discussed in the Strategic Report.

Going concern
The Directors consider it appropriate to prepare the financial statements on a going concern basis as they have a reasonable expectation that the Company will continue to have adequate resources for a period of 12 months from the date of approval of the financial statements. In their assessment, the Directors have identified material uncertainties related to events that are outside the control of the Board and may cast significant doubt on the Company's ability to continue as a going concern. In assessing the appropriateness of the going concern basis, the Directors have considered various factors that are described in further detail on pages 25 to 31.

Given the dependency on TWUL, the Directors have considered the going concern assessment made by TWUL Group as well as actions taken post the balance sheet date of 31 March 2024. The TWUL Group assessment concluded that the going concern basis be adopted for the preparation of TWUL Group's financial statements, whilst identifying material uncertainties regarding the ability to extend TWUL Group's liquidity runway in the next 12 months and the regulatory consequences of a credit rating downgrade.

Further details of the TWUL Group assessment and the post balance sheet events are contained in the TWUL Group annual report for 2023/24, copies of which may be obtained from the Company Secretary's Office at the address included in Note 17.

Accordingly, the Directors have concluded it is reasonable to assume that actions can be taken by TWUL such that the Company has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. However, given the material uncertainties in relation to the TWUL Group going concern basis and the Company's reliance on the credit worthiness of TWUL, the Directors have concluded that there exist material uncertainties in relation to the going concern basis adopted in the preparation of the Company's financial statements.

Directors' report (continued)

Gearing and interest cover
The financial review in the TWUL Group annual report notes compliance with financial covenants defined in the WBS for gearing and interest cover ratios as at 31 March 2024. Both these ratios are key covenants for Secured Creditors and modified forms are used by credit rating agencies as part of their analysis when determining credit ratings.

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

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

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

Intercompany loan receivable
At 31 March 2024, the Company was owed £15,282.5 million (2023: £14,346.9 million) by TWUL in respect of amounts loaned from the net proceeds of debt raised by the Company and unpaid interest. In response to changing circumstances on raising future equity and credit ratings, a "Stage 2" approach was adopted for the impairment assessment under IFRS9 to determine lifetime expected credit losses using multi-factor analysis. This approach requires consideration of a range of probability-weighted scenarios to assess the recoverability of the TWUL receivable. This assessment has resulted in a calculated expected credit loss of £55.0 million (2023: £nil), which has been recognised in the 'Statement of financial position' and as an exceptional item in the 'Income statement'. Further details are shown in note 9 to the financial statements.

Whilst the assessment approach required by IFRS 9 has derived an expected credit loss, management believe that the most likely outcome is that the TWUL receivable will be fully recovered in due course on the grounds that they believe there are reasonable prospects for future equity funding, following the conclusion of an investible proposition through a final PR24 determination, which will strengthen TWUL's financial position.

Dividends
The Company did not pay any dividends in the year (2023: £nil). The Directors do not recommend the payment of a final dividend (2023: £nil).

Financial risk management
During the year, the Company had access to the TWUL Chief Executive Officer, who was appointed a Director of the Company on 22 May 2024, and the Executive Team of TWUL. They receive regular reports on business performance. This enables prompt identification of financial and other risks so that appropriate action can be taken in the relevant group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report.

Directors' report (continued)

Corporate governance
As noted above, the Company has full access to the Executive Team of TWUL, including access to the risk management and internal control systems. Their 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. 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"). The current regulatory period known as AMP7 runs from 1 April 2020 to 31 March 2025;
- Performance reporting. The Company's Board and Group shareholders receive monthly Group 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 are 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; and
- Code of conduct and Whistleblower hotline. Code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

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

Further details relating to Corporate Governance are incorporated in the TWUL Group's Annual Report for 2023/24.

Research and development
The Company undertakes no research and development activity, this remains unchanged from the prior year.

Political and charitable donations
No political or charitable donations were made by the Company during the year (2023: £nil).

Directors' indemnities
The Company has made qualifying third-party indemnity provisions for the benefit of its Directors (which extend to the performance of any duties as Director of any associated company) and these remained in force during the financial year and at the date of approval of the annual report and financial statements.

Directors' confirmations
Each of the Directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Directors' report (continued)

Directors' confirmations (continued)
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 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 Company's auditors are aware of that information.

Independent auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

The Directors' report was approved by the Board of Directors on 9 July 2024 and signed on its behalf by:

D Gregg
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 the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

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

The Directors are responsible for safeguarding the assets of the 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Approved by the Board of Directors on 9 July 2024 and signed on its behalf by:

D Gregg
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Thames Water Utilities Finance plc

Report on the audit of the company financial statements

Opinion

In our opinion, Thames Water Utilities Finance plc's Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: Statement of financial position as at 31 March 2024; the Income statement, the Statement of cash flows and the Statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting Committee of Thames Water Utilities Limited.

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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 1, we have provided no non-audit services to the Company in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Accounting policies to the financial statements concerning the Company's ability to continue as a going concern. We note that the Company is wholly reliant on the ability of its immediate parent, Thames Water Utilities Limited ('TWUL'), to settle its intercompany obligations, as they fall due, and to fund the servicing and repayment of external debt obligations. Additionally, TWUL, and the Company, have guaranteed the obligations of each other. The TWUL Group identified material uncertainties in relation to the going concern basis of preparation adopted in the TWUL Annual Report for 2023/24. These conditions, along with the other matters explained in the Accounting policies to the financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The Company financial statements do not include the adjustments that would result if 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 Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding and assessing the design and implementation of relevant controls related to the directors' assessment of going concern;
- Reviewing the Security Agreement and Security Trust and Inter-creditor Deed, both entered into in 2007, to understand the construct of the Whole Business Securitisation and the guarantees in place between TWUL and the Company, in respect of obligations to the Security Trustee;
- Understanding and assessing the factors giving rise to the material uncertainties including understanding the consequences of a breach of TWUL's licence and/or an event of default under the Whole Business Securitisation. We also assessed the actions available to the TWUL directors' on which they have based their assertion that they have a reasonable expectation that the TWUL Group has adequate resources to continue for a period of 12 months from the date of approval of the financial statements;
- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets;
- Performing a comparison of budget versus actual results for the year ended 31 March 2024 as well as for the year ended 31 March 2023 and understanding where variances had arisen. Through this testing we informed our assessment regarding management's ability to forecast accurately;
- Understanding the key assumptions management has applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of management's base case and downside scenarios including consideration of other potential downside risks that were not factored into management's downside scenario;
- Obtaining and understanding the terms of the TWUL Group's financing and credit facilities, the Whole Business Securitisation, and in particular the financial covenants that the TWUL Group is subject to. We have verified the existence of the facilities in place on which management has based its liquidity forecast;
- Obtaining the draft covenant compliance certificate to be submitted in July 2024, which indicates forecast Trigger Events in the assessment period;
- Following a downgrade in April 2024 we have verified Moody's and Standard & Poor's credit ratings for the TWUL Group of Baa3 (Moody's) and BBB- (Standard & Poor's), both with a negative outlook. In addition, we have validated that TWUL is currently operating in a licence cash lock-up which restricts certain payments to associated companies, including dividend payments;
- Performing inquiries with key stakeholders (from both within and outside of the TWUL Group) and reviewing correspondence with regulators and advice from the TWUL Group's external legal counsel to corroborate management's position and assess whether there is any contradictory or additional evidence requiring disclosure within the basis of preparation;
- We have engaged the use of experts including business restructuring experts to support us in understanding aspects of management's assessment and informing our challenges to management; and
- Assessed the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to the material uncertainty on going concern.

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

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

- Material uncertainty related to going concern
- Valuation of financial derivatives
- Recoverability of intercompany balances due from Thames Water Utilities Limited

Materiality

- Overall materiality: £154,011,000 (31 March 2023: £145,800,000) based on 1% of Total Assets.
- Performance materiality: £115,508,250 (31 March 2023: £109,350,000).

The scope of our audit

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

Key audit matters

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

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

Recoverability of intercompany balances due from Thames Water Utilities Limited is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial derivatives As at 31 March 2024 the derivative position was an asset of £65.3m (2023: £116.5m) and a liability of £323.1m (2023: £442.7m). The net derivative fair value as at 31 March 2024 was a liability of £257.8m (2023: £326.2m). The derivatives credit risk adjustment valuation, specifically the estimation of TWUL Group's own credit risk, is designated as a key audit matter as it gives rise to a significant source of estimation uncertainty and contains judgements concerning the	We obtained an understanding of the derivatives valuation process and assessed the design and implementation of related financial controls. Our procedures included: • Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Where confirmations were not obtained, alternative

TWUL Group's credit risk and methodology as there are no prescriptive requirements in IFRS 13 as to how to calculate the credit risk adjustments. Refer to the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies and note 12 of the financial statements.	audit procedures were performed to confirm existence and terms. • Engaging with our valuations experts who performed independent testing of the pre and post-credit risk adjusted valuations for the full derivative population. • Assessing the reasonableness of the credit curves used in the valuations and performing procedures to assess the validity of assumptions and calculations management made in performing the credit risk component of fair value. • Evaluating the reasonableness of the derivatives fair value hierarchy classification and challenging management to enhance their disclosures around estimation uncertainty relating to the credit risk adjustments. • We also assessed the adequacy of disclosures in the financial statements. Overall, we consider the valuation methodology and judgements used by management to be reasonable and the fair values recorded as at 31 March 2024 to be appropriate.
Recoverability of intercompany balances due from Thames Water Utilities Limited The Company has recorded a provision for expected credit losses on the intercompany receivables due from its immediate parent TWUL totaling £55.0 million. The assessment of the recoverability and calculation of the expected credit loss involves significant judgement and estimation. The key inputs into management's impairment model include Regulatory Capital Value ("RCV") multiples, current stated RCV and current the traded value of external debt. Various scenarios were considered by management in a multiple factor analysis, including scenarios derived by applying a range of RCV multiples to the RCV less the net debt of the TWUL group to drive a proxy enterprise value, and a scenario where the receivable is only recovered at the value of the Company's traded external debt. Management provided a weighted probability of those scenarios occurring in order to calculate its impairment. Refer to the significant accounting judgements and key sources of estimation uncertainty section within the Accounting policies, note 7 and 9 of the financial statements.	We have obtained an understanding of management's methodology applied to assess the recoverability of the intercompany receivable balance with its immediate parent TWUL and we have assessed the design and implementation of related financial controls. Our procedures included: • Obtaining management's model and testing the mathematical accuracy of the calculations. • Understanding the rationale of the model adopted and verifying the key input data, including to the latest Ofwat publication of RCV and net debt figures to the underlying audited information. • Understanding the basis on which management has selected the various RCV multipliers, including obtaining the third party reports used by management in informing their position and assessing the reasonableness of these multipliers. • Agreeing management's assessment of the current traded value of external debt to external sources. • We have read and challenged the Significant accounting judgements and key sources of estimation uncertainty disclosure contained within the Accounting Policies of the financial statements, in particular to ensure that it adequately highlights the significant estimation uncertainty in relation to the calculation of the expected credit loss in relation to this balance and that it discloses that there is a possible scenario (albeit one that management ascribes a low probability to) which results in a significantly larger impairment, aligned to the current traded value of the external debt. Overall, we consider the carrying value of the intercompany receivable balances with TWUL to appropriately reflect an estimate for an expected credit loss as required under IFRS 9 as at 31 March 2024.

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 Company, the accounting processes and controls, and the industry in which it operates.

The entity consists of one operating segment and is managed from a single location based in the United Kingdom.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Company's financial statements.

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:

Overall company materiality	£154,011,000 (31 March 2023: £145,800,000).
How we determined it	1% of Total Assets
Rationale for benchmark applied	The entity functions to service group financing requirements. Therefore, using total assets as a benchmark is appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (31 March 2023: 75%) of overall materiality, amounting to £115,508,250 (31 March 2023: £109,350,000) for the company financial statements.

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

We agreed with the Audit, Risk and Reporting Committee of Thames Water Utilities Finance plc that we would report to them misstatements identified during our audit above £15,401,000 (31 March 2023: £14,580,0000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its 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.

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In preparing the financial statements, the Directors are responsible for assessing 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 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 Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, 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 posting of journal entries to manipulate the financial results in the year. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and inquiries of the TWUL group; management, internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;

- Challenging assumptions made by management in determining significant accounting estimates and judgments in particular in relation to the valuation of financial derivatives Key Audit Matter as set out in our report. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where appropriate along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria
- Reviewing minutes of meetings of those charged with governance; and
- Incorporating 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.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Reporting Committee of Thames Water Utilities plc, we were appointed by the members on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2019 to 31 March 2024.

Other matter

We have reported separately on the group financial statements of Thames Water Utilities Finance plc for the year ended 31 March 2024.

Sotiris Kroustis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
9 July 2024

Income statement
For the year ended 31 March 2024

	Note	**2024** **Underlying** **£m**	**Exceptional items** **£m**	**Total** **£m**	2023 Underlying £m	Exceptional items £m	Total £m
Administrative expenses	1	**(0.1)**	**-**	**(0.1)**	(0.2)	-	(0.2)
Operating loss		**(0.1)**	**-**	**(0.1)**	(0.2)	-	(0.2)
Finance income	4	**654.7**	**-**	**654.7**	749.6	-	749.6
Finance expense	5	**(612.1)**	**-**	**(612.1)**	(660.2)	-	(660.2)
Net gains on financial instruments	6	**119.3**	**-**	**119.3**	175.1	-	175.1
Impairment losses on intercompany loans receivable	7	**-**	**(55.0)**	**(55.0)**	-	-	-
Profit before taxation		**161.8**	**(55.0)**	**106.8**	264.3	-	264.3
Tax charge on profit	8	**(26.1)**	**-**	**(26.1)**	(58.7)	-	(58.7)
Profit for the year		**135.7**	**(55.0)**	**80.7**	205.6	-	205.6

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.

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be outside of the ordinary course of business by the Directors, either by nature or by scale. Further detail can be seen in the accounting policies on page 33. Exceptional items have been split out from our underlying figures to support users of the financial statements in understanding the underlying performance of the business and separate this from those items which are outside of the ordinary course of business, thus enhancing the comparability and transparency of the financial statements.

Statement of financial position
As at 31 March 2024

	Note	2024 £m	2023 £m
Non-current assets			
Intercompany loans receivable	9	**12,732.5**	12,357.8
Derivative financial assets	12	**61.5**	84.6
Deferred tax assets	13	**12.8**	36.0
Prepayments and other assets		**1.1**	2.8
		12,807.9	12,481.2
Current assets			
Cash and cash equivalents		**1.6**	1.2
Intercompany loans receivable	9	**2,495.0**	1,989.1
Derivative financial assets	12	**3.8**	31.9
Prepayments and other assets		**2.0**	1.9
Amounts owed by group undertakings	10	**90.8**	75.7
		2,593.2	2,099.8
Current liabilities			
Borrowings	11	**(2,127.8)**	(1,803.1)
Derivative financial liabilities	12	**(140.9)**	(13.7)
Amounts payable in respect of group relief		**(2.9)**	(19.0)
Other financial liabilities		**(3.1)**	(2.9)
		(2,274.7)	(1,838.7)
Net current assets		**318.5**	261.1
Non-current liabilities			
Borrowings	11	**(12,726.1)**	(12,174.4)
Derivative financial liabilities	12	**(182.2)**	(429.0)
Other financial liabilities		**(1.5)**	(3.0)
		(12,909.8)	(12,606.4)
Net assets		**216.6**	135.9
Equity			
Called up share capital	14	**0.1**	0.1
Other reserves	14	**207.7**	207.7
Retained earnings/(accumulated losses)		**8.8**	(71.9)
Total equity		**216.6**	135.9

The financial statements (including the accounting policies and notes) were approved by the Board of Directors on 9 July 2024 and signed on its behalf by:

D Gregg
Director

Registered number: 02403744 (England & Wales)

Statement of changes in equity
For the year ended 31 March 2024

	Called up share capital £m	Other reserves £m	(Accumulated losses)/Retained earnings £m	Total equity £m
At 1 April 2022	0.1	207.7	(277.5)	(69.7)
Profit for the year	-	-	205.6	205.6
At 31 March 2023	**0.1**	**207.7**	**(71.9)**	**135.9**
Profit for the year	-	-	80.7	80.7
At 31 March 2024	**0.1**	**207.7**	**8.8**	**216.6**

Other reserves comprise a capital reduction undertaken by the Company in 2018 eliminating the share premium held previously of £207.7 million.

Statement of cash flows

For the year ended 31 March 2024

	2024 £m	2023 £m
Cash flows from operating activities		
Profit for the year	**80.7**	205.6
Less finance income	**(654.7)**	(749.6)
Add finance expense	**612.1**	660.2
Less net gains on financial instruments	**(119.3)**	(175.1)
Add impairment losses on intercompany loans receivable	**55.0**	-
Tax charge on profit	**26.1**	58.7
Operating loss	**(0.1)**	(0.2)
Movement in amounts owed by group undertakings	**(15.1)**	(6.8)
Movement in other financial liabilities	**0.1**	0.3
Movement in group relief payable	**(19.0)**	-
Net cash used in operating activities	**(34.1)**	(6.7)
Cash flows from investing activities		
Interest received	**416.1**	355.0
Loans to group companies[1]	**(2,935.9)**	(4,074.5)
Loans repaid by group companies[2]	**2,180.2**	3,061.3
Fees received	**2.7**	6.6
Net cash used in investing activities	**(336.9)**	(651.6)
Cash flows from financing activities		
Proceeds from new loans[3]	**2,935.9**	4,053.2
Repayment of borrowings[4]	**(2,153.9)**	(3,032.6)
Proceeds from derivative settlement[5]	**28.4**	40.2
Payment for derivative settlement[6]	**(54.6)**	(47.5)
Interest paid	**(382.1)**	(348.3)
Fees paid	**(2.3)**	(6.6)
Net cash inflow from financing activities	**371.4**	658.4
Net movement in cash and cash equivalents	**0.4**	0.1
Cash and cash equivalents at beginning of year	**1.2**	1.1
Cash and cash equivalents at end of year	**1.6**	1.2

[1] Loans to group companies of £2,935.9 million (2023: £4,074.5 million) represents amounts raised by the Company and then lent to TWUL through an intercompany loan receivable and includes £1,801.3 million (2023: £2,616.3 million) of drawdowns relating to revolving credit facilities, being £1,060.0 million Class A and £741.3 million Class B (2023: £1,875.0 million Class A and £741.3 million Class B). The remaining amount represents £1,134.6 million (net of fees) bonds issuances by the Company and then lent to TWUL through an intercompany loan receivable (2023: £1,458.2 million). Rollover of drawdowns on intercompany loans relating to revolving credit facilities will not appear as new cash flows in the cash flow statement.

[2] Loans repaid by group companies of £2,180.2 million (2023: £3,061.3 million) represents intercompany loans receivable repaid by TWUL and includes £741.3 million (2023: £2,616.3 million) of repayments relating to revolving credit facilities, including £nil Class A and £741.3 million Class B (2023: £1,875.0 million Class A and £741.3 million Class B). The remaining £1,438.9 million representing intercompany loans receivable repaid by TWUL in respect of bond and loan repayments (2023: £445.0 million).

[3] New loans raised of £2,935.9 million (2023: £4,053.2 million) includes £1,801.3 million (2023: £2,616.3 million) of drawdowns relating to revolving credit facilities including £1,060.0 million Class A and £741.3 million Class B (2023: £1,875.0 million Class A and £741.3 million Class B). The remaining amount represents £1,134.6 million (net of fees) from bond issuances (2023: £1,436.9 million (net of fees) relating to bond issuances). Rollover of drawdowns on intercompany loans relating to revolving credit facilities will not appear as new cash flows in the cash flow statement.

[4] Repayment of borrowings of £2,153.9 million (2023: £3,032.6 million) includes £741.3 million (2023: £2,616.3 million) of repayments relating to revolving credit facilities including £nil Class A and £741.3 million Class B (2023: £1,875.0 million Class A and £741.3 million Class B). The remaining amount includes £1,255.5 million representing bond repayments (2023: £416.3 million) and £157.1 million representing loan repayments (2023: £nil).

[5] Proceeds from derivative settlement includes of £28.4 million (2023: £40.2 million) includes £nil (2023: £18.8 million) relating to accretion received on index-linked swaps, and £28.4 million (2023: £21.4 million) relating to settlement of cross currency swaps.

[6] Payment for derivative settlement of £54.6 million (2023: £47.5 million) includes £34.7 million (2023: £43.3 million) relating to net accretion paydown on index-linked swaps and £19.9 million (2023: £4.2 million) relating to settlement of cross currency swaps.

Accounting policies

The accounting policies adopted in the preparation of these financial statements, which have been applied consistently, unless otherwise stated, as set out below. IAS 1 guidance has been considered in the preparation of the financial statements and ensured that material accounting policies applicable are disclosed in line with this guidance.

General information
Thames Water Utilities Finance plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. 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 Company is to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"). TWUL alongside the Company represent the "TWUL Group". TWUL is the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year.

Statement of compliance with International Financial Reporting Standards
The financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Basis of preparation
The financial statements for the year ended 31 March 2024, set out on pages 21 to 62 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 in compliance with the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

Certain cash flows related to the Company are transacted by fellow group companies on behalf of the Company. The Directors have assessed that the Company is the principal in these transactions and the role of other group companies is for administrative purposes only. As such the Company presents all cash flows related to the Company in these financial statements in line with IAS 7.

Going concern

Company assessment

The Directors consider it appropriate to prepare the financial statements on a going concern basis as they have a reasonable expectation that the Company will continue in existence for the next 12 months from the date of approval of the financial statements. In their assessment, the Directors have identified material uncertainties related to events that are outside the control of the Board and may cast significant doubt on the Company's ability to continue as a going concern. In assessing the appropriateness of the going concern basis, the Directors have reviewed the factors set out below.

The Directors have considered the nature of the business and do not expect this to significantly change over the next 12 month period, with the proceeds of any debt raising by the Company (including impact of associated derivatives) being lent to TWUL with a margin charged.

In confirming the basis of preparation, the Directors have considered the Company's relationship with TWUL as its immediate parent company, dominant debtor on the Company's Statement of financial position and fellow obligor under the WBS. In particular:

- The Company is wholly reliant on TWUL's ability to settle its intercompany obligations, as they fall due, to fund the servicing and repayment of external debt obligations;

- The Company, TWUHL and TWUL are Obligors under the WBS, entered in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed ("STID"). Pursuant to this arrangement, TWUHL guaranteed the obligations of each other Obligor under the finance agreement. Additionally, TWUL, and the Company, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. If TWUL were to default on its external borrowings, the Company is expected to be unable to fulfil any call under its guarantee of TWUL's debt provided under the WBS, as the Company would be unlikely to be able to obtain funds to do so; and

Accounting policies (continued)

Going concern (continued)

Company assessment (continued)

- The factors disclosed for the going concern assessment for the TWUL Group, considered by the TWUL Board, which are relevant to TWUL alone but would impact the Company. These included the process and timing for confirming a final determination from the PR24 process, securing future equity funding, and the continuing ability to comply with the regulatory licence.

For completeness, the going concern assessment for TWUL Group is presented below on pages 27 to 31. Further details of this assessment and other information are contained within the TWUL Group annual report for 2023/24, copies of which may be obtained from the Company Secretary's Office at the address included in Note 17.

In assessing whether the Company has adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due, the Directors have taken into consideration all of the factors set out above.

Accordingly, whilst TWUL continues to seek to secure new equity, the Directors have concluded it is reasonable to assume that actions can be taken such that the Company has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. However, it is noted for the TWUL Group that there exist material uncertainties in relation to the going concern basis adopted in the preparation of the financial statements given:

- The TWUL Group and TWUL do not have sufficient committed liquidity for a period of 12 months from the date of approval of these financial statements and their ability to extend this liquidity runway beyond the assessment period is not wholly within TWUL Group's control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and

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

Consequently, given the Company's clear dependency on the support of TWUL, the Directors have concluded that the material uncertainties disclosed for TWUL Group and TWUL are also applicable to the going concern assessment for the Company. As a result, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Accounting policies (continued)

Going concern (continued)

TWUL Group assessment

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

The decision by shareholders not to commit new equity in March 2024 reflecting uncertainty concerning the outcome of the PR24 price review has resulted in credit rating downgrades and forecast trigger events (explained below in the financial covenants section), which highlight this near-term funding challenge. However, TWUL will continue to engage with their regulators, and the Government, to agree a determination that will deliver improvements for TWUL's customers and the environment and give our investors the opportunity to earn a fair return on their investment.

The success and timing of securing the capital TWUL need to finance their ambitious business plan, turnaround performance and increase financial resilience depends on securing a PR24 price determination that is both financeable and investable.

These factors are explained further below:

A. PR24 business plan

In October 2023, TWUL submitted its PR24 business plan for the 2025-30 regulatory period ("AMP8") to Ofwat. Since this submission, TWUL has discussed the content of its PR24 business plan extensively with its regulators and key stakeholders. As a result of this engagement, it submitted an update to its PR24 business plan in April 2024 increasing total expenditure in AMP8 to £19.8 billion and proposed that a further £1.9 billion of potential investment is placed into a Deliverability Assessment Mechanism. Ofwat is expected to publish its draft business plan assessment and determination on 11 July 2024 and final determination on 19 December 2024. This process will confirm TWUL's allowed revenues and performance targets for AMP8.

TWUL's PR24 business plan proposes a significant increase in investment in AMP8 to maintain safe high quality drinking water, ensure security of water supplies, deliver further environmental improvements, and build greater network resilience. This step up in investment will require an increase in customer bills, as well as additional debt and equity funding. There is no assurance of the level of customer funding that will be determined by Ofwat to support this level of proposed investment. However, the TWUL Board notes that under Section 2 of Water Industry Act 1991 (as amended), Ofwat is under a duty to "secure that water companies can (in particular through securing reasonable returns on capital) finance the proper carrying out of their statutory functions".

If TWUL considers its PR24 final determination is neither financeable nor investible, it has the right to request that Ofwat refers its determination to the Competition and Markets Authority ("CMA") within two months for a full re-determination. There are no set appeal grounds and the CMA will make its own independent judgement as to an appropriate outcome. In reaching its re-determination conclusions, the CMA is required to have regard to Ofwat's duties, strategic priorities and objectives to the same extent as is required of Ofwat, including in relation to Ofwat's duty to exercise its powers in the manner which it considers is best calculated to (among other things) secure that a notional, efficient water company is able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of its functions.

In the event of a referral by TWUL, the CMA has six months to issue a decision from the point of referral, which can be extended by another six months. It is therefore possible that an appeal process may take 12 months or longer from the date of referral (as was the case for PR19 referrals to the CMA). Furthermore, there can be no assurance that equity funding could be completed prior to the outcome of any CMA referral, nor that the CMA would make a re-determination that is more investible or financeable than Ofwat's PR24 final determination.

Accounting policies (continued)

Going concern (continued)

TWUL Group assessment (continued)

B. Equity funding

In July 2023, the TWUL Group announced that its ultimate shareholders (the “Kemble Shareholders”) had agreed to provide a further £750 million in new equity funding across the current regulatory period (AMP7), the first £500 million tranche of which was anticipated by 31 March 2024. In addition, the Kemble Shareholders acknowledged the possibility of further equity investment in the medium-term, indicatively to be in the region of £2.5 billion.

This funding was subject to satisfaction of certain conditions, including the preparation of a business plan that underpinned a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over three years and was supported by appropriate regulatory arrangements.

Following submission in October 2023. TWUL has been in dialogue with Ofwat to seek feedback on its business plan as part of the PR24 price review process. On 28 March 2024, the TWUL Group and Kemble’s shareholders announced that, based on the feedback provided by Ofwat to TWUL at that time, the regulatory arrangements that would be expected to apply to TWUL in AMP8 made the PR24 business plan uninvestible. As a result, the conditions attached to the £750 million of new equity were not satisfied at that time and the Kemble Shareholders did not provide the first £500 million tranche of new equity that was originally anticipated in March 2024.

Discussions with Ofwat and other stakeholders are ongoing. TWUL aims to secure a PR24 regulatory determination that is affordable for customers, deliverable and financeable for the TWUL Group, as well as investible for equity investors. The TWUL Group has therefore announced its intention to pursue all options to secure the required equity investment from new or existing shareholders following receipt of the PR24 draft determination. However, the TWUL Group does not expect to be able to conclude the planned equity raise until after publication of the PR24 final determination (or conclusion of an appeal if it is referred to the CMA). Consequently, the TWUL Board has concluded that although it is possible that equity funding will be received by 31 March 2025, it is not assumed to be received during the going concern assessment period and is therefore not reflected in the going concern base case below or associated financial covenant calculations.

In April 2024, events of default occurred under the financing arrangements for Kemble Water Finance Limited, an indirect holding company of the TWUL Group, and its financing subsidiary Thames Water (Kemble) Finance plc (together the “Kemble Debtors”). The Kemble Debtors have granted security in favour of their lenders and noteholders, including share security, and consequently the TWUL Group could be subject to a change of ultimate beneficial ownership should the lenders and noteholders enforce their security.

The Kemble Debtors have announced that they have approached their lenders and noteholders to request that they take no creditor action so as to provide a stable platform while all options are explored. The TWUL Group is not an obligor under such financings and the defaults of the Kemble Debtors does not give their creditors recourse to the TWUL Group. However, these events of default would need to be resolved to allow Kemble’s existing shareholders or any new investors the option to inject further funds into the TWUL Group through the existing corporate structure. Equity funding could be made directly into the Whole Business Securitisation (“WBS”) ringfenced group if it was in the best interests of stakeholders.

The TWUL Board will continue to carefully monitor progress towards achieving equity funding on a regular basis and has undertaken prudent contingency planning to assess what options may be available to maintain its core water and wastewater services and financial resilience should this be required. The TWUL Board further notes that in the event that equity funding would not be forthcoming, the TWUL Group and TWUL would consider all options available at that time and could revise down its business plan expenditure to fit within the then available funding from the PR24 final determination, so as to enable the TWUL Group and TWUL to maintain its financial resilience and efficiently access debt funding.

Accounting policies (continued)

Going concern (continued)

TWUL Group assessment (continued)

Going concern
The TWUL Directors consider it appropriate to prepare the financial statements on a going concern basis as they have a reasonable expectation that the TWUL Group and TWUL will continue in existence for the next 12 months from the date of approval of the financial statements (the 'assessment period'). In their assessment, the TWUL Directors have identified the following material uncertainties related to events that are outside the control of the TWUL Board and which may cast significant doubt on the TWUL Group's and TWUL's ability to continue as a going concern:

- The TWUL Group and TWUL do not have sufficient committed liquidity for a period of 12 months from the date of approval of their financial statements and their ability to extend their liquidity runway beyond the assessment period is not wholly within their control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and

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

In assessing the appropriateness of the going concern basis, the TWUL Directors have used a base case scenario which does not assume any new equity or debt is raised within the assessment period, with budgeted cash flows consistent with the TWUL Board approved budget for the year ended 31 March 2025 and thereafter TWUL's PR24 submission. In forming their conclusions, TWUL Group and TWUL have considered the matters set out in the Context section above, together with the following factors:

1a Liquidity runway

The TWUL Group's and therefore TWUL's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate.

As at 31 March 2024, the TWUL Group had financial resources consisting of £1.3 billion of available cash and cash equivalents, access to £2.6 billion of committed credit facilities of which £1.2 billion is undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). The £1.2 billion of undrawn facilities mainly consist of revolving credit facilities from relationship banks.

As at 30 June 2024, the Class A revolving credit facilities and term loans, totalling £2.2 billion, were fully drawn thereby significantly increasing the amount of cash held.

It is projected that under the base case the available liquidity will fund forecast operating cashflows, capital expenditures and service debt until May 2025. This assessment assumes that the TWUL Group can continue to draw its existing revolving credit facilities and utilise all cash resources over this period. The TWUL Board recognises that it is necessary to extend the TWUL Group's and TWUL's liquidity runway so that the TWUL Group and TWUL has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. This could be achieved in the short term through any one of a number of actions including implementing cash conservation measures that do not threaten the TWUL Group's or TWUL's statutory duties (actions within the TWUL Board's control), securing creditor support to raise new debt or extend the liquidity runway, or raise equity (actions outside of the TWUL Board's control). Scenarios more severe than the base case would cause the base case liquidity runway to shorten further and require the TWUL Board to take mitigating actions to fund forecast operating cash flows, capital expenditures and service debt in the assessment period.

Accounting policies (continued)

Going concern (continued)

TWUL Group assessment (continued)

Additional debt funding is dependent primarily on the appetite of investors and lenders in public and private debt markets, which would be underpinned by various factors, including the TWUL Group's credit ratings and the WBS structure. The terms and conditions of the WBS provide a stable platform for the TWUL Group and therefore TWUL to finance its activities in the debt capital markets:

- It is based on a common set of terms for Secured Creditors that also facilitates debt raising across a range of facilities and debt instruments;
- It establishes a contractual ringfence that enhances the licence ringfence and requires the TWUL Group to be clearly segregated from other parts of the Kemble Water Holdings Limited group and their financing arrangements;
- It establishes controls on the TWUL Group's activities to ensure a focus is maintained on delivering its regulated business;
- It establishes a framework of financial covenants, historical and prospective, requiring continual monitoring and these are underpinned by information undertakings requiring formal, bi-annual confirmation of compliance; and
- It is designed to enable the TWUL Group and TWUL to continue to operate through situations where there is financial stress and to maintain sufficient committed liquidity to service debt.

1b. Covenant compliance

Under the terms of its Common Terms Agreement, the TWUL Group is required to maintain compliance with financial covenants under the WBS and publish a compliance certificate semi-annually. Non-compliance with financial covenants can result in a cash lock-up, Trigger Event or, in extreme situations, an event of default. Any of these could affect the ability of the TWUL Group to attract equity funding.

The TWUL Group was compliant with financial covenants in the 2023/24 financial year. However, following the decision by shareholders not to commit new equity in March 2024, the TWUL Board has concluded that although it is possible that equity will be received this should no longer be assumed for financial covenant forecast calculation purposes. Consequently, the compliance certificate to be submitted to the Security Trustee in July 2024 shows non-compliance of certain forecast gearing and interest cover ratios with Trigger Event thresholds for the 2024/25 financial year, which will crystallise formally upon delivery of the compliance certificate for the financial year ended 31 March 2024.

The TWUL Directors have considered the consequences of a Trigger Event under the WBS including, but not limited to, a cash lockup preventing distributions and a prohibition from incurring additional debt unless consent is given by the Secured Creditors, other than utilisations from existing committed facilities. A Trigger Event acts as an early warning sign to provide additional creditor protections. It is designed to maintain the TWUL Group's creditworthiness and as such, it does not affect the TWUL Group's continued access to its significant existing committed credit facilities, nor would it disrupt the TWUL Group's or TWUL's ability to trade. A Trigger Event is not an event of default and gives no right to the Secured Creditors to take enforcement action or accelerate any of the TWUL Group's debt. It does require the TWUL Group to prepare a remedial plan and provide further information to its Secured Creditors.

In assessing going concern, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected reflecting the economic uncertainty associated with various macro factors such as a decline in real wages, a reduction in economic activity and inflationary pressures on operating costs. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To address the impact on operational cashflows, mitigations involving active working capital management and the release of contingencies embedded within the Business Plan have also been taken into account.

Accounting policies (continued)

Going concern (continued)

TWUL Group assessment (continued)
Under a severe but plausible downside scenario, a Trigger Event would continue but financial covenant ratios do not project an event of default. In the event of an event of default, the TWUL Group and therefore TWUL would enter into an automatic 18-month standstill period during which Secured Creditors are prohibited from taking enforcement action or accelerating any of the TWUL Group's debt. During this period, £550 million of liquidity facilities would be available to finance specific costs incurred by the business, thereby providing additional runway. However, there would be restrictions on TWUL's operations including the cessation of capital expenditure other than for essential maintenance.

2. Regulatory licence compliance

As noted in the 'Equity funding' section above, there are scenarios where a revised business plan would need to be prepared to take account of available funding during the review period. The implementation of a revised business plan would deliver less for customers, communities, and the environment and may result in a failure to comply with relevant standards, environmental permits and other legislation that could lead to enforcement action by regulators, including Ofwat. Dependent on the severity of non-compliance, this could give rise to grounds for the Secretary of State (or Ofwat, with the consent of the Secretary of State) to petition the court for a Special Administration Order. A petition could also be made if the TWUL Group is unable to pay its debts. The purpose of the Special Administration Regime is to protect the interests of the customers in the event a water company (the regulated entity) is or is likely to be unable to pay its debts or is in contravention with its principal statutory duties or an enforcement order.

Furthermore, in April 2024 Moody's and Standard & Poor's downgraded their credit ratings for the TWUL Group to Baa3 (Moody's) and BBB- (Standard & Poor's), both with a negative outlook, in response to the TWUL Group's update on shareholder funding. These downgrade actions cited greater uncertainty due to the delay in raising further equity funding and the potential impact on TWUL's plan to turnaround its operational performance. As a result of these downgrades, TWUL is now operating in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

Both ratings agencies have stated that Thames Water's ratings could be downgraded if the TWUL Group faced difficulties in maintaining its forward-looking liquidity or if existing or new shareholders do not provide sufficient additional equity, for example because of an adverse regulatory determination, to support TWUL's ongoing investment needs. Any future downgrade of either monitored rating would represent a breach of TWUL's licence. If this breach was enforced by Ofwat, it could result in an event of default under the WBS. A credit rating downgrade could also reduce access to capital and increase the cost of debt.

Conclusions
In assessing whether the TWUL Group and TWUL have adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due, the TWUL Directors have taken into consideration all of the factors set out above.

Accordingly, the TWUL Directors have concluded it is reasonable to assume that actions can be taken such that the TWUL Group and TWUL have adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. However, there exist material uncertainties which may cast significant doubt on the TWUL Group's and TWUL's ability to continue as a going concern in relation to the preparation of the financial statements given:

- The TWUL Group and TWUL do not have sufficient committed liquidity for a period of 12 months from the date of approval of their financial statements and their ability to extend their liquidity runway beyond the assessment period is not wholly within their control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and

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

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

Accounting policies (continued)

New accounting policies
The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in the financial reporting changes section below.

Financial reporting changes

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 Company established a project to oversee the GBP LIBOR transition plan. This transition project includes changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The transition has largely been completed, although some intercompany transactions have not yet transitioned, this is expected to be completed by year ended 31 March 2025.

Refer to the IBOR reform section included in Note 12 Financial instruments for details of all of the financial instruments that the Company holds at 31 March 2024 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

IFRS 17 'Insurance Contracts' impact assessment

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

Accounting policies (continued)

Financial guarantee contracts
The Company is party to a number of financial guarantee contracts for the purposes of its principal activities. Prior to the adoption of IFRS 17, these contracts were not accounted for in the statement of financial position due to the likelihood of a payment in respect of the guarantee not being probable.

These arrangements include the WBS, where TWUHL guarantees obligations of the Company and TWUL; and the Company and TWUL guarantee the obligations of each other. Financial guarantee contracts were treated as a contingent liability until such a time as it became probable that the Company would be required to make a payment under the guarantee.

Following the transition to IFRS 17, the Company made the election to apply the requirements in IAS 32 ‘Financial Instruments: Presentation’, IFRS 7 ‘Financial Instruments: Disclosures’ and IFRS 9 ‘Financial Instruments’ to 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.

Management have concluded that there is no material impact to the Company from the adoption of IFRS 17 on our financial guarantee contracts due to the Company's liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked. All of the Company's external debt i.e. proceeds received, has been on lent to TWUL. Under IFRS 13, the fair value of a guarantee issued must take into account the guarantor’s risk of non-performance.

If TWUL were to default on its external borrowings, the Company is expected to be unable to fulfil any call under its guarantee of TWUL’s debt provided under the WBS, as the Company would be unlikely to be able to obtain funds to do so. The Company is reliant on TWUL's ability to settle its intercompany obligations to have access to additional cash. Therefore, even if the risk of an external default by TWUL increases, the fair value of the guarantee provided by the Company will not be material, taking into account the impact on the Company’s own performance.

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

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the statement of financial position 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.

The exceptional item recognised in the financial statements in the current year relate to impairment on intercompany receivables. These costs are deemed significant and outside our ordinary course of business, therefore are considered to be exceptional by value and by nature.

Finance income and finance expense
Finance income represents the recharge to TWUL of costs, interest and accretion incurred in respect of the raising of finance on that company's behalf (including 0.10% margin as applicable), recognised as it falls due, and amortisation of fair value related to intercompany receivables acquired on 31 August 2018 from a fellow group company. All interest and debt servicing costs are recharged to TWUL.

The Company’s finance expense represents interest costs and accretion on borrowings, amortisation of borrowings related issuance costs and amortisation of fair value related to borrowings acquired on 31 August 2018, recognised on an accruals basis. Additionally, the finance expense recognised in the income statement includes the inflation-adjusted interest accrued during the year, plus the inflation adjustment to the principal which occurred during the year.

Accounting policies (continued)

Non-derivative financial instruments
A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise cash and cash equivalents, intercompany loans receivable, borrowings, amounts owed by group undertakings, other financial liabilities and amounts payable in respect of group relief.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and in hand and deposits held at call with financial institutions, all of which are held at amortised cost, and money market funds held at fair value through profit or loss.

Intercompany loans receivable

Intercompany loans receivable are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

For loans that are repayable on demand, expected credit losses for impairment purposes are based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk.

The Company has considered the recoverability of the intercompany receivables as part of the annual impairment assessment under IFRS 9.

Borrowings

Borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest rate method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Amounts owed by group undertakings

Other financial assets include amounts owed by the immediate parent company TWUL and are recognised at amortised cost using the effective interest rate method.

Other financial liabilities

Other financial liabilities represent amounts owed to immediate parent company TWUL and bondholders, including facility related fees such as upfront costs, commitment fees payable and financing related accruals, and are recognised at amortised cost using the effective interest rate method.

Amounts payable in respect of group relief

Amounts payable in respect of group relief represents amounts owed for the benefit of tax losses received from other entities within the Group.

Accounting policies (continued)

Derivative financial instruments
Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are initially recognised at fair value, with transaction costs being taken to the income statement. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 12.

Gains or losses on remeasurement to fair value are recognised immediately in the income statement within Net gains/(losses) on financial instruments and exclude any interest income on swaps which is recognised within Finance income.

Embedded derivatives
Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

As at 31 March 2024, no embedded derivatives were recognised (31 March 2023: none).

Fair value measurement
The Company measures financial instruments, such as derivatives, at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

Financial assets and financial liabilities
Financial assets and financial liabilities are recognised and derecognised in the Company's statement of financial position on the settlement date when the Company 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 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.

Financial guarantee contracts
The Company is party to a number of financial guarantee contracts for the purposes of its principal activities. Prior to the adoption of IFRS 17, these contracts were not accounted for in the statement of financial position due to the likelihood of a payment in respect of the guarantee not being probable.

These arrangements include the whole business securitisation, where TWUHL guarantees obligations of the Company and TWUL; and the Company and TWUL guarantee the obligations of each other. Financial guarantee contracts were treated as a contingent liability until such a time as it became probable that the Company would be required to make a payment under the guarantee.

Following the transition to IFRS 17, the Company made the election to apply the requirements in IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments' to 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.

Accounting policies (continued)

Financial guarantee contracts (continued)
Management has concluded that there is no material impact to the Company from the adoption of IFRS 17 on our financial guarantee contracts due to the Company's liabilities being matched with intercompany loans receivable from TWUL, meaning that the credit profile of the two companies is closely linked. All of the Company's external debt i.e. proceeds received, has been on lent to TWUL.

Under IFRS 13, the fair value of a guarantee issued must take into account the guarantor's risk of non-performance. If TWUL were to default on its external borrowings, the Company is expected to be unable to fulfil any call under its guarantee of TWUL's debt provided under the WBS, as the Company would be unlikely to be able to obtain funds to do so. The Company is reliant on TWUL's ability to settle its intercompany obligations to have access to additional cash. Therefore, even if the risk of an external default by TWUL increases, the fair value of the guarantee provided by the Company will not be material, taking into account the impact on the Company's own performance.

Taxation
Tax on the profit or loss for the period comprises current and deferred tax and is recognised in the income statement.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the statement of financial position 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 because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the statement of financial position 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 and 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 Company intends to settle its current tax assets and liabilities on a net basis.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty
The preparation of annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2024 are contained in the sections below:

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

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

- index-linked swaps;
- cross currency swaps.

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

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

Unless otherwise stated, all of the Company's inputs to valuation techniques are Level 2; the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair value of derivative financial instruments, including cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Company and counterparties.

In cases where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level two. IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied to such swaps. Credit risk sensitivity analysis is included in Note 12.

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 "Financial Instruments" does not permit the recognition of a restructure date fair value change on 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, two index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £22.2 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, which continue to be significantly supported by observable inputs and hence it is appropriate for these index-linked swaps to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the statement of financial position in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2024, £17.0 million (2023: £18.2 million) remained capitalised and £1.2 million had been recognised in the income statement (2023: £1.2 million). See Note 12 "Financial Instruments" for more information.

Accounting policies (continued)

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

Intercompany loans receivable

Accounting judgement and estimation – provision for expected credit losses

Management makes an estimate of the recoverable value of loan receivables in line with the provisions of IFRS 9. When assessing these receivables for impairment, management considers factors driving recoverability, including the borrower's ability to pay, the credit rating and ageing profile of the receivables, net debt of the borrowing entity, seniority of debt and historical experience, among other factors. Key inputs into management's impairment model include Regulatory Capital Value ("RCV") multiples, the current Ofwat published RCV of Thames Water Utilities Limited and the current traded value of external debt.

In accordance with the specific requirements of IFRS 9, the expected credit loss on the loan receivables is determined by estimating the expected recoverability of these assets based on different scenarios considered by management, informed by available data and information where possible. These scenarios include a scenario where the full amount of the receivable is recoverable, a scenario where there is partial impairment and also a scenario whereby, the receivable is only recovered to the fair value implied by the level of the Company's traded external debt.

Management have also exercised significant judgement over the probability weighting of the scenarios based on market-data derived probabilities as well as management's view about the likelihood of each scenario arising.

Provisions for expected credit losses on receivables, which are detailed in note 7 and note 9, total £55.0 million as at the year ended 31 March 2024 (2023: £nil). Refer to further detail of the impact on the intercompany loans receivable (note 9).

We have performed a sensitivity analysis and determined there is a plausible scenario where a larger impairment of the TWUL loan receivables could occur, aligned to the current traded value of the external debt, and likewise full recovery of the TWUL loan receivables could occur with no impairment recognised. These have been modelled and considered in the impairment assessment. See note 9 for further details.

Notes to the financial statements

1. Administrative expenses and auditors' remuneration

Administrative expenses

For the year ended 31 March	2024 £m	2023 £m
Auditors' remuneration	**0.1**	0.2
	0.1	0.2

Auditors' remuneration

The remuneration of the auditors', PricewaterhouseCoopers LLP, of £133,664 was charged to the Company in the current year. In the prior year, the auditors' remuneration was £170,720. The total amount payable relating to the Company was:

For the year ended 31 March	2024 £	2023 £
Fees payable to the auditors		
Statutory audit fees	**108,883**	102,720
Fees payable to the auditors for other services		
Audit related assurance services	**21,200**	20,000
Other assurance services	**3,581**	48,000
	133,664	170,720

Other assurance services in both the current and preceding financial year includes amounts payable for the review of the Company's interim financial statements and updates to the debt prospectus. No other fees were payable to PricewaterhouseCoopers LLP in respect of this Company during the year (2023: £nil).

2. Employees and Directors

Employees
The Company had no employees during the year (2023: none).

Directors
During the year, the Company had 5 Directors (2023: 6 Directors) who are all Executive Directors and received no remuneration in respect of their services to the Company, in both the current and preceding financial year. There were no retirement benefits accruing in either the current or preceding financial year. The services provided by the Directors to TWUF is inconsequential to the services provided by the Directors to TWUL, hence there is no recharge for the Directors' remuneration from TWUL.

3. Segmental analysis

The Company's income and results arise solely in the United Kingdom and are attributable to one principal activity of the Company, being the raising of finance and subsequent lending of debt to TWUL. Consequently, the Directors review the financial information of the Company as a whole and therefore have not included segmental analysis within these financial statements.

Notes to the financial statements (continued)

4. Finance income

For the year ended 31 March	2024 £m	2023 £m
Interest income on intercompany loans receivable	**654.4**	748.1
Other finance fees recharged to TWUL	**1.2**	0.7
Net interest (expense)/income on swaps	**(1.0)**	0.8
Interest income on bank deposits	**0.1**	-
	654.7	749.6

5. Finance expense

For the year ended 31 March	2024 £m	2023 £m
Interest expense on borrowings	**611.0**	659.6
Other finance fees	**1.1**	0.6
	612.1	660.2

6. Net gains on financial instruments

For the year ended 31 March	2024 £m	2023 £m
Net exchange gains/(losses) on foreign currency borrowings and intercompany loans receivable	**93.8**	(102.0)
Net gains arising on swaps where hedge accounting is not applied[1]	**25.5**	277.1
Gain on extinguishment of debt[2]	**7.0**	-
Loss on extinguishment of intercompany loans receivable[3]	**(7.0)**	-
	119.3	175.1

[1] Net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations, higher own credit spread and lower RPI expectations. The amount includes the fair value of £38.5 million (2023: £92.1 million) accreted on index-linked swaps during the year. In September 2023, £34.7 million was paid to early settle £37.8 million accretion on index-linked swaps, the difference of £3.1 million reflecting the discount for early repayment.

[2] Gain on extinguishment of debt includes £7.0 million relating to a gain from partial repurchase of a £500.0 million Class A fixed rate bond (originally due to mature in 2025) in January 2024.

[3] Loss on extinguishment of intercompany loans receivable includes £7.0 million relating to a loss from partial repurchase of a £500.0 million intercompany loan with TWUL (originally due to mature in 2025) in January 2024.

Notes to the financial statements (continued)

7. Impairment losses on intercompany loans receivable

For the year ended 31 March	2024 £m	2023 £m
Impairment losses on intercompany loans receivable from Thames Water Utilities Limited	**55.0**	-
Total	**55.0**	-

The Company has intercompany loans receivable due from Thames Water Utilities Limited, totalling £14,981.0 million (2023: £14,079.4 million) in book value, together with accrued interest of £301.5 million (2023: £267.5 million). As a result of the impairment raised in the period on the intercompany loans, an impairment loss of £55.0 million (2023: £nil) has been recognised in the Income Statement. The impairment has been recognised following an analysis of the loan receivable's expected credit loss in line with IFRS 9. Refer to note 9 for further details of the intercompany loans receivable.

8. Tax charge on profit

For the year ended 31 March	2024 £m	2023 £m
Current tax:		
Amounts payable in respect of group relief – current period	**2.9**	2.8
Amounts payable in respect of group relief – prior periods	**-**	(1.1)
Total current tax charge	**2.9**	1.7
Deferred tax:		
Origination and reversal of timing differences in current period	**23.2**	45.0
Effect of tax rate change	**-**	12.0
Total deferred tax charge	**23.2**	57.0
Tax charge on profit on ordinary activities	**26.1**	58.7

The tax charge (2023: charge) for the year is lower (2023: higher) than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

For the year ended 31 March	2024 £m	2023 £m
Profit on ordinary activities before tax	**106.8**	264.3
Corporation tax at 25% (2023: 19%) on profit on ordinary activities	**26.7**	50.2
Effects of:		
Movement in fair value of derivatives subject to initial recognition exemption	**(16.3)**	(5.5)
Effect of tax rate change	**-**	12.0
Transfer pricing adjustment	**0.4**	0.3
Amortisation of fair value uplift of loans	**1.4**	2.8
Foreign exchange gain on fair value uplift	**0.2**	-
Net Impairment losses	**13.7**	-
Adjustments in respect of prior periods – current tax	**-**	(1.1)
Total tax charge for the year	**26.1**	58.7

The Company has considered its position under the OECDs 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 Company is of sufficient size that it will be required to make filings in compliance with these rules for FY25, no material liability to top-up tax (either multinational or domestic) is expected to arise.

Notes to the financial statements (continued)

9. Intercompany loans receivable

As at 31 March	**2024 £m**	2023 £m
Amounts owed by Group undertakings		
Thames Water Utilities Limited	**14,981.0**	14,079.4
Interest receivable on amounts owed by Group undertakings		
Thames Water Utilities Limited	**301.5**	267.5
Impairment on amounts owed by Group undertakings		
Expected credit loss provision	**(55.0)**	-
Total	**15,227.5**	14,346.9
Disclosed within non-current assets	**12,732.5**	12,357.8
Disclosed within current assets	**2,495.0**	1,989.1

There are no amounts past their due by dates.

On 31 August 2018, intercompany loans receivable previously held by Thames Water Utilities Cayman Finance Limited ("TWUCF") were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the intercompany loans receivable transferred was £8,064.1 million, representing a fair value uplift of £1,653.9 million on the original book value held by TWUCF. During the year ended 31 March 2024, the fair value uplift amortisation of intercompany loans receivable was £55.3 million (2023: £66.5 million) and the unamortised fair value of the intercompany loans receivable as at 31 March 2024 was £6,572.6 million (2023: £7,453.1 million).

Intercompany loans receivable are held at amortised cost. Terms of the intercompany loans receivable reflect the terms of the relevant external borrowing and any relevant swaps, although a small minority of external transactions are not perfectly matched with intercompany transactions. These external transactions include two index-linked swaps with £100.0 million notional each, that were restructured in November 2019, where the relevant intercompany loans have matured or are not perfectly matched with external swaps. Furthermore, there are two additional index-linked swaps (with £200.0 million notional and £100.0 million notional) where the relevant intercompany loans are not perfectly matched with the external swaps. The mismatch results in the interest and accretion recharged to TWUL through intercompany transactions not being fully aligned with the interest and accretion charged on the external debt and swaps. However, there is no material credit impact for TWUF as a result of the mismatches.

The Company is part of the Securitisation Group (refer to "Review of the business and strategy" section on page 2), the payment of all amounts owing in respect of the external debt issued by any company in the TWUL Group is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The companies within the TWUL Group, i.e. the Company and TWUL, do not guarantee TWUHL obligations as part of this arrangement.

Under IFRS 9, for loans that are repayable on demand, the maximum period over which expected credit losses should be measured is the longest contractual period where an entity is exposed to credit risk. To the extent that loans are repayable on demand, the expected credit losses are based on the assumption that loan repayment is demanded in full at the reporting date.

Previously, the credit risk exposure from intercompany amounts owed by TWUL was considered immaterial, due to relatively stable and predictable cash flows associated with a regulated water company. This was supported by TWUL's obligation to maintain an investment grade credit rating as a condition of its regulatory licence. However, there has been a notable change of circumstances due to greater uncertainty on the ability to secure further equity, credit rating downgrades by Moody's and S&P in April 2024 and TWUL is now subject to a 'cash lock-up' under its regulatory licence, limiting certain payments including dividends to associated companies without Ofwat's prior approval.

In response to these developments, the Company concluded that the intercompany loans receivable are now in "Stage 2" and a lifetime expected credit loss has been recognised following multi-factor analysis.

Notes to the financial statements (continued)

9. Intercompany loans receivable (continued)

The expected credit loss for the TWUL receivable was determined by estimating the expected recoverability based on different scenarios under which the Company expects repayment will or could be made. These scenarios included:

- TWUL maintaining investment grade ratings and access to capital market to raise and refinance debt
- Estimating the current expected enterprise valuation of TWUL by reference to observable market multiples of its RCV and the possible impacts on the recoverable amount of the TWUL receivable
- Assessing the probability of default and potential loss from published credit rating analysis and market prices for debt issued by the Company and TWUL to mathematically calculate an expected credit loss

These scenarios have resulted in a range of expected credit losses which have been probability weighted to assess an expected credit loss of £55.0 million at 31 March 2024 (2023: £nil). This loss has been recognised in the 'Statement of financial position' and as an exceptional item in the 'Income statement'.

10. Amounts owed by Group undertakings

As at 31 March 2024	2024 £m	2023 £m
Amounts owed by Group undertakings		
Thames Water Utilities Limited	**90.8**	75.7
	90.8	75.7

Amounts owed by group undertakings include amounts owed by immediate parent company TWUL. As at 31 March 2024, £90.8 million (2023: £75.7 million) was recognised within amounts owed by group undertakings relating to amounts owed by TWUL, of which £90.1 million (2023: £75.1 million) reflects interest received by TWUL on behalf of the Company in relation to restructured swaps.

Notes to the financial statements (continued)

11. Borrowings

As at 31 March	2024 £m	2023 £m
Secured bank loans and private placements	**2,055.2**	1,165.9
Bonds	**12,249.1**	12,321.6
Amounts owed to Group undertakings	**286.4**	293.0
	14,590.7	13,780.5
Interest payable on borrowings	**263.2**	197.0
Total	**14,853.9**	13,977.5
Disclosed within non-current liabilities	**12,726.1**	12,174.4
Disclosed within current liabilities	**2,127.8**	1,803.1

Breakdown of secured bank loans and private placements

As at 31 March	2024 £m	2023 £m
\$106.0m 4.070% private placement due 2026 (b), (f)	**83.8**	85.7
\$131.0m 4.270% private placement due 2029 (b), (f)	**103.4**	105.8
€50.0m 2.100% private placement due 2030 (b), (f)	**42.6**	43.8
\$200.0m 4.020% private placement due 2024 (b)	**-**	161.8
\$250.0m 4.220% private placement due 2027 (b)	**196.0**	200.0
£200.0m Class B floating rate loan due 2026 (e), (f)	**198.7**	198.1
£220.7m Class B floating rate loan due 2023 (a), (e)	**-**	220.7
£75.0m Class B floating rate loan due 2023 (d), (e)	**-**	75.0
£75.0m Class B floating rate loan due 2023 (e)	**-**	75.0
£270.0m floating rate loan due 2024 (a), (e)	**270.0**	-
£260.0m floating rate loan due 2024 (a), (e)	**260.0**	-
£280.0m floating rate loan due 2024 (a), (e)	**280.0**	-
£250.0m floating rate loan due 2024 (a), (e)	**250.0**	-
£220.7m Class B floating rate loan due 2024 (a), (c), (e)	**220.7**	-
£75.0m Class B floating rate loan due 2024 (c), (d), (e)	**75.0**	-
£75.0m Class B floating rate loan due 2024 (c), (e)	**75.0**	-
Total secured bank loans and private placements	**2,055.2**	1,165.9

All loans and private placements are Class A except where highlighted.

(a) The interest margins of these loans are based on (i) a ratings grid and will increase should the Company's senior debt credit rating be downgraded by both S&P and Moody's; and (ii) the Group's GRESB Score.
(b) The Securitisation Group has entered into cross currency swap agreements which convert this debt into sterling debt. Hedge accounting is not applied.
(c) In March 2024, the £370.7 million of Class B revolving credit facilities were drawn in full. In April 2024, these Class B drawdowns were fully repaid.
(d) The interest margin of this loan is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both S&P and Moody's.
(e) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
(f) These loans and private placements are shown net of issuance costs.

Notes to the financial statements (continued)

11. Borrowings (continued)

Breakdown of bonds

As at 31 March	2024 £m	2023 £m
£330.0m 6.750% fixed rate due 2028 (b)	**328.5**	328.3
£200.0m 6.500% fixed rate due 2032 (b), (c)	**198.4**	198.3
£600.0m 5.125% fixed rate due 2037 (b), (c)	**597.1**	596.9
£300.0m 1.680% index-linked due 2053 (b), (c)	**578.8**	530.7
£300.0m 1.681% index-linked due 2055 (b), (c)	**578.8**	530.7
£300.0m 4.375% fixed rate bond due 2034 (b)	**331.1**	333.6
¥20,000.0m 3.280% fixed rate bond due 2038 (b)	**128.8**	151.7
£50.0m 3.853% index-linked bond due 2040 (d)	**119.0**	119.6
£500.0m 5.500% fixed rate bond due 2041 (b)	**631.4**	637.2
£50.0m 1.980% index-linked bond due 2042 (b), (c)	**116.1**	113.1
£55.0m 2.091% index-linked bond due 2042 (b), (c)	**124.4**	121.4
£40.0m 1.974% index-linked bond due 2045 (b), (c), (e)	**63.4**	63.2
£300.0m 4.625% fixed rate bond due 2046 (b)	**359.8**	361.6
£100.0m 1.846% index-linked bond due 2047 (b), (c)	**238.4**	231.9
£200.0m 1.819% index-linked bond due 2049 (b), (c)	**480.8**	467.6
£200.0m 1.771% index-linked bond due 2057 (b), (c)	**477.1**	462.4
£350.0m 1.760% index-linked due 2062 (b), (c)	**817.2**	790.1
£500.0m (now £314.5m) 4.000% fixed rate due 2025 (b), (f)	**319.9**	515.4
£40.0m 0.750% index-linked bond due 2034 (b), (c)	**62.1**	59.7
£45.0m 0.721% index-linked bond due 2027 (b), (c)	**67.2**	64.5
£300.0m 3.500% fixed rate bond due 2028 (b)	**305.9**	307.2
£400.0m 7.738% fixed rate bond due 2058 (b)	**719.1**	723.8
£250.0m 1.875% fixed rate bond due 2024 (b)	**-**	248.6
£250.0m 2.625% fixed rate bond due 2032 (b)	**240.1**	239.0
£300.0m 2.375% Class B fixed rate bond due 2023 (b)	**-**	299.8
£250.0m 2.875% Class B fixed rate bond due 2027 (b)	**245.8**	244.5
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**145.5**	147.9
£350.0m 2.375% fixed rate bond due 2040 (b)	**346.5**	346.2
£40.0m 2.442% fixed rate bond due 2050 (b)	**39.9**	39.9
£84.7m 0.875% fixed rate bond due 2023 (b)	**-**	84.6
€500.0m 0.190% fixed rate bond due 2023 (a), (b)	**-**	439.3
$57.0m 2.060% fixed rate bond due 2030 (a), (b)	**44.9**	45.9
$40.0m 1.604% fixed rate bond due 2027 (a), (b)	**31.6**	32.6
€575.0m 0.875% fixed rate bond due 2028 (a), (b)	**489.6**	503.3
€575.0m 1.250% fixed rate bond due 2032 (a), (b)	**485.6**	499.0
€650.0m 4.000% fixed rate bond due 2027 (a), (b)	**552.0**	566.7
€1,000.0m 4.375% fixed rate bond due 2031 (a), (b)	**851.2**	875.4
£300.0m 8.250% fixed rate bond due 2040 (b)	**294.5**	-
£275.0m 7.125% fixed rate bond due 2031 (b)	**271.5**	-
£575.0m 7.750% fixed rate bond due 2044 (b)	**567.1**	-
Total bonds	**12,249.1**	12,321.6

All bonds are Class A except where highlighted.

(a) The Company has entered into a cross currency swap which converts this debt into a sterling debt. Hedge accounting is not applied.
(b) These bonds are shown net of issuance costs.
(c) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index (“RPI”).
(d) This is a Limited Price Index (“LPI”) bond. Accretion is calculated using an adjusted UK Retail Price Index.
(e) The bond amortises semi-annually between October 2015 and October 2045 in accordance with a published schedule.
(f) In January 2024, the Group repurchased £185.5 million principal (out of the £500.0 million external debt principal due in 2025) at a £7.0 million discount.

Notes to the financial statements (continued)

11. Borrowings (continued)

Amounts owed to Group undertakings

As at 31 March	2024 £m	2023 £m
£200.0m floating rate loan due 2039 (a), (b)	**200.0**	200.0
£100.0m floating rate loan due 2060 (a), (b)	**86.4**	93.0
Total amounts owed to group undertakings	**286.4**	293.0

(a) This is an intercompany loan due to Thames Water Utilities Limited, the immediate parent company, and is repayable on demand, and therefore has been transferred to current borrowings.

(b) Interest on the loans from TWUL is documented as being at a floating rate (LIBOR plus a margin) in both the current and preceding financial year but in line with the GBP LIBOR transition plan, the accruals have been calculated using SONIA plus a margin (refer to IBOR reform section on page 59 for more information).

Notes to the financial statements (continued)

12. Financial instruments

Categories of financial instruments

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

Financial assets:

As at 31 March	**2024** **£m**	2023 £m
Fair value through profit or loss		
Cross currency swaps	**65.3**	116.5
Cash and cash equivalents - money market funds	**1.4**	1.1
	66.7	117.6
Amortised cost		
Cash and cash equivalents - cash at bank and in hand	**0.2**	0.1
Amounts owed by group undertakings	**90.8**	75.7
Intercompany loans receivable	**15,227.5**	14,346.9
	15,318.5	14,422.7
Total	**15,385.2**	14,540.3

Financial liabilities:

As at 31 March	**2024** **£m**	2023 £m
Fair value through profit or loss		
Index-linked swaps	**(295.6)**	(391.7)
Cross currency swaps	**(27.5)**	(51.0)
	(323.1)	(442.7)
Amortised cost		
Borrowings	**(14,853.9)**	(13,977.5)
Amounts payable in respect of group relief	**(2.9)**	(19.0)
Other financial liabilities	**(4.6)**	(5.9)
	(14,861.4)	(14,002.4)
Total	**(15,184.5)**	(14,445.1)

Fair value measurements

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

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

Unless otherwise stated, all of the Company's inputs to valuation techniques are level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Notes to the financial statements (continued)
12. Financial instruments (continued)

Fair value measurements (continued)
The fair values of index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivatives instruments as level 2. IFRS 13 requires that when measuring the fair value of a liability, an entity shall take into account the effect of its credit risk. Bilateral credit valuation method is used which reflects the credit risk of the Group and counterparties. Interest rate and index-linked swaps rank higher than cross-currency swaps, hence a super seniority adjustment is applied to such swaps. Credit risk sensitivity analysis is also included 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 as at 31 March 2024, all of which are classified within financial liabilities:

	Level 2[1]	
As at 31 March	**2024** **£m**	2023 £m
Financial assets – derivative financial instruments		
Cross currency swaps	**65.3**	116.5
	65.3	116.5
Financial liabilities – derivative financial instruments		
Index-linked swaps	**(295.6)**	(391.7)
Cross currency swaps	**(27.5)**	(51.0)
	(323.1)	(442.7)
Net total	**(257.8)**	(326.2)
Disclosed within current assets	**3.8**	31.9
Disclosed within non-current assets	**61.5**	84.6
Disclosed within current liabilities	**(140.9)**	(13.7)
Disclosed within non-current liabilities	**(182.2)**	(429.0)

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

In November 2019, the maturity dates of two index-linked swaps, with £100.0 million notional each, were extended to 2039. These swaps are measured at fair value through profit or loss. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £22.2 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, which continue to be significantly supported by observable inputs and hence it is appropriate for these index-linked swaps to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the statement of financial position in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2024, £17.0 million (2023: £18.2 million) remained capitalised and £1.2 million had been recognised in the income statement in net gains on financial instruments (2023: £1.2 million).

During 2023/24, the Financial Reporting Council ("FRC") concluded a limited scope review of the TWUL annual report and financial statements (in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures), primarily in respect of the application of IFRS 13 'Fair Value Measurement' and compliance with its requirements. No changes were required to our application of IFRS 13 or amounts included within the annual report and financial statements following the conclusion of the review; we had previously provided enhanced disclosures in relation to the matter from the 2022/23 TWUL annual report and the Company's financial statements and have continued to provide these enhanced disclosures for the current year.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The tables below set out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities.

Financial assets

As at 31 March	**2024**		2023	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Intercompany loans receivable	**15,227.5**	**11,967.0**	14,346.9	12,550.9
Cash and cash equivalents	**1.6**	**1.6**	1.2	1.2
Derivative financial instruments				
Cross currency swaps	**65.3**	**65.3**	116.5	116.5
Amounts owed by group undertakings	**90.8**	**90.8**	75.7	75.7
Total	**15,385.2**	**12,124.7**	14,540.3	12,744.3

Financial liabilities

As at 31 March	**2024**		2023	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Borrowings	**(14,853.9)**	**(11,673.8)**	(13,977.5)	(12,026.2)
Derivative financial instruments				
Index-linked swaps	**(295.6)**	**(295.6)**	(391.7)	(391.7)
Cross currency swaps	**(27.5)**	**(27.5)**	(51.0)	(51.0)
Amounts payable in respect of group relief	**(2.9)**	**(2.9)**	(19.0)	(19.0)
Other financial liabilities	**(4.6)**	**(4.6)**	(5.9)	(5.9)
Total	**(15,184.5)**	**(12,004.4)**	(14,445.1)	(12,493.8)

Intercompany loans receivable

The fair value for intercompany loans receivable from group entities represents the fair value of the underlying debt and associated derivatives, and is based on an estimate of future cash flows, including expectations about possible variations in the amount and timing of these cashflows.

Borrowings

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

The fair value of floating rate debt instruments is assumed to be the nominal value of the loan for loans with a short-term maturity. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion and interest expected to accrue to maturity, discounted using a risk-free rate plus the Company's credit spread.

For loans where the lender has demand features in line with IFRS 13, paragraph 47, the fair value is no less than the principal including accretion.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Capital risk management

The capital structure of the Company consists of net debt and equity. Details of the Company's capital risk management strategy can be found in the Strategic Report.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, Thames Water Utilities Holdings Limited and TWUL have guaranteed the principal and interest payments due by the Company and TWUL under the terms of the securitised debt. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year. The details of the Securitisation Group's capital structure are included within TWUL's financial statements, which may be obtained from the Company Secretary's Office at the address included in Note 17.

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

As at 31 March	**2024** **£m**	2023 £m
Secured bank loans and private placements	**(2,055.2)**	(1,165.9)
Bonds	**(12,249.1)**	(12,321.6)
Amounts owed to Group undertakings	**(286.4)**	(293.0)
Interest payable on borrowings	**(263.2)**	(197.0)
	(14,853.9)	(13,977.5)
Cash and cash equivalents	**1.6**	1.2
Net debt (statutory basis)	**(14,852.3)**	(13,976.3)
Equity attributable to the owners of the Company	**216.6**	135.9

Notes to the financial statements (continued)

12. 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 both changes in liabilities arising from cash flow and non-cash changes.

As at 31 March	2024		2023	
	Borrowings	Net derivative financial (liabilities)/ assets	Borrowings	Net derivative financial (liabilities)/ assets
	£m	£m	£m	£m
Opening balance	**(13,977.5)**	**(326.2)**	(12,557.7)	(609.1)
Non-current	**(12,174.4)**	**(344.4)**	(11,887.8)	(583.8)
Current	**(1,803.1)**	**18.2**	(669.9)	(25.3)
Cash flows				
New loans raised	**(2,934.8)**	**-**	(4,051.5)	-
Repayment of borrowings	**2,153.9**	**-**	3,032.6	-
Proceeds from derivative settlement[1]	**-**	**(28.4)**	-	(40.2)
Payment for derivative settlement[2]	**-**	**54.6**	-	47.5
Interest paid	**382.1**	**-**	348.3	-
Interest received	**-**	**17.7**	-	(2.3)
	(398.8)	**43.9**	(670.6)	5.0
Non-cash changes				
Interest accrued/fees amortised	**(452.4)**	**(1.0)**	(360.9)	0.8
Foreign exchange movement	**116.8**	**-**	(97.4)	-
Indexation	**(191.6)**	**-**	(342.4)	-
Amortisation on transfer from group companies[3]	**49.6**	**-**	51.5	-
Fair value changes	**-**	**25.5**	-	277.1
	(477.6)	**24.5**	(749.2)	277.9
Closing balance	**(14,853.9)**	**(257.8)**	(13,977.5)	(326.2)
Non-current	**(12,726.1)**	**(120.7)**	(12,174.4)	(344.4)
Current	**(2,127.8)**	**(137.1)**	(1,803.1)	18.2

[1] Proceeds from derivative settlement of £28.4 million (2023: £40.2 million) includes £nil (2023: £18.8 million) relating to accretion received on index-linked swaps, and £28.4 million (2023: £21.4 million) relating to settlement of cross currency swaps.

[2] Payment for derivative settlement of £54.6 million (2023: £47.5 million) includes £34.7 million (2023: £43.3 million) relating to net accretion paydown on index-linked swaps and £19.9 million (2023: £4.2 million) relating to settlement of cross currency swaps.

[3] On 31 August 2018, the debt and derivative instruments previously held by Thames Water Utilities Cayman Finance Limited ("TWUCF") were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the debt liability transferred was £7,853.5 million, representing a fair value uplift on debt of £1,410.7 million on the original book value held by TWUCF. Fair value of the derivatives liability transferred was £94.4 million. Amortisation on transfer from group companies only relates to the debt liability transferred.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk and liquidity risk. A detail of the nature of each of these risks along with the steps the Company has taken to manage them is described in the Strategic Report.

(a) Market Risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Company's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and excluding fair value uplift related to the transfer of TWUCF's debt:

As at 31 March	**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	**8,254.0**	**1,429.5**	**3,780.7**	**13,464.2**
Non-sterling	**104.6**	**-**	**-**	**104.6**
Total	**8,358.6**	**1,429.5**	**3,780.7**	**13,568.8**

As at 31 March 2023	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	8,505.5	368.9	3,596.4	12,470.8
Non-sterling	121.8	-	-	121.8
Total	8,627.3	368.9	3,596.4	12,592.6

The weighted average interest rates of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and the period until maturity for which the rate is fixed or index-linked are given below:

	Weighted average interest rate		**Weighted average period until maturity**	
Year ended 31 March	**2024**	2023	**2024**	2023
	%	%	**Years**	Years
Sterling				
Fixed	**4.9**	4.0	**10.5**	9.0
Index-linked	**7.7**	13.8	**27.1**	28.2
Non-Sterling				
Fixed	**3.3**	3.3	**14.4**	15.4

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk (continued)

The assumptions used for interest rate, exchange rate and inflation risk sensitivity analysis is included on relevant sections below. The assumptions are based on reasonably possible changes and their impact on financial instruments held at the reporting date. This does not represent the actual impact which will depend on actual future changes on external market variables.

(i) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2024. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

As at 31 March	**2024**		2023	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit/(loss)	**196.0**	**(209.0)**	257.5	(284.9)
Equity	**196.0**	**(209.0)**	257.5	(284.9)

(ii) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to economically hedge the foreign currency exposure of loans and bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2024. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	**2024**		2023[1]	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
Profit/(loss)	**8.9**	**(42.2)**	0.4	(48.2)
Equity	**8.9**	**(42.2)**	0.4	(48.2)

[1] Values have been amended from the published 2023 report, to present a corrected calculation.

(iii) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, TWUL, as a regulated water and wastewater company, 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.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk (continued)

(iii) Inflation risk sensitivity analysis (continued)

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates on financial instruments at 31 March 2024. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2024**		2023	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
(Loss)/profit	**(134.2)**	**112.1**	(207.8)	168.0
Equity	**(134.2)**	**112.1**	(207.8)	168.0

The Company has entered into swaps which are measured at fair value including the impact of credit risk as per IFRS 13. An increase of 10% on credit spreads for the valuation of swaps will result in £6.8 million increase in profit, and a decrease of 10% on credit spread for the valuation of swaps will result in £7.2 million decrease in profit. This analysis assumes that all other variables will remain same.

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses; therefore, the maximum exposure to credit risk at the statement of financial position date was £15,385.2 million (2023: £14,540.3 million) as shown below:

As at 31 March	**2024 £m**	2023 £m
Intercompany loans receivable	**15,227.5**	14,346.9
Derivative financial instruments	**65.3**	116.5
Cash and cash equivalents	**1.6**	1.2
Other financial assets	**90.8**	75.7
Total	**15,385.2**	14,540.3

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure the liquidity needs of the Securitisation Group are met through continued access to the capital markets. Proceeds of funding activities are on lent to TWUL.

The amount due from TWUL, which is part of the Securitisation Group, as at 31 March 2024 (net of impairment losses) was £15,318.3 million (2023: £14,422.6 million). There are no amounts past their due dates.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk (continued)

As the external debt issuance and rating is based on the performance of the operating company, TWUL, the Directors believe it is acceptable to attribute the same credit standing to the loans receivable.

At a TWUL consolidated level an assessment has been performed to consider if the TWUL Group can meet all liabilities due in the twelve months from the signing of the consolidated financial statements on 9 July 2024, with material uncertainties in relation to the going concern basis identified. The external debt repayment (not including amounts owed to TWUL) due within 12 months of £1,790.3 million (2023: £1,763.1 million) is included in this assessment. As required by IFRS 9 the Directors have also considered whether anything might happen within the next 12 months that could cause the entity to be unable to pay the interest and principal on other debt when it falls due. Previously, the credit risk exposure from assets related to intercompany debt owed by a regulated water company which has relatively stable and predictable cash flows, was considered immaterial. This was supported by TWUL's obligation to maintain an investment grade credit rating as a condition of its regulatory licence conditions. However, this position changed after the announcement that TWUL would not be receiving equity from shareholders in March 2024, followed by credit rating downgrades by Moody's and S&P in April 2024. Due to these downgrades, TWUL is now subject to a 'cash lock-up' under its regulatory licence, which limits certain payments to associated companies without prior approval of Ofwat.

In response to these developments, the Company concluded that the intercompany loans receivable was now in "Stage 2". In accordance with the requirements of a loan in "Stage 2" of the IFRS 9 impairment assessment, a lifetime expected credit loss has been recognised following multi-factor analysis. As a result, a total impairment provision of £55.0 million (2023: £nil) from TWUL has been recognised in the statement of financial position and income statement as an exceptional item. When assessing impairment of these receivables, management considers factors such as credit rating of the receivable, the probability of default, potential losses in case of default, the ageing profile of receivables and historical experience. Key estimates include listed company Regulatory Capital Value ("RCV") multiples and current economic RCV. Various scenarios were considered in a multiple factor analysis taking a range of RCV multiples into account and providing a weighted probability of those multiples occurring. Under the terms of the WBS agreement, counterparties to the Company's derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount. During the year ended 31 March 2024, no collateral was held (2023: £nil).

The following table summarises cash at bank and in hand and money market funds by credit rating of the counterparty.

As at 31 March	**2024** **£m**	2023 £m
AAA	**1.4**	1.1
A+	**0.2**	-
A	**-**	0.1
Total	**1.6**	1.2

Note: funds held in AAAmf, AAAm or AAAmmf rated money market funds are categorised as AAA in line with the fund rating, although the assets in these money market funds may have a lower rating.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2024 £m	2023 £m
AA-	**13.8**	25.6
A+	**39.6**	74.7
A	**11.9**	16.2
Total	**65.3**	116.5

(c) Liquidity Risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic Report. The maturity profile of the interest bearing borrowings disclosed in the statement of financial position are given below.

As at 31 March	2024 £m	2023 £m
- Within one year[1]	**(1,864.6)**	(1,606.1)
- Between one and two years	**(321.9)**	(149.7)
- Between two and three years	**(480.6)**	(517.2)
- Between three and four years	**(1,694.6)**	(485.6)
- Between four and five years	**(330.7)**	(1,720.6)
- After more than five years	**(9,898.3)**	(9,301.3)
Total	**(14,590.7)**	(13,780.5)

[1] £1,355.7 million (2023: £370.7 million) out of the £1,864.6 million due within one year (2023: £1,606.1 million) relates to revolving credit facility drawdowns that can be rolled over. Refer to Note 18 Post balance sheet events for information on revolving credit facility drawdowns post year end.

Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March Undiscounted amounts payable	2024 £m	2023 £m
- Within one year	**(2,343.8)**	(2,000.4)
- Between one and two years	**(783.4)**	(524.9)
- Between two and three years	**(916.6)**	(873.2)
- Between three and four years	**(2,125.4)**	(836.3)
- Between four and five years	**(708.3)**	(2,058.4)
- After more than five years	**(18,940.4)**	(19,023.9)
Total	**(25,817.9)**	(25,317.1)

[1] £1,355.7 million (2023: £370.7 million) out of the £2,343.8 million due within one year (2023: £2,000.4 million) relates to revolving credit facility drawdowns that can be rolled over. Refer to Note 18 Post balance sheet events for information on revolving credit facility drawdowns post year end.

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

(c) Liquidity Risk (continued)

Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives, based on undiscounted cash flows, is as follows:

As at 31 March	**2024 £m**	2023 £m
Undiscounted amounts receivable/(payable)		
- Within one year	**(137.0)**	24.9
- Between one and two years	**(13.1)**	(172.5)
- Between two and three years	**24.9**	(13.2)
- Between three and four years	**(11.0)**	27.2
- Between four and five years	**(1.0)**	(12.1)
- After more than five years	**(623.1)**	(695.2)
Total	**(760.3)**	(840.9)

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Company has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as an early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2024 and 31 March 2023. The column 'net amounts' shows the impact on the statement of financial position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the statement of financial position				
As at 31 March 2024	**Gross amounts £m**	**Amounts set off £m**	**Net amounts presented £m**	**Impact of master netting arrangements £m**	**Net amounts £m**
Financial assets					
Derivative financial instruments	**65.3**	**-**	**65.3**	**(23.5)**	**41.8**
	65.3	**-**	**65.3**	**(23.5)**	**41.8**
Financial liabilities					
Derivative financial instruments	**(323.1)**	**-**	**(323.1)**	**23.5**	**(299.6)**
	(323.1)	**-**	**(323.1)**	**23.5**	**(299.6)**
Total	**(257.8)**	**-**	**(257.8)**	**-**	**(257.8)**

	Effects of offsetting on the statement of financial position				
As at 31 March 2023	Gross amounts £m	Amounts set off £m	Net amounts presented £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	116.5	-	116.5	(31.1)	85.4
	116.5	-	116.5	(31.1)	85.4
Financial liabilities					
Derivative financial instruments	(442.7)	-	(442.7)	31.1	(411.6)
	(442.7)	-	(442.7)	31.1	(411.6)
Total	(326.2)	-	(326.2)	-	(326.2)

Notes to the financial statements (continued)

12. Financial instruments (continued)

Financial risk management (continued)

IBOR reform

The following table contains details of all of the financial instruments that the Company holds at 31 March 2024 and 31 March 2023 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying value at 31 March 2024		**Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2024**	
	Assets £m	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings[1]	**-**	**(286.4)**	**-**	**(286.4)**
Total assets and liabilities exposed to GBP LIBOR	**-**	**(286.4)**	**-**	**(286.4)**

	Carrying value at 31 March 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Amortised cost				
Borrowings[2]	-	(293.0)	-	(293.0)
Total assets and liabilities exposed to GBP LIBOR	-	(293.0)	-	(293.0)

[2] Included in the £286.4 million (2023: £293.0 million) of borrowings in the table above are two intercompany loans with TWUL that are directly linked to LIBOR. The transition of these loans from LIBOR to SONIA is expected to be completed during year ended 31 March 2025. Refer to Note 11 Borrowings for a breakdown of these intercompany loans.

Notes to the financial statements (continued)

13. Deferred tax assets

As at 31 March	**2024**	2023
	£m	£m
At the beginning of the year	**36.0**	93.0
Amounts charged to income statement based on fair value movements	**(23.2)**	(45.0)
Effect of tax rate change	**-**	(12.0)
At the end of the year	**12.8**	36.0

The deferred tax assets relate to the cumulative fair value losses recognised on derivatives. The Company is expected to generate taxable profits in the future and the deferred tax assets are therefore considered recoverable.

14. Called up share capital and other reserves

Called up share capital

As at 31 March	**2024**	2023
	£	£
Allotted, called-up and fully paid		
50,001 (2023: 50,001) ordinary shares of £1 each	**50,001**	50,001
Total	**50,001**	50,001

The Company's ordinary shares carry 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. On 31 July 2018, 1 ordinary share was issued to TWUL, the immediate parent company, at a premium of £207.7 million. Subsequent to the new share issue the Company completed a capital reduction by way of transferring the whole of the balance on share premium to other reserves.

Other reserves

As at 31 March	**2024**	2023
	£m	£m
Other reserves	**207.7**	207.7
Total	**207.7**	207.7

Notes to the financial statements (continued)

15. Guarantees

The Company, Thames Water Utilities Holdings Limited (“TWUHL”) and Thames Water Utilities Limited (“TWUL”) 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, TWUHL guaranteed the obligations of each other Obligor under the finance agreement. Additionally, TWUL, and the Company, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee. The guaranteed debt on a post swap basis as at 31 March 2024 was £17,302.8 million (2023: £16,443.3 million).

16. Related Parties

The principal activity of the Company is to make certain financing arrangements on behalf of TWUL and as such the major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL.

Intercompany loans receivable

The proceeds from external debt issued by the Company including any impact of associated derivatives are passed onto TWUL through intercompany loans mostly with a margin of 0.1% charged, although a small minority of external transactions are not perfectly matched with intercompany transactions or no margin on the intercompany loan is charged.

Amounts owed by Group undertakings represent cumulative financing proceeds that have been loaned to TWUL. Details of intercompany loans receivable can be found in note 9. There are no amounts past their due dates (2023: £nil).

Previously, the credit risk exposure from assets related to intercompany debt owed by a regulated water company, which has relatively stable and predictable cash flows, was considered immaterial. This was supported by TWUL’s obligation to maintain an investment grade credit rating as a condition of its regulatory licence conditions. However, this position changed after the announcement that TWUL would not be receiving equity from shareholders in March 2024, followed by credit rating downgrades by Moody’s and S&P in April 2024. Due to these downgrades, TWUL is now subject to a licence ‘cash lock-up’, which limits certain payments to associated companies without prior approval of Ofwat. In response to the downgrade, the Company conducted an impairment analysis under IFRS 9, resulting in a total impairment provision of £55.0 million (2023: £nil) on its receivables from TWUL in the statement of financial position and income statement, as an exceptional item. When assessing impairment of these receivables, management considers factors such as credit rating of the receivable, the probability of default, potential losses in case of default, the ageing profile of receivables and historical experience. Key estimates include listed Regulatory Capital Value (“RCV”) multiples and current economic RCV.

Total interest earnt from TWUL in respect of the year ended 31 March 2024 was £654.4 million (2023: £748.1 million).

Other finance fees recharged to TWUL in respect of the year ended 31 March 2024 was £1.2 million (2023: £0.7 million).

Amounts owed by group undertakings

Amounts owed by group undertakings include amounts owed by immediate parent company TWUL. As at 31 March 2024, £90.8 million (2023: £75.7 million) was recognised within amounts owed by group undertakings relating to amounts owed by TWUL, of which £90.1 million (2023: £75.1 million) reflects interest received by TWUL on behalf of the Company in relation to restructured swaps.

Borrowings

Amounts owed to Group undertakings represent floating rate loans payable to TWUL. Details of the borrowing can be found in note 11. There are no amounts past their due dates (2023: £nil).

Interest on the loans from TWUL is charged at a floating rate (LIBOR plus a margin) in both the current and preceding financial year but in line with the GBP LIBOR transition plan, the accruals have been made using SONIA plus a margin (refer to IBOR reform section of the Accounting policies for more information). Total interest earnt by TWUL in respect of the year ended 31 March 2024 was £27.5 million (2023: £6.6 million).

Notes to the financial statements (continued)

16. Related Parties (continued)

Other financial liabilities
Other financial liabilities include amounts owed to immediate parent company TWUL. As at 31 March 2024, £3.5 million (2023: £4.8 million) was recognised within other financial liabilities relating to amounts owed to TWUL.

Transactions with key management personnel

During the year, none of the Directors had significant contracts with the Company or any other body corporate within the Group other than their contracts of service with TWUL (2023: none).

17. Immediate and ultimate parent and controlling party

Thames Water Utilities Limited, a company incorporated in the United Kingdom is the immediate parent company, which owns 100% of the issued share capital of the Company and is the smallest group to consolidate these financial statements.

The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group expected to prepare consolidated financial statements.

Kemble Water Holdings Limited is owned by 9 shareholders, of which the largest holder is Ontario Municipal Employees Retirement System (OMERS) with a 31.777% holding.

The address of the registered office of the abovementioned companies is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the financial statements for these entities may be obtained from The Company Secretary's Office at this address.

18. Post balance sheet events

In April 2024:

- a total of £370.7 million Class B Revolving Credit Facilities were repaid. The Company received a total of £370.7 million from TWUL as repayment of the related intercompany loans;

- a total of £530.0 million Class A Revolving Credit Facilities due in April 2024 were rolled over and are now due in October 2024. The Company originally loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin. As a result of the drawdowns being rolled over, the intercompany loans are also now due in October 2024;

- a £75.0 million Class B Revolving Credit Facility matured in line with the date on the original agreement. The intercompany agreement with TWUL in respect of the facility matured on the same date;

- Moody's downgraded the Corporate Family Rating to Baa3, the Class A debt rating to Baa2 and the Class B debt rating to Ba3, all with a negative outlook; and

- S&P downgraded the Class A debt rating to BBB- with negative outlook and the Class B debt rating to BB with negative outlook.

In May 2024:

- a total of £365.8 million Class A Revolving Credit Facility was drawn. The Company loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin.

In June 2024:

- a total of £530.0 million Class A Revolving Credit Facilities due in June 2024 were rolled over and are now due in December 2024. The Company originally loaned the proceeds from the drawdowns to TWUL on the same terms plus a margin. As a result of the drawdowns being rolled over, the intercompany loans are also now due in December 2024.