


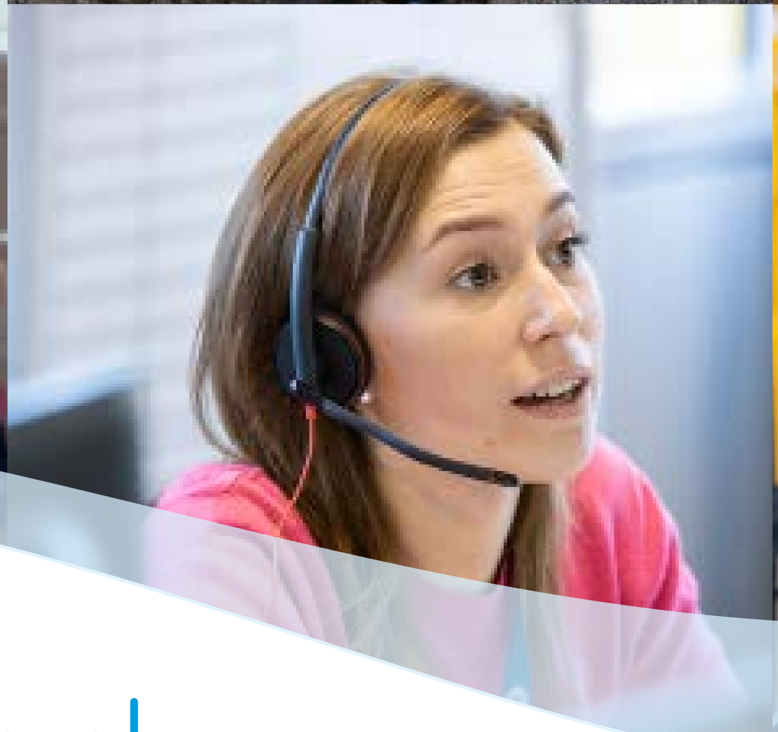


Our turnaround

Thames Water Annual Report 2022/23

Introduction

This year we've separated out our Annual Report and Sustainability Report, to make it easier for our audiences to find the information they need. Our separate Sustainability Report also includes our ESG statement, outlining progress and trends on key ESG metrics over a five-year period.

We also produce an Annual Performance Report. This is a regulatory report that gives more detailed information about how we've performed against the performance commitments we agreed with our economic regulator, Ofwat, for this regulatory period (2020 to 2025). It can be found alongside this report on our website.

Discover more online at www.thameswater.co.uk/investors

Our key performance indicators, some of which are performance commitments, are covered in this report on pages 14-18, with a snapshot on page 3

See our KPIs on p3

The Strategic Report was approved by the Board of Directors on 10 July and signed on its behalf by

Alastair Cochran
Chief Financial Officer

Throughout this report we've included QR codes, which link to documents that provide more background information. The external documents and websites we refer to via these codes are for extra information only and do not form part of our Annual Report.

Colleagues from Team Thames run waterwalls at the King's Coronation in June 2023

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A snapshot

Rebuilding Thames Water

Record £1.8 billion
asset investment in 2022/23, bringing total investment since start of turnaround in March 2021 to over £3.1 billion

£500 million
invested by shareholders in 2022/23 in support of turnaround

Further £750 million
in agreed equity funding from shareholders by March 2025, subject to certain conditions

Restructured business
to a regional operating model

Insourced
repair and maintenance of water network

On-shored
customer facing care teams, creating over 175 local jobs

Impact of extreme weather on ageing assets impacts performance

55%
of annual performance commitments met, with a target for this year

Drought
had significant impact on performance, including leakage and pollutions

Making strides forward in some metrics

28% reduction
in total complaints – service improvements not yet translating into improved C-MeX (customer measure of experience)

46% reduction
in sewage discharges although principally due to unusually drier weather conditions in 2022

Increased support for customers

Over 300,000
households help through social tariff support

Driving sector transparency

First company
to publish live map of sewage discharges

Financial performance reflects macro-economic headwinds:

EBITDA
down 3.4%, reflecting impact of inflation on operating cost base including labour, energy and chemical and material costs. Power costs up 30% year-on-year

Gearing down
3.2ppts to 77.4%, benefiting mainly from the £500 million investment from shareholders and the inflation linked increase in value of our regulated asset base

£4.4 billion liquidity
as strong position of cash and committed undrawn facilities retained

Our key performance indicators

Our performance

People KPIs

Employee engagement score
69%
(2022: 69%)

Lost time injuries – number per 100,000 hours worked of injuries
0.17
(2022: 0.15)

Customer KPIs

C-MeX – Customer measure of experience (score out of 100)
67.06 17th of 17
(2022: 68.86 17th of 17)

Total household complaints
75,768
(2022: 105,155)

Per capita consumption – litres of water used per person per day, based on a rolling three-year average
146
(2022: 147.5)

Operational KPIs

Water quality – compliance risk index
10.96
(2022: 2.59)

Acceptability of water to customers – number of contacts per 1,000 people
0.44
(2022: 0.49

Leakage – million litres of water per day, based on a rolling three-year average
602.2
(2022: 605.6)

Water supply interruptions – hours, minutes, seconds per property
19mins 54secs
(2022: 11mins 03secs)

Pollution incidents (cat 1-3) per 10,000km of sewer
30.37
(2022: 24.87)

Sewage discharges (spills)
8,014
(2022: 14,713)

Number of sewer blockages cleared
73,780
(2022: 74,569)

Treatment works compliance
99.48%
(2022: 98.96%)

Internal sewer flooding – number per 10,000 sewer connections
1.91
(2022: 3.46)

Financial KPIs

Total Revenue
£2.3 billion
(2022: £2.2 billion)

Investment in assets
£1.8 billion
(2022: £1.3 billion)

Total EBITDA
£1.1 billion
(2022: £1.1 billion)

Total (loss) after tax
£(30) million
(2022: £(973) million)

Credit ratings
Moodys Corporate Family Rating:
Baa2 Stable
(2022: Baa2 Stable)

Standard and Poor's:
BBB Stable**
(2022: BBB+ Watch Negative)

Dividends to service debt obligations and other group costs
£45 million
(2022: £37 million)

Dividends to external shareholders
Zero*
(2022: Zero)

* Thames Water Utilities Limited's ultimate parent, Kemble Water Holdings Limited, has not paid a dividend to shareholders
** Placed on Watch Negative on 30 June 2023

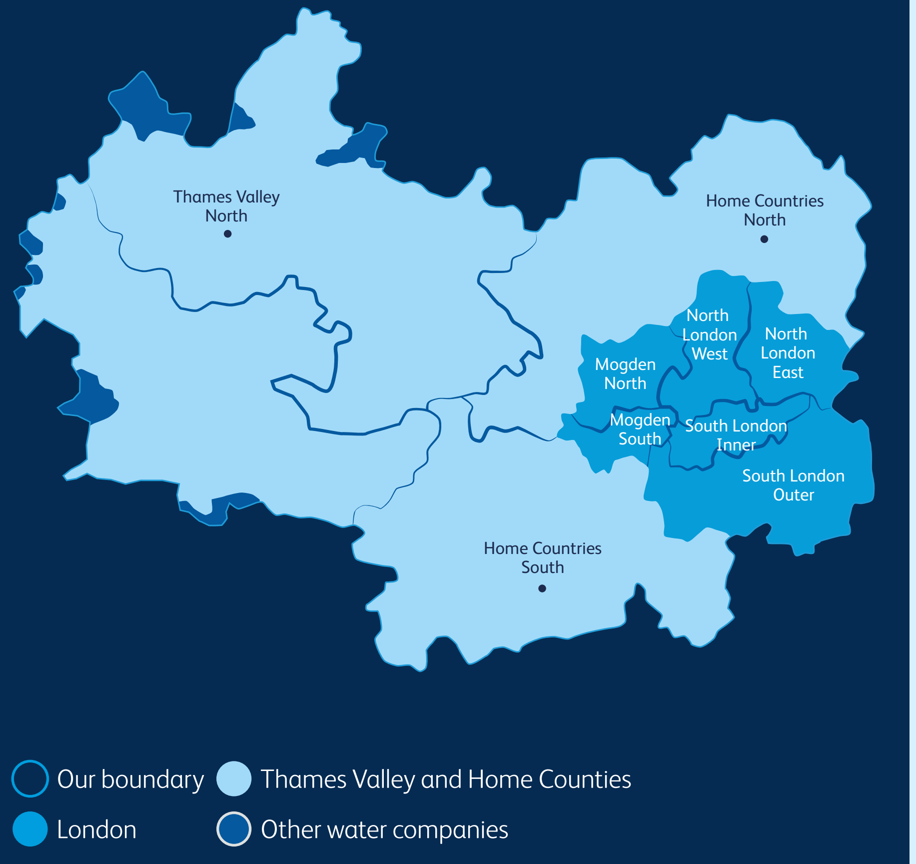
Our framework

Leading with Purpose

At Thames Water, we're led by our Purpose…
to deliver life's essential service, so our customers, communities and the environment can thrive.

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

To get closer to customers, in 2022, we moved to a regional operating model with dedicated operations teams for London, and separately for the Thames Valley and Home Counties.



Our turnaround plan

This report covers the three pillars of our turnaround plan, launched in 2021

- Fixing the basics
- Raising the bar
- Shaping the future

Vision

We all know that water is always going to be essential to life, but the water industry operates in five-year regulatory cycles. To live our Purpose, we need to look way beyond five years to make sure we're investing in the right way so the customers, communities and the environment of the future can also thrive. That's why we launched our Vision for 2050, after listening and engaging with many customers and stakeholders about what really matters.

Our ambitious Vision for 2050 imagines a world where we've learnt from the past and adapted to the future so our customers, communities and the environment can thrive. It starts with tackling the issues that matter most to our customers right now: providing better customer service, finding and fixing leaks more quickly and reducing pollution. And it goes beyond our core services to help us become a force for good: equipping local communities with new skills, restoring rivers and producing more green energy than ever before.

Values and behaviours

These remain the same and underpin what we do:

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

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

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

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

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

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

Our Chairman's statement

Strong shareholder support

"It's clear there needs to be urgent reform of the sector, so it can deliver its regulatory, customer and environmental commitments, and the risks need to be at the top of the regulatory and political agenda.

Ian Marchant
Chairman

2022/23 was a real manifestation of the heightening risk of climate change and the vulnerability of Thames Water's ageing network. It's clear that the world of water will need to operate very differently over the next 30 years, adding complexity to the delivery of short-term targets while also creating the need to develop long-term plans for our changing world.

Thames Water has been through an intense period of change to lay the foundations of the turnaround, and, on behalf of the Board, I would like to thank Team Thames for their continued passion, determination and commitment to do their best for customers and the environment. Despite the challenges facing Thames, every single day the team supplies high quality drinking water to 10 million customers and treats the wastewater of 16 million across London and the Thames Valley. The scale of what the team does every day is something to be proud of.

As a Board, we're focused on supporting the Executive in delivering strong foundations for the team to succeed and to deliver our Purpose – to deliver life's essential service, so our customers, communities and the environment can thrive.

Strong, ongoing shareholder support

The Board has spent time considering our financial resilience and we're in a solid position. Regulatory gearing is down to 77.4%, compared to 81.3% five years ago, and, at 31st March 2023, we had £4.4 billion of cash and committed facilities available.

The challenge we face is that we need to fund significant additional investment over the next seven years to increase the resilience of our assets, to meet current and future environmental obligations and to improve the performance of the business for our customers and the environment.

Our shareholders have been very supportive of the Board and Executive team, and have already demonstrated that support in two ways; foregoing any income on their investment for the sixth year in a row and, as agreed in June 2022, investing an additional £500 million.

Shareholders have now agreed to provide a further £750 million of funding by 2025, subject to satisfaction of certain conditions, to support the development and delivery of the new refocused turnaround plan, and have acknowledged that our turnaround will continue into AMP8 and that the new refocused turnaround plan will likely require the provision of further equity support investment significantly in excess of the current commitment to improve operational performance and financial resilience. Indicatively, the AMP8 (2025-2030) equity investment is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the new focused turnaround plan and the regulatory framework that will apply to the AMP 8 period.

The Executive team and the Board are continuing to engage in constructive discussions with shareholders to ensure the expected investment is forthcoming and is in discussions with regulators in relation to Thames Water's regulatory arrangements.

The ageing network

Performance during the year was affected by a number of large asset failures on Thames' ageing network, including a burst on a 100-year-old, 42-inch water main in Belsize Park and a burst pressurised sewer in Swindon that caused a serious pollution of the River Ray. The declining health of Thames Water's ageing infrastructure is increasingly evident, with the impact of climate change and population growth adding more pressure on the already stretched network. With that in mind, we welcome the Executive team's leadership in getting a deeper understanding of the investment we need to make to increase the resilience of our network.

With the business assessing the investment required over the long-term to renew and maintain our assets, I, and other members of the Board worked with Engineering and Asset Director, Caroline Sheridan and her team to review asset management data and understand the critical areas of risk.

Despite improvements being made to the way we operate as part of the turnaround, asset failures have such a significant impact on our customers, our performance measures and the team's resilience that it can be difficult to highlight the progress that is being made behind the scenes. There are no quick fixes to the challenges the business faces. However, as a Board, we have confidence in the team to turn around this business and are fully engaged in supporting them in this essential work.

Climate risk

The sudden and severe drought during the summer created real problems for the network and, as a Board, we spent a lot of time with teams across the breadth of Thames to understand the impact of the extreme weather and the mitigation measures in place. Despite the severity of the drought and the impact on our water operations, Team Thames continued to make sure customers across the region had access to the water they needed for life's essentials. During the year, we were provided updates by the newly formed Climate Change Working Group, which reports to the Health Safety and Environment Committee and is led by Caroline Sheridan. The group was set up to increase the business' oversight of climate risk and opportunity, as well as reporting requirements, including alignment with the Taskforce for Climate Related Financial Disclosures. You can find the TCFD report on page 45. Given it has continued to be a year of significant external challenge, the Board's Audit, Risk and Reporting Committee has spent a lot of time discussing the principal risks. Each principal risk has now been given a Board sponsor, as well as the Executive lead, to increase focus and governance of risk management and support the business in mitigating the biggest risks to the delivery of life's essential service.

Our Chairman's statement continued

Long-term planning

Ian Pearson and I have been members of the Water Resources Management Plan subcommittee over the past year. We've spent time with the teams working on the long-term plan for water resources and have also provided guidance on the Drainage and Wastewater Management Plan, as the business prepares for the heightening pressures.

Board engagement

Making sure Team Thames has the resilience to keep delivering the essential services, at the same time as adapting to a changing Thames Water, is a key focus for the Board and Executive Team. To maintain a good understanding of the challenges facing the front line, Ian Pearson, our Workforce Engagement Lead continued to run an extensive programme of Board engagement during the year. He led 19 site visits, as well as a range of virtual sessions, with other members of the Board joining him at a number of sessions.

In June 2022, I, with members of the Board, visited the River Chess, to see the smarter water catchment plan in action. One of three plans for this regulatory period, the River Chess Smarter Water Catchment Plan brings together partners in the river community to take joint action to improve river water quality, focused on the strength of partnership and nature-based solutions. It was great to meet some of the stakeholders who are working together with teams at Thames Water to make a real difference to the beautiful chalk stream.

Changes to the Board

We've appointed John Holland-Kaye, Chief Executive of Heathrow, to the Board as a Non-Executive Director to represent USS. David Waboso, an Independent Non-Executive Director, stood down. Despite the Board changes, the Independent Non-Executive Directors remain the single largest group on the Board, in alignment with strong governance. Full details of the Board can be found on page 70.

On 27 June 2023, Sarah Bentley stepped down as CEO and from the Board. The process has begun to recruit her replacement and, in the meantime, Alastair Cochran, our Chief Financial Officer, and Cathryn Ross, our Strategy and External Affairs Director, are interim co-CEOs.

Stepping down from the Board

After six years as Chairman of Thames Water, including two years as Interim Executive Chairman, I've decided to step down this Summer. On 29 June 2023, it was announced that Sir Adrian Montague would become Chair of Thames Water Utilities Limited from 10 July 2023 (see page 7). The challenges facing the water industry, and Thames Water in particular, are increasing all the time, whether it's the current and future implications of climate change, the impact of the health of our ageing assets or the increasing focus on us. The task of transforming this business will be extensive and challenging and will take longer than any of us would want. However, we have built strong foundations to deliver a turnaround and put a good team in place to do this.

I wish everyone involved with Thames Water all the best as the turnaround journey continues.

Our Co-Chief Executive Officers' statement

Refocusing the turnaround

As we take on the leadership of this iconic business, we're focused on stepping up the delivery of our turnaround

Cathryn Ross and Alastair Cochran
Interim Co-Chief Executive Officers, appointed June 2023

We want to start this statement by paying tribute to one of our supply chain colleagues who tragically lost his life last year, while carrying out a routine task. Safety is our top priority and 'take care' is a core Thames Water value. The incident is still being investigated to understand what happened and, more importantly, to prevent it from happening again. Our thoughts are with our colleague's family and friends at this difficult time.

Our turnaround

As we take on the leadership of this iconic business, we're focused on stepping up the delivery of our turnaround, to build on the strong foundations that have been put in place over the last two years.

Our refocused turnaround plan is built on a robust financial position. We had £4.4 billion of liquidity at the end of the financial year end and our shareholders have continued to support the business through additional funding. They committed £500 million of funding during the year, which was drawn in March 2023. Shareholders have now agreed to provide a further £750 million of funding, which will be subject to certain conditions, to drive Thames Water's turnaround over the remainder of the current AMP7 regulatory period, and establish a solid foundation for Thames Water's long term growth. In addition, our shareholders acknowledge that our turnaround will continue into AMP8 and that the new refocused turnaround plan will likely require the provision of further equity investment significantly in excess of the current commitment to improve operational performance and financial resilience. Indicatively, the AMP8 equity investment is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the new focused turnaround plan and the regulatory framework that will apply to the AMP 8 period. We very much appreciate shareholders' substantial investment in the business, which demonstrates their commitment to delivering Thames' turnaround and building a better future for our customers, communities and the environment.

At the same time, we fully recognise our performance is not where it needs to be. The impact of the weather on our ageing assets was acutely felt in FY23, and we weren't able to deliver key improvements quickly enough. During the year, it became clear we needed to accelerate the speed of performance improvements and so, in April, we began a review of the turnaround plan. As a result of that review, we've refocused the plan into a more targeted, prioritised , three-year turnaround, that will drive faster improvements in key performance metrics. It will also be underpinned by greater financial discipline as we seek to secure maximum value from every pound we spend for our customers and the environment.

Over the last 12 months we have made good progress in embedding the foundations of a turnaround in performance. We've moved to a restructured regional operating model, brought all customer-facing telephone teams back to our region, and insourced the repair and maintenance of our water network. All of the structural changes are bringing us closer to customers and will deliver improvements in our performance while creating good quality local jobs. We've also continued our record levels of investment with £3.1 billion invested in our assets since the launch of the turnaround just over two years ago, £1.8 billion of which has been over the last year alone.

In the coming year we will build on these foundations by prioritising a smaller number of key performance improvements. These will be backed by clear metrics, with clear accountabilities across our leadership team. The health and safety of our colleagues and customers will always be our most important priority and we'll be focusing on other areas that matter most to customers, such as reducing pollutions to improve river health. We know we can't do everything at once and the new turnaround plan will focus on these critical areas. Clearly, prioritisation is key to ensure we can deliver improvements efficiently for our customers. We are also managing deliverability constraints in a constrained supply chain that has been impacted by recent global events. This is requiring trade-offs to be made as we focus on delivering substantial and sustainable improvements as quickly as possible, safely and in the areas that matter most.

We've spent a lot of time over the last two years uniting around our purpose, values and behaviours. Its clear that Team Thames is full of passion to make improvements in what and how we deliver for customers and the environment, but we need to make it easier for them to do this across London, the Thames Valley and Home Counties. To deliver the refocused turnaround plan, we're

Sir Adrian Montague appointed as our new Chairman

On 29 June 2023, we announced Sir Adrian Montague as our new Chairman. Independent on appointment, Sir Adrian is a highly experienced Chair of large infrastructure businesses and investors and was Chair of Anglian Water for five years between 2010 and 2015.

From 2003 to 2010 he was Chair of British Energy, and he is currently Chairman of Cadent Gas Limited and Porterbrook Holdings Limited.

Co-Chief Executive Officers' statement continued

empowering teams to take more accountability to speed up improvements. We also need to break down barriers to success and encourage our senior leaders to take ownership of the decisions they're in the best place to make.

The scale of the challenge

While we are making positive steps, the scale of the challenge we face is significant and we need to ensure that we adequately reflect in our plans both the cost to deliver our services with an ageing asset base, and the investment required to improve our asset health over the long term. For years our performance has been severely affected by the health of our assets. On a day-to-day basis our ageing assets need more maintenance to provide our core services, we spend more to fix assets that fail, and when we are hit with extreme weather, which is happening more often, our services are more adversely affected and take longer to restore. All of this feeds into our performance, and into financial penalties which in turn reduce the funds available to reinvest in the network.

We're in the concluding stages of an internal assessment into the scale of what needs to be done to improve our resilience, manage and renew our assets over the long-term. The report will be finalised to enable us to factor in the costs associated with renewing our assets over the coming decades into our PR24 business plan submission. It's absolutely vital we understand what needs to be done and put a sustainable and targeted plan in place to manage and renew our assets, as we face into the challenges of climate change and population growth.

The need for reform

In recent years we have consistently advocated for systemic reform focused on three areas, relating to planning, regulation and investment in critical infrastructure. We absolutely align with this view and will continue to drive it forward.

First, we need to stop using drinking water to flush toilets or water gardens, which will require a completely different way of planning developments. Second, we need to look outside the five-year regulatory cycle to be able to make the right long-term decisions – we all know we'll need water for more than five years, but the current regulatory model trains people in the sector to focus on the short-term. And third, we need a new coordinated approach to speed up critical projects like the Thames Tideway Tunnel, which don't fit within the regulatory framework. The Thames Tideway Tunnel will reduce spills into the Tidal Thames by an estimated 95% in the next couple of years, putting us way ahead in our journey to clean up rivers. But it was more than fifteen years in the making and was only possible through an innovative financial model, not seen before in the industry. The proposed reservoir near Abingdon could also be delivered in a similar way.

Our first priority is to make sure we deliver our turnaround to improve customer and environmental performance. However, the country's water and wastewater resilience requires a fundamentally different way of doing things; our assets are ageing, and the dual challenges of climate change and population growth are only going to intensify. We recognise the critical role we, the Executive team and our leadership community, needs to play in working with our regulators, peers, investors, NGOs and Government to drive radical reform. In the last few years, under Sarah Bentley's leadership, we transformed our engagement with stakeholders, spending time listening and understanding and sharing ideas. We are committed to maintaining that transparent, honest and collaborative approach. A better water future is essential for everyone. It is not something that any water company can deliver alone.

A pivotal price review

This price review is pivotal for the sector's long-term future. As we head towards the submission of our business plan for PR24, the stark reality of the situation facing the industry is clear. We absolutely need to invest to manage and renew ageing infrastructure and increase our resilience to extreme challenges that will only accelerate. Being able to balance investment with deliverability and affordability is at the heart of our business plan for the next five years.

A challenging year for performance

With our ageing assets and extreme weather events being major contributing factors, our performance fell short of expectations during the year, in key metrics including leakage and pollutions.

Our job is to deliver a good service, regardless of the weather. So the face that 2022 was a year of climate extremes is no excuse for poor performance. Nevertheless, the drought in the Summer followed by the freeze-thaw in December put major stress on our network and the resilience of our operational teams. We'd been performing well in reducing leakage in the early part of 2022/23, however our performance was knocked off course by the extreme drought. It led to a 38% increase in mains bursts due to the excessively dry ground and increased pressure in pipes due to spikes in demand. The pipes faced more stress in December when the persistent freezing weather, followed by a quick thaw, led to cracks in pipes. Customers also felt the devastating impact on pipes in their own homes too. As well as leakage, the weather extremes had a negative impact on our performance in supply interruptions, consumption and pollutions.

On the flip side, the exceptionally dry weather helped us secure a significant 46% reduction in discharges of untreated sewage and improved performance in internal sewer flooding.

While we haven't met targets in some of our core metrics, we've continued to make good progress in the reduction of complaints with a 28% year-on-year reduction. Our capital delivery machine is also streets ahead of where it was. There's been a six-fold increase in the work the team has on contract in the last two years – a brilliant achievement while the supply chain still recovers from the impact of Covid-19.

A step forward in transparency

We care deeply about the health of our rivers and cleaning up rivers is at the heart of our approach – we've been clear for years that untreated discharges into rivers are unacceptable, whether they're a result of a fault in our network or the design of our infrastructure. The weather helped us secure a huge reduction in sewage spills last year, with the exceptionally dry weather in the Summer, and we won't be complacent.

Being transparent about what's happening is key to rebuilding trust and we're leading the way. We were the first in the industry to launch our live sewage discharges map in January 2023 and since then we've enhanced it with details of the investment we're making at many of our sites.

While it is clear that it is unacceptable, it is also clear that there is no quick fix to stopping sewage discharge. We need to fundamentally adapt and enhance the design of infrastructure that isoften more than a century old. We need to stop rainwater, and water from misconnections, getting into our vast network and overwhelming our sewage treatment works. We also need to work with property owners, developers and local authorities to ensure that we change our approach to drainage so we don't store up further problems, including in relation to surface water flooding, elsewhere.

Supporting our customers with the cost-of-living

We increased our social tariff support to £50 million during a difficult year for many of our customers, as well as continuing to provide other support through our customer assistance fund and independent trust fund. We've also pledged to help customers with almost a quarter of a billion pounds through our social tariffs over the next two years.

A year of unprecedented business change

At the same time as facing various external challenges, the last year saw us embedding some fundamental changes within our business. We're incredibly thankful to our colleagues across the business for all of their hard work and resilience not only in keeping the taps flowing and the toilets flushing, but also for their openness and enthusiasm in adapting to new ways of doing things. Throughout the year, Team Thames demonstrated real commitment to delivering improvements for the customers and environment. The scale of internal change and external challenge has meant that it has not been easy for the team, and we continue to focus on supporting our colleagues through this period. Sarah spent a lot of time during the year meeting colleagues at sites across our patch to listen to the challenges they face and support them in finding solutions. As an Executive team, we'll continue that programme and remain committed to spending time with, listening to and supporting our frontline colleagues

Thank you

We'd like to finish this statement with a thank you to Ian Marchant, our Chairman, who is stepping down after six years at Thames Water. Two of those years were spent as Interim Executive Chairman, during which he provided stability and direction for Team Thames. Ian will be warmly remembered across the business for his energy and enthusiasm, and the breadth of perspective he offered across such a wide range of issues.

We'd also like to thank Sarah Bentley, until recently our CEO, who worked with such determination and passion to get this business back on track. After putting strong foundations in place, Sarah felt it was the right time to step away and allow a new CEO to take the reins as we enter the next phase of our turnaround journey. We are clear that we want to build on what Sarah achieved, including the way she transformed our engagement with colleagues and our relationships with stakeholders.

We wish them both the best in their next endeavours

Thank you,

Cathryn Ross and Alastair Cochran
Interim Co-Chief Executive Officers

Market review

Putting Thames Water in context

The challenges Thames Water will face over the next 30 years will be different from the past. Economic, social and environmental conditions are rapidly changing, as are the expectations of customers, communities and stakeholders. Legislation, policy and regulation may also look very different by 2050.

Ageing assets

Maintaining our service across our ageing asset base is a critical challenge.

London's pipe network is made up of over 139,000km of water and waste pipes, with many dating back to the 1800s and early 1900s.

Links to principal risks

7 8 9 10

Water demand

Against this background, we see a growing demand for water.

By 2050, four million extra people are expected to be living in the South East, which is why the region is expected to account for around 50% of the UK's future need for public water supplies alone. The National Infrastructure Commission found that the UK needs to find an extra 4 billion litres per day to keep up with customer demand over the next 30 years[1], with 25% of the population in our region.

Links to principal risks

1 5 7 8 9 10

Climate change

Climate change is creating uncertainty over how and when resources will be replenished, and extreme events appear to be happening with increasing frequency.

Without action, we are likely to have a supply that is roughly 30% below water demand[2]. At the same time, winter rainfall intensity could increase by 11% in London[3] with increased risk of property (including basement) flooding. Although safe, reliable and affordable drinking water remains our customers' top priority, they do not want to see it achieved at the expense of societal or environmental health.

Links to principal risks

3

Key to principal risks

	Principal Risk
Customer	1 Customer experience
	2 Revenue collection
Environment/ Operations	3 Capital projects
	4 Biodiversity, climate change and population growth
	5 Legacy technology failure
	6 Employee & physical asset protection
	7 Cyber security & data protection
	8 Asset integrity & resilience
	9 Treat wastewater
	10 Supply of wholesome water
People/Safety	11 Physical or mental harm
	12 Workforce
Finance/Legal	13 Values, standards, legal and regulatory obligations
	14 Liquidity
	15 Inflation and interest rates
Trust & Strategy	16 Regulatory, legislative or political developments
	17 Public value
	18 Engage stakeholders

See Principal risks on p52

1 National Infrastructure Commission, 2018. Preparing for a drier future: England's water infrastructure needs.
2 Water Asset Management Strategy (2021)
3 UK Climate Projections (UKCP18), 2018. Representative Concentration Pathway 8.5.

Market review continued

Digitisation

Digitisation is changing industrial processes and the nature of businesses across our economy, which changes their demand for water and wastewater.

This is illustrated through the growing demand for water from data centres in our service area. All of these developments will move quicker, further and faster with the aid of quantum computing and developments in condensed matter physics, which today are in their infancy but are highly likely to penetrate everyday life within the next three decades.

Links to principal risks

4 6

Customer expectations

Customer expectations in light of these challenges are changing. Customers are no longer judging organisations purely on the quality of a product or service, but how they are led and governed, and their ethical and social commitments[4].

There is rising awareness around the impacts of the climate and nature emergencies with seven in 10 people in the UK concerned about climate change[5] and more than a third citing Combined Sewer Overflows (CSOs) as one of their top three environmental issues affecting the UK[6]. We are experiencing widespread expectation (more than two-thirds of the population) that our rivers will meet bathing water quality standards; a very much higher standard than is legally permitted today.

To meet their needs, customers increasingly expect personalisation and experiences from the organisations they interact with.[7] We have the opportunity to expand our offer, to do more to meet the wants of our customers and communities, going beyond delivering our core services. Some of our customers' priorities do not require a step change in investment in order to achieve substantial improvements. For example, over the coming years, we will make better use of behavioural data to deliver a personal and individual service to our customers. This can largely be delivered through data that we can collect through business-as-usual operations.

Links to principal risks

1 11 12 16 17 18

Affordability

Much of the change our customers and stakeholders expect will require significant investment – all of which ultimately needs to be paid for against a backdrop of ensuring affordability. Our combined water and wastewater bill is around the average level for the industry at £456. However, we have some highly deprived areas within our region. The current cost of living crisis serves to show how critical it is to keep bills affordable. It is vital that our plans are efficient and avoid any unnecessary expenditure in solutions that could be made redundant depending on future circumstances. We also need to challenge ourselves on how much we can deliver from the cost allowances that are currently set by Ofwat.

Links to principal risks

1 2 7 8 9 10 13 14

Policy and regulatory environment

These changing societal needs are already being reflected in a changing policy and regulatory environment. The UK Government's 25-year Policy and Regulatory Environment Plan has a strong focus on sustainable land management, nature recovery, and on connecting people with the environment to improve health and wellbeing. The Environment Act 2021 requires water companies to make "progressive reduction in the adverse impacts of discharges from storm overflows"[8] so that no storm overflows operate outside of unusually heavy rainfall or cause any adverse ecological harm by 2050[9] with significant progress required by 2035. In parallel, the Levelling Up and Regeneration Bill is looking to place a new legal duty on water companies in England to upgrade wastewater treatment works by 2030 in 'nutrient neutrality' areas to the highest achievable technological levels. The water sector has committed to achieving a 50% reduction in leakage by 2050 (from 2018 levels)[10], and the government expects water companies to contribute towards helping water customer reduce personal water consumption to 110 litres per head per day, on average by 2050[11]. During 2022/23, water consumption was 146 litres per person per day.

Links to principal risks

3 16 17 18

4 Harvard Business Review (2017). Competing on Social Purpose
5 National Centre for Social Research (2017), European Attitudes to Climate Change
6 UK Government (2021), Storm Overflow Evidence Project
7 Ipsos. Great Expectations: Are service expectations really rising
8 UK Government (2021), Environment Act 2021
9 UK Government (2022) Storm Overflows Discharge Reduction Plan 2022
10 Water UK (2022), 'A Leakage Routemap to 2050'
11 Defra (2021). 'The government's strategic priorities for Ofwat'

Business model

Creating long-term value

Our Purpose

To deliver life's essential service, so our customers, communities and the environment can thrive.

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

Our inputs

We employ over

7,000
employees

We serve

16 million
customers across London and the Thames Valley

We supply

2.6 billion
litres of water

and treat

4.6 billion
litres of wastewater every day

We have

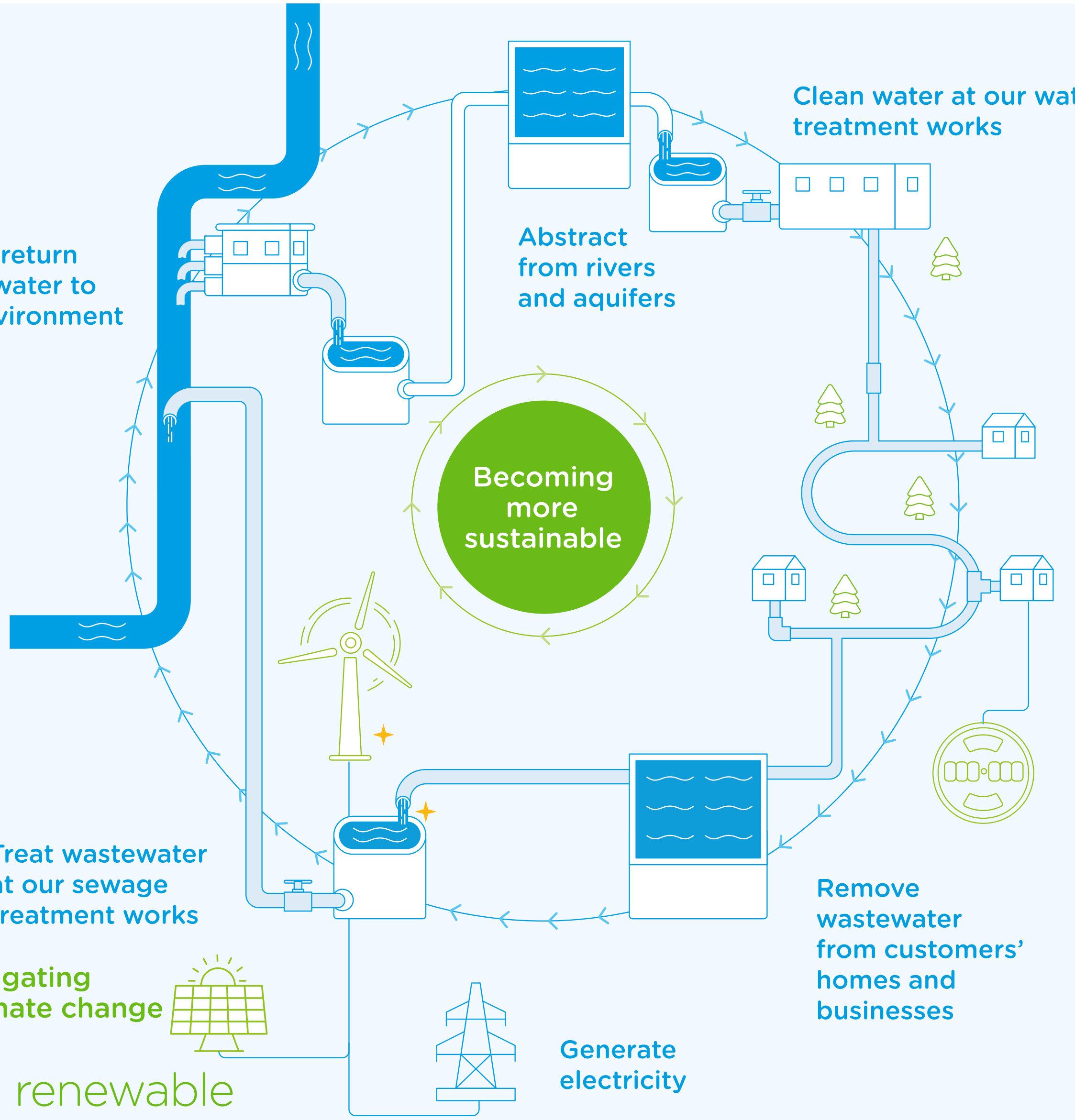
93
water treatment works and

354
sewage treatment works

We generate

536 GW/h
of renewable energy a year

Our water cycle



1 Protecting water, a precious resource

See more on p21

Over 900,000
smart meters installed

2 Managing wastewater and sustainable drainage

See more on p25

Sewage discharges
46% reduction

Safely return clean water to the environment

Abstract from rivers and aquifers

Clean water at our water treatment works

7 Ensuring responsible operations

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

Install smart meters to give more control over water use

Billing customers

8 Enhancing customer inclusion

300,000
households helped through social tariff support

Remove wastewater from customers' homes and businesses

Generate electricity

Treat wastewater at our sewage treatment works

Mitigating climate change

27% renewable energy
self generated

Business model continued

Becoming more sustainable

We are creating a positive legacy for future generations

We have a long standing sustainability policy, and our Purpose directly focuses on ESG outcomes with its reference to enabling customers, communities and the environment to thrive.

The United Nations Sustainable Development Goals (SDGs) have been developed to make the world more sustainable by 2030. Supporting them isn't an additional task for our business – it's part of what we do every day to live our Purpose to deliver life's essential service, so our customers, communities and the environment can thrive.

We fully support the aspiration of all 17 goals, but there are six specific goals where we believe we can make a real contribution.

See our Shaping the future section on p23

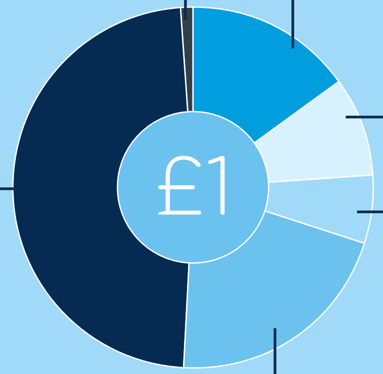
The value we create

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

3p
Lenders
By borrowing money at efficient rates, we are able to continue investing heavily in our infrastructure while keeping customer bills as low as we can.

15p
People
To pay our people, including pensions, and other benefits, so we are able to deliver essential services to our customers and protect the environment.

48p
Investment in our infrastructure
To increase the long-term resilience of our services to enable us to respond to the challenging external environment in which we operate.



8p
Energy
To keep this cost down, we are increasing the amount of electricity we self-generate and enter forward contracts to buy energy in the future at a predetermined price per unit.

20p
Operational expenditure
To operate and maintain our network and improve our customer service.

6p
Government
We paid over £118 million in business rates in 2022/23. We're not currently paying corporation tax, mainly due to tax deductions for interest payments on our debt and because we're investing heavily in our infrastructure. We receive tax relief under the Government's capital allowances scheme. We pay employment taxes in relation to our people costs.

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

Setting our bills

Ofwat is our economic regulator and aims to ensure that the sector delivers efficiently and effectively for current and future customers. Every five years we go through a price review process, which determines our business plan for the next regulatory period and sets our revenue and bills for the five-year period. We're currently preparing our plan for the next price review – PR24, with our business plan being submitted to Ofwat in October 2023.

Our average combined bill for 2023/24 is £456.

Our turnaround plan

Fixing the basics

Key
- Achieved
- On track

Fixing the basics is our most immediate priority and we still have a long way to go given the scale of the challenge. Our near-term focus is to tackle leakage, pollutions and service, and make sure we have the right leadership and working environment to deliver our best for our customers and the environment.

Performance remains challenging due to the condition of the network, impact of extreme weather and macroeconomic challenges

- Met 26 of performance commitments with a target for the year

You can find more information about our key performance indicators over the next few pages.

Understanding our asset health

- New 'asset health' dashboard to support investment decisions in our most 'at risk' assets

Extra support for customers and communities as cost-of-living crisis intensifies

- £50 million in WaterHelp tariff support for customers, a 22% increase on last year. Pledged support for 53,000 additional households in the billing year 2023/24, taking the total helped to 384,000 households. That means we will provide customers with just under £250 million of support over the next two years
- £500,000 invested in our independent trust fund, which provides debt advice as well as other support outside our essential services. We've invested £6.4 million in the fund in the last 10 years
- Over 350,000 customers are on our priority services register, 6.2% of our customers. This register helps us understand who might need extra help in an emergency, for example with bottled water
- Over 9,400 customers were helped through the customer assistance fund, a 150% in the last two years. It helps customers manage and reduce their water debt

Listening and engaging with the frontline to help fix the basics, and reinforce values and behaviours

- Sarah Bentley launched a new programme of engagement to connect the Executive team directly with employees on the frontline. During the year, she led 29, in person Hear 4 U: live sessions at 24 sites across the patch (see page 35)
- Our workforce engagement lead Director, Ian Pearson, continued to lead the Board's programme of workforce engagement, meeting employees at 19 sites including Guildford, Oxford and Beckton (see page 34)
- Launched 'Ask the Exec' virtual sessions for employees to ask key questions to members of the Executive team. Our CEO, Sarah, also attended All Hands Calls for all non-frontline business areas during the year

Focus on health and safety

- Increase in lost time incidents to a frequency of 0.17 per million hours worked, mainly due to minor slips/trips that resulted in RIDDOR notifiable incidents due to the nature of the injury. We've continued to focus on raising the importance of situational awareness to encourage colleagues to be more aware of their surroundings and spot potential hazards, to help reduce incidents

The targets we outlined for 2022/23

Achieved	Reduce complaints by a further 25%
	Improve overall operational performance by increasing the number of our performance commitments met
	Meet our leakage target for the fourth year in a row and deliver further improvements in other key performance metrics, such as pollutions
Achieved	Embed values and behaviours in people processes
	Reduce lost-time injuries by implementing process safety performance
Achieved	Drive operational and cost efficiency by simplifying key processes
On track	Prepare a compelling draft PR24 business plan for submission to Ofwat
On track	Increase transparency in our engagement with stakeholders and work in collaboration to deliver improved outcomes for customers, communities and the environment

Targets for 2023/24

- Reduce complaints by a further 25%
- Making transformational changes to the way we manage leakage to recover FY23 performance shortfall and help us get back on track to deliver our regulatory period target to reduce leakage by 20.5%
- Achieve a 25% reduction in pollutions since 2020
- Maximising the potential of our existing assets through improved asset management processes
- Continued active engagement with values and behaviours

Fixing the basics – our key performance indicators

Key performance indicators

Here's a look at how we're delivering against our key performance indicators, which are the areas where we're focusing our efforts as we fix the basics and deliver our turnaround plan.

We are going through a huge turnaround and extreme weather has had an impact on a number of our key metrics during the year, particularly water metrics such as leakage and supply interruptions, which are already sensitive to the age of our network.

Most of the KPIs outlined here are also performance commitments, except spills and complaints. Every five years we set performance commitments as part of our business planning process with Ofwat. You can find more information about all of them in our Annual Performance Report.

Some of our performance commitments are also outcome delivery incentives, known as ODIs, and can attract a penalty or reward based on our performance during the year. Our net ODI penalty for the year will be returned to customers in their future bills.

Our Customer Challenge Group

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

The 12 members of our CCG have a wide range of experience from a variety of sectors, including charities, local authorities, business and social housing in London and the Thames Valley. Members of the group also have a keen interest in environment and sustainability issues. Working alongside CCG Chair, Sukhvinder Kaur-Stubbs, the group's focus is currently on the development of our PR24 Business Plan and how it will reflect our customers' views.

This year, we met 26 performance commitments that have a target for this year.

Our performance this year means that we have incurred both penalties and rewards. The amount we incur is also known as outcome delivery incentives (ODI) and depends on how far we've missed or exceeded the target for an individual performance commitment, and specific calculation rules set by Ofwat.

Not all performance commitments have an ODI attached to them and not all performance commitments have a target for this year.

C-MeX and D-MeX performance results are an industry ranking and are not subject to ODIs as no individual company targets are set. Our penalties for C-MeX and D-MeX were £13.1 million and £5.7 million respectively.

ODI rewards/(penalties) in £m

Performance commitment	2022/23	2021/22
Water quality compliance	(16.043)	(1.262)
Water quality events	(0.142)	–
Leakage	(8.908)	–
Water supply interruptions	(20.022)	(6.956)
Mains repairs	(16.674)	8.714
Pollution incidents	(9.345)	(1.433)
Internal sewer flooding	(5.531)	(28.831)
Unregistered household properties	(0.211)	(0.211)
Empty household properties	0.231	–
Clearance of blockages	(8.811)	(6.410)
Renewable energy produced	2.096	0.725
Environmental measures delivered	–	(0.667)
Treatment works compliance	–	(0.123)
Security of supply	(0.224)	–
Sewer collapses	0.340	–
Reducing risk of lead	0.689	0.429
Empty business properties	0.278	0.497
Net penalty	(82.277)	(35.528)

Fixing the basics – our key performance indicators continued

Customer measure of experience–C-MeX

Performance

67.06 17 of 17 companies
(2022: 68.86 – 17 of 17)

About the measure

Our C-MeX performance is measured through two equally weighted monthly customer surveys and is a score out of 100.

The customer satisfaction survey is for a selection of customers who have recently contacted Thames Water, while the customer experience survey is for customers selected from our entire customer base, so they may not have contacted us before.

The results are used to calculate rewards or penalties based on our relative performance compared to our peers.

Our performance

Despite another significant reduction in complaints, with 28% less than 2021/22, we continue to be 17th in the industry for C-MeX.

Our performance during the year has been affected by the impact of extreme weather, including the need to impose a temporary usage ban during the drought and the negative sentiment associated with the restrictions.

In addition, the increasing focus on water companies and environmental performance had an impact on this measure. We expect to see some further deterioration in our performance due to the launch of our live storm discharge and event duration data on our website. You can find more about our new map on page 25. The data has, rightly, attracted a lot of attention, and we took another step forward at the end of April 2023 with the publication of information about planned investment at individual works. That said, as the only water company publishing this information, we have been recognised as industry leading by CCW and praised by external stakeholder groups for our step forward in transparency.

What we're doing

By the end of March 2023, all the customer facing agents were based in the UK. Training the new agents is a priority as well as creating the best working environment.

In 2024, we will move to new outsource partners to provide improved digital customer communications, back-office services, and document handling and post services to create a more efficient service for customers. As well as this, we're focused on fixing the basics in operations, to improve operational services to customers without water and when there are visible leaks, blockages or sewer flooding. As part of our planning for PR24 there are customer focused objectives, including, but not limited to, an increase in first time issue resolution, more proactive communication to improve case management, and a drive to enable customer excellence through an engaged workforce.

> Our complaints levels were going up for so many years, so reducing them has been a key focus as part of our turnaround plan.

Total complaints

75,768
(2022: 105,155)

While complaints isn't a performance commitment, it's one of our key performance indicators as it's a measure of how customers are feeling about their service. Our complaints levels were going up for so many years, so reducing them has been a key focus as part of the turnaround plan. During the year, we secured another huge reduction with 28% less total complaints than the previous year. As part of that, we secured a 54% reduction in telephone complaints, which was partly due to an increase in managers calling customers back to help get things right the first time. We also secured a 19% reduction in calls related to bills, helped by the use of webchat and our newly launched WhatsApp contact service in April 2022. Every month we handle around 15,000 messages and 30,000 webchats. Despite reductions in these areas, we did see a 15% increase in written complaints, so reducing these is a key focus for the team in 2023/24.

Water quality – compliance risk index

10.96
(2022: 2.59)

About the measure

The water quality compliance risk index shows the risks arising from treated water compliance failures. It is a calendar year measure.

This measure aligns with the current risk-based approach used by our water regulator, the Drinking Water Inspectorate (DWI). When a failure occurs, the cause is investigated and assigned a score between 0 and 5. The individual failures are aggregated into an annual score.

Our performance

We've missed our target for this measure. During the year, our CRI performance was affected by four microbiological failures caused by ingress in the contact tank at Coppermills water treatment works in February 2022 and at Hampton water treatment works in September 2022 (three incidents)

These incidents have been assessed as being unlikely to impact on public health. Due to the size of these works, the failures have a greater impact on our overall performance against this measure than at a Thames Valley site, as it's measured by the amount of water treated by the site.

What we're doing

We complete over 400,000 water quality tests each year and pass 99.97% of them. Despite that, we know we need to improve our performance in our regulatory CRI measure and we're investing to maintain and improve the health of our assets.

We have 'Coliform Zero' and 'Turbidity Zero' improvement plans, to reduce risk and reduce ingress at the large London water treatment works. In 2022/23 we took immediate action to cover our contact tanks at both Hampton and Coppermills water treatment works, to address the risk of ingress. We're also rolling out plans to address risks at Fobney, Netley, Kempton, Coppermills, Ashford and Hampton. As part of those plans we've successfully covered the contact tank at Hampton water treatment works, to prevent ingress and reduce risk. We're also continuing to develop our training and competency framework, and to make sure we have the most robust procedures in place.

Fixing the basics – our key performance indicators continued

Leakage

602.2 million litres a day

(2021/22: 605.6 million litres a day)

About the measure

This is a calculation of how much water is leaking from our network on a three year rolling average. It also includes the amount of water that leaks from customer pipes, known as customer side leakage.

The figures are based on a three-year rolling average and the percentage reduction is calculated using a three-year average from the 2019/20 baseline.

Our performance

Extreme weather had a major impact on our water metrics in 2022/23, including leakage and supply interruptions, as our network faced two weather events at opposite extremes in the space of months. We missed our target for FY23.

In response to the July-August drought, we immediately enacted a substantial and ambitious Leakage Recovery Plan ("LRP"). With the initial focus to develop an end-to-end plan to reduce and repair the leakage outbreak, we:

- Enhanced and improved upon our Director-led, daily, weekly, bi-weekly cadence of meetings with executive sponsors and independent reviewers
- Increased repair and maintenance team capacity
- Took learnings from the Beast from the East to support our customers in how they can identify, report and repair leaks on their pipes
- Extended our working patterns and adjusted elements within our policies, such as our Customer Side Leakage (CSL) self- fix parameters, to find and fix leaks more quickly
- Built a plan to manage the potential impact of a more severe winter
- Introduced an experienced Leakage Recovery Programme Manager in November 2022 to support the end-to-end drive on performance
- Adjusted our ways of working across our end-to-end find and fix business (leakage detection, planning and scheduling, and repair & maintenance) to create local ownership, fostering collaboration and control.

What we're doing

We've set ambitious targets to recover our performance, including more leakage-focused repair teams on the ground and the installation of more smart meters to improve our understanding of consumption. Our recently launched Leakage Transformation Programme ("LTP") sets out to improve our ability to tackle leakage and bring our performance back on track.

The programme has been structured under three key themes:

- Fix the right leaks, faster – new tools to make better use of data to allow us to prioritise leaks and reduce repair times. We'll improve our ways of working to boost local ownership; and implement systems and processes to help detect more leaks through educational and awareness campaigns
- Understand leakage and consumption –install more meters in large buildings, such as blocks of flats to improve our understanding of consumption across different property types, and we'll install smart meters in areas where there is a high demand for water
- Build sustainable foundations –changing our ways of working to deliver sustained leakage management and to set us up for long term success. A new leakage operating model will result in coordinated decision-making, improved awareness across our network, and will focus on delivering improvements in the most effective and efficient way possible.

Impact of extreme weather on our pipes

Much of the ground in our region is clay which hardens when it dries out, locking our pipes in place and reducing flexibility. Driving vehicles on this solid ground can make the problem worse as vibrations caused the solid ground to crack.

At the same time, customers are using more water during the excessive heat, which increases the amount of water that needs to be pumped around the network. This leads to an increase in pressure in the pipes, causing them to break.

Taken together, the ground condition and increased pressure in the pipes, led to the spike in mains bursts. The drought led to a 38% increase in mains bursts with the dry ground increasing the stress on ageing pipes.

In December, our ageing network was put under further increased stress with a freeze thaw seeing temperatures go up 17°C in one day. The sudden change in temperature causes pipes to crack and led to a new surge in leaks.

Supply interruptions

19mins 54secs

(2022: 11mins 03secs)

About the measure

This is the average number of minutes our customers don't have water, for interruptions lasting three hours or more.

Our performance

Two major bursts in Oxford and Belsize Road, London had a significant impact on our performance in this measure, with the two together leading to supply interruptions of nearly 8 minutes.

There were also other significant bursts at New Mill Lane in July 2022, Netley Mill water treatment works in August 2022 and Ladymead water treatment works in November 2022.

What we're doing

In addition to the work outlined in our approach to tackling leakage, to improve our supply interruptions performance, we're continuing making improvements to our incident management. That includes an increase in the use of tankering to keep customers in supply when there's a burst main. We're also using insight from data captured by pressure loggers in the field to better understand incidents, and investing in power resilience.

Fixing the basics – our key performance indicators continued

Acceptability of water to customers

0.44
(2022: 0.49)

About the measure

This measure records the number of times per 1,000 people, we've been contacted by customers in relation to their water. This is a calendar year measure.

Our performance

We met our target for this performance commitment and we expect to meet it for the rest of the regulatory period.

What we're doing

We will continue to take steps to minimise customer complaints relating to water quality issues through day-to-day operational management. We'll also make sure we continue to provide relevant information on our website about water and quality.

> We have seen a slight reduction in our consumption levels, despite experiencing a peak in water demand across the summer due to the drought.

Per capita consumption

146 litres a day per person
(2021/22: 147.5)

About the measure

This performance commitment measures the amount of water our household customers use and is calculated as a three-year rolling average.

Our performance

While we have not met our target for the year, we have seen a slight reduction in our consumption levels.

We believe that some of the reduction in usage is due to the cost of living crisis as people reduce their hot water consumption to reduce energy bills. We put a temporary usage ban in place, during the drought, which encouraged a further reduction in customer usage.

We continue to experience significant post-Covid hybrid working changes in the balance of household versus business water use. Our per capita consumption levels vary across London and the Thames Valley. This is mainly due to the roll-out of smart meters being more advanced in London.

What we're doing

We continue to roll out our smart metering programme, which will help encourage customers to save water. The smart meter data we collect will be analysed, so we can proactively engage with households to help them become more water efficient.

We've introduced an environmental incentive for developers, offering financial incentives if they increase the water efficiency performance of fittings and appliances in new homes.

To help keep water use down during the summer months, we've been increasing our water saving messages across our channels (using emails and SMS) to help customers know how to save water.

We're also implementing an 'always-on' customer campaign across all media channels to highlight our water resource status and water efficiency benefits. We will also develop regular and proactive direct customer engagement through an enhanced digital customer engagement platform.

Treatment works compliance

99.48%
(2022: 98.96%)

About the measure

This is the percentage of our water and sewage treatment works which are compliant with their permit conditions. It is a calendar year measure.

Our performance

We've improved our performance during the year, increasing from 98.96% compliance last year to 99.48% this year. Despite that, we missed our target for the year due to failures at one sewage treatment works and one water treatment works.

There was an ammonia failure at Chalgrove sewage treatment works in May 2022 and a pH failure at Fobney water treatment works in February 2022. As our performance was above the 'dead band' (penalty range) we will not incur a penalty for our performance.

What we're doing

As part of the incident reviews, actions have been agreed to mitigate future risk of similar occurrences. Progress on the agreed actions is reviewed at the monthly compliance and pollution steering group which is chaired by the operational leadership team.

> In August, storms led to flooding incidents being 600% higher than expected.

Internal sewer flooding

1.91
(2022: 3.46)

About the measure

This is the number of incidents of sewage flooding homes and businesses per 10,000 sewer connections

Our performance

We have significantly improved our performance compared to last year, with a 45% reduction in incidents. However, we've still missed our target for the year, due to some significant weather events, particularly in London,. The flash flooding in London in July 2021 led to a spike in incidents during that year, meaning the scale of the reduction this year is partly attributed to the higher levels experienced last year.

In August, storms led to hydraulic floods being 600% higher than expected, and the weather in November led to a 140% increase on a typical year. With the lack of green space in London and densely populated areas, sewer flooding after heavy rain has a greater impact compared to the Thames Valley.

What we're doing

To continue improving our performance, we're reviewing our plans and focusing on preventing sewage backing up in homes and repeat flooding incidents. We're also improving our service, by making sure we get the right information from engineers and customers at the first point of contact, so we can speed up investigations and the scheduling of follow ups. The follow ups will give the flooding team more time to analyse floods and trends to improve proactive measures to prevent incidents.

Scan to see river health action plan

Scan to see pollution incident reduction plan

Fixing the basics – our key performance indicators continued

Pollutions

30.37

(2022: 24.87)

About the measure

This is the number of total pollution incidents per 10,000km of sewer pipe and is a calendar-year measure.

Our performance

In alignment with the latest update from the EA, we had 331 pollution incidents in 2022, the equivalent of 30.37 per 10,000km of sewers, meaning we missed our target for the year.

The weather during the year had an impact on our performance, as well as the age and condition of our assets. Storms in January and February 2022 led to power outages which resulted in a large increase in pollution incidents. The EA has chosen to exclude the impact of Storm Eunice (seven incidents in February 2022) from our pollution's performance metric for this reporting period.

The drought in the summer also had an impact on our performance. The lower-than-normal river levels meant pollutions had a bigger impact on the river than they would have done if river levels were higher.

What we're doing

Our plans for improving our performance are set out in our Pollution's Incident Reduction Plan ("PIRP"), which we are in the process of updating and will publish a revised version later in the year. The latest version can be found on our website using the QR code on the right hand side of this page.

As well as rolling out the PIRP initiatives, we will deliver a transformation plan focused on additional training and changes to our existing processes.

12 This excludes 7 incidents relating to Storm Eunice that the EA has stated will not count in our final total.

The difference between pollutions and storm overflows (spills)

Discharges into watercourses can be put into two categories

Pollution incidents: When our systems fail or a third party blocks our network, which can have acute consequences. Our pollution incident reduction plan focuses on reducing pollution incidents including serious pollutions.

Storm overflows (otherwise known as spills): When the system operates as it was designed to do, though the circumstances may or may not be permitted. The main cause of many storm overflows can be traced back to either rain or groundwater getting into our sewers and increasing the flows beyond the capacity of our sewers, pumping stations or treatment works. In some areas, such as Central London, the system has been designed to operate in this way. Elsewhere, allowing good, clean rainwater to be contaminated with sewage and then transporting it to our works to be cleaned makes no sense. It deprives the natural environment of much-needed clean water and makes our treatment process less efficient. Our River health action plan, with the latest update published in April 2023, looks at what we're doing to improve river health in the round, and includes both pollutions and storm discharge reductions.

Sewage discharges (Spills)

8,014

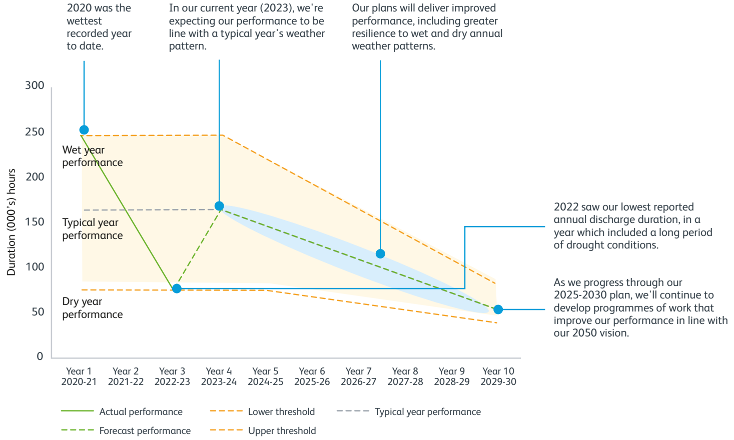
(2022: 14,713)

About the measure

We added this to our key performance indicators last year. It's the number of discharges each year.

Our performance

We've significantly reduced sewage discharges during the year, with a 46% year on year reduction, however much of that reduction is due to the dry weather in Summer 2022. This graph shows how the weather can have an impact on our discharges performance.



What we're doing

We're committed to reducing sewage discharges and, as part of that, we're just a couple of years away from the Thames Tideway Tunnel going into operation, which will significantly reduce the need to discharge into the tidal River Thames. With an investment of £4.6 billion, it will be the largest and most significant wastewater project since Sir Joseph Bazalgette created London's sewage system in the 1860s and will support growth in the Capital. Across the rest of our region, we've developed a detailed programme for reducing the number of overflows from our sites, which includes removing surface and/or groundwater from our sewers in some cases. You can find more information in our river health action plan.

Blockages

73,780

(2022: 74,569)

About the measure

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

Our performance

We've missed our target this year, with about 80% of blockages caused by the wrong things being put down the drain, including fat, oils, greases and wet wipes.

What we're doing

We are reviewing our resource and vehicle availability to ensure a prompt, 'right first time' response. We are also continuing to improve the analysis informing our planned cleaning programme, so that we proactively clear blockages from the most problematic areas of the network. This should also reduce our sewer flooding risk. The lower the number of blockages, the fewer issues we have with the operation of the sewer network

Scan to see river health action plan

Scan to see pollution incident reduction plan

Our turnaround plan

Raising the bar

Key

Achieved

On track

Raise the bar

This strand focuses on transforming critical areas of the business, with investment in customer service, operations, people, assets and strategic planning. We've invested record amounts during the first two years of the turnaround plan to lay the right foundations so we can 'raise the bar'. However, we still have huge investment needs.

Getting closer to customers

- All customer facing call agents are now based in the UK, creating 175 new jobs in Swindon
- Our new LivePerson channel was launched, so household customers can contact us by WhatsApp

Record investment in assets to drive turnaround

- Record £1.8 billion investment, bringing total turnaround plan investment to over £3.1 billion in two years.
- Projects we invested in during the year include new trunk water mains, such as our Faringdon to Blunsdon main in the Thames Valley, the inspection and refurbishment of the ring main, the Northern Outfall sewer and our ongoing metering programme
- Thames Tideway Tunnel is on track for completion in 2024 and to be handed over to Thames Water for the commissioning process in 2025. Benefits of the Lee Tunnel are clear as fish return to Channelsea River
- As part of this regulatory period, Ofwat conditionally allowed us a £300 million allowance to enhance the performance of our London water network. The allowance was conditional on us delivering an agreed scope of work through a gated process, and on a substantial contribution from shareholders to the cost of the improvement works. In November 2022, Ofwat confirmed we'd met the agreed requirements and we committed a significant shareholder investment of £400 million that will benefit customers across the region through investment in water supply

More efficient operations with a local focus

- New regional operating model launched in April 2022, with separate operations teams for London, and the Thames Valley and Home Counties
- Insourced repair and maintenance of water network to increase control and efficiency of activity

Becoming smarter

- Smart meter roll out continues, with over 900.000 in place across the region to support customer bill reductions, leak detection and reduce consumption. Over 150,000 installed during the year
- Installed over 4,800 sewer depth monitors, which help locate blockages, so we can more proactive in clearing them

Supporting our people

- Major review of ways of working and terms and conditions of employment to ensure fair pay and reward and better support for customers. Overall 7.5% increase in pay for frontline employees, plus a cost-of-living payment in April 2023
- Plans to launch a performance-driven bonus for non-manager grades

Strategic planning and preparing for PR24

- Every five years we submit a business plan to our economic regulator Ofwat. Our PR24 business plan sets out what we will deliver for our customers in the period 2025 – 2030, as well as our long-term delivery strategy and how that aligns with our Vision 2050 ambitions. Our teams are well advanced with the plan, which is built following extensive consultation and feedback from our customers and communities, and key stakeholders including DEFRA, EA and Ofwat

Targets we outlined for 2022/23

- Continue rollout of smart meters by installing at least 100,000 during 2022/23, which will increase customers' control over their water use and help reduce consumption (Achieved)
- Insource the management of our water network to increase control over operational work (Achieved)
- Embed new regional operating model (Achieved)
- Expand our use of smart water and waste tools (Achieved)
- Ramp up investment in major projects to increase resilience for customers and environment (Achieved)
- Prepare for the final handover of the Thames Tideway Tunnel, a landmark spills reduction project (On track)
- Develop new Health and Safety processes plan to raise the bar and make sure colleagues go home safe and well each day (Achieved)

Targets for 2023/24

- Install a further 170,000 smart meters
- Complete critical asset upgrades including the Faringdon to Blunsdon water main in the Thames Valley
- Install 5,000 more sewer depth monitors
- Complete detailed review of the health of our asset infrastructure
- Smart Water operating on 75% of our District Metered Areas

How we're raising the bar continued

To improve our service and support our turnaround. We've been doing more analysis of the reasons behind customer satisfaction. One area that customers consistently raised as an area for improvement was the location of our voice call centre. Customers want to speak to local teams who have a greater understanding of their geographical area.

So, after 21 years of outsourcing our voice contact to areas outside our region, including Rotherham and Cape Town, South Africa, we've brought all customer facing telephone services back into our region. In January 2022, we moved away from Rotherham and by early April 2023 had stopped serving customers from Cape Town too.

It wasn't a quick fix, taking six months to get the new team in place, but we've now recruited more than 175 new colleagues into our Swindon based contact centre, with a hybrid pattern of work.

While it's very early days there are signs it will help improve customer satisfaction and we look forward to working with the new team to deliver a better, local service for our customers.

Over 175

new colleagues recruited into our Swindon based contact centre

How we're raising the bar continued

Getting smarter to save water

When, where and how much water we use is changing. We're seeing increasingly volatile weather like the summer drought and winter freeze/thaw, and Covid-19 has accelerated changes to where and when we work. In our water-stressed region, every drop counts, so the better we can mitigate the impact of these stressors, the better we can protect our customers and the local environment from the pressures of climate change and population growth.

By the end of 2022/23 we were over 900,000 smart meters along our journey to rolling them out across our whole patch by 2035. These little boxes live below the pavements, sending data every hour that's visible online for customers and for the teams at our newly in-sourced smart meter operation centre. Our teams crunch 18.5 million meter readings every single day to better understand how our customers use water. Compared to 2015 when we received 2.5 million meter readings in an entire year, this huge increase in data is changing how we support customers and we've invested in technology to manage the data flow and make it available faster for customers.

So far, a meter reduces average water use in the home by 13% and it's an important tool to indicate leaks on our customers' pipes by identifying constant and unusual water flow. The more meters we install, the more leaks can be fixed and the more we can help customers to reduce their bills, in turn protecting our water supplies and the local environment.

Our smart meter operation centre team also uses smart meter readings to engage with businesses where consumption is unusually high, to help them increase their water efficiency and reduce their bill.

The programme is a core part of our strategy to meet our Water Resource Management Plan and achieve our Vision for 2050, securing water resources for the future. Despite the industry still recovering from a global shortage of semi-conductors – an essential component in our smart meters – our supply chain has worked incredibly hard to support us and we're continuing to install meters at speed across our region

Number of smart meters we've installed this year

Over 150,000

Number of meter readings our teams crunch every single day

18.5 million

> "A meter reduces average water use in the home by 13% and it's an important tool to indicate leaks on our customers' pipes by identifying constant and unusual water flow.

ESG highlights

River health
46%
reduction in spills

Communities
£1m
invested in community projects

Energy
21.3%
of our own electricity needs self-generated

Sustainable Financing Framework
€ 1.65bn
of green bonds issued

Smart meters
900,000
now installed

Apprentices on board
223

Our Turnaround Plan

Shaping the future

This is about making the right decisions today to secure the future of our essential services. It's aligned to our Vision for 2050, covering the themes of waste and rivers, water resources, energy and community impact. It also includes our biodiversity performance.

Waste and rivers

What we've achieved in 2022/23

- Successfully published our first Drainage and Wastewater Management Plan (DWMP). This is a long-term plan over 25 years or more and sets out the future challenges for our drainage and wastewater systems and the actions needed to manage them. It will also support the development of our PR24 business plan for 2025 to 2030 (SDG 6)
- Published updated River Health Action plan in April 2023
- After making the commitment last year, we're leading the way in industry transparency as the first company to publish live data about sewer discharges from all sites
- An improved performance in treatment works compliance with 99.48% (SDG 6)
- 46% reduction in spills (SDG 6) (see page 18)
- 99.4% sludge management compliance with regulations and codes of practice (SDG 12), as audited by the Biosolids Assurance Scheme classification

Targets

- Reach 100% treatment works compliance (SDG 6)
- Deliver the Thames Tideway Tunnel to improve the health of the River Thames (SDG 6)
- Deliver three smarter water catchment plans by 2025
- Deliver Surface Water Outfall Programme (SWOP) to identify and resolve incorrectly connected drainage
- Achieve 100% sludge management compliance with regulations and codes of practice (SDG 12)

Water resources

What we've achieved in 2022/23

- Installed over 150,000 new smart meters, bringing our total to over 900,000 during the year
- Reduced water consumption to 146 litres per person per day
- From April 2023, Environmental l incentive discounts are now more accessible to developers who factor in water efficiency into their designs
- Achieved 99 on Security of Supply Index, which indicates the reliability of our supply
- 44.2Ml/d on Abstraction Incentive Mechanism due to the drought
- Drought plan was put into a ction in Summer 2022, with a temporary usage ban put in place to keep customers in supply
- Completed public consultation on our Water Resources Management Plan, which looks at how we will protect water resources to 2100
- Progressing our collaboration with Water Resources South East to secure a multi-sector regional resilience plan, to protect future water resources for customers. Opportunities include a new reservoir, water transfer and water recycling and 'gate 2' has now been submitted. The plan will feed into a wider national plan to build resilience and opportunities to collaborate

The impact of the drought on resources

During the Summer of 2022, our network and performance were severely affected. After six consecutive months of low rainfall, there was a high-level soil moisture deficit, which means the ground was a lot drier than normal,, leading to a spike in leaks. At the same time, there was a 50% increase in demand for water as customers used more water to keep cool in the hot weather. That led to a rapid drop in our raw water reservoir levels and ultimately led to the need to impose a temporary usage ban in August.

Targets

- Water quality compliance of 0 (SDG 6)
- Install 700,000 smart meters by 2025 (SDG 6)
- Reduce per capita consumption to 136.8 l/p/d by 2025 (SDG 12)
- Achieve a security of supply index of 100 every year (SDG 6)
- Cease abstraction from chalk streams by 2050
- Successfully deliver our Water Resources Management Plan by 2024 (SDG 6)
- Secure future water resources through Water Resources South East collaboration
- Improve our resilience to a 1 in 200-year drought by 2030

Shaping the future continued

Energy transition

What we've achieved in 2022/23 (market values)

- Where we can't self-generate, we buy 100% renewable electricity
- 281 GWh renewable electricity generated from sewage (SDG 13) (2021/22: 317 GWh)
- Self-generated over 21.3% of our own electricity needs (SDG 13) (2021/22: 24%)
- 321.9 kTCO_2e of net operational scope 1 and 2 GHG emissions as CO_2e including outsourced Scope 3 – water and wastewater (2021/22: 269.8 kTCO_2e) The GHG emissions reporting methodology changed in 2022/23 and now includes 64.3 ktCO_2e of additional, previously excluded scope 3 emissions such as chemicals, disposal of waste and energy and fuels. In 2022/23, our net operational market-based emissions decreased by 12.1 ktCO_2e to 257.6 ktCO_2e when using a like for like methodology.
- Reduced our direct use of fossil fuels by over 41% and associated emissions from 28.3 kTCO_2e to 16.6 kTCO_2e
- Reduced our total energy use from 1,606 GWh to 1,590 GWh

Targets

- Self-generate 517 GWh of renewable energy by 2025 (SDG 13)
- Achieve net zero emissions from our operations by 2030 – see page 45 for more information about net zero
- Develop renewable energy and renewable fuel opportunities that contribute to energy transition in the UK (SDG 13)

Trialling electric vehicles

In October 2022, we started a trial of 10 electric commercial vehicles (LCVs) to help us understand and analyse the practicalities of using them operationally.

We'll use the learnings to support the transition of our wider fleet of over 200 LCVs away from fossil fuels.

As part of the pilot, we're installing charge-points at colleagues' homes and trialling new job areas, so teams can factor in challenges around vehicle range and charging time. We'll use what we learn as part of this project to explore transitioning our heavy good vehicles and plant vehicles to electric too.

We expect to only buy alternatively fuelled or electric LCVs by March 2026, and will operate a mixed fleet until it has been fully refreshed.

Community impact

What we've achieved in 2022/23

- £1.1 million investment in communities
- £280,000 of support for WaterAid and Dementia UK, our corporate charities, more than double the amount raised in 2021/22
- Reached almost 23,000 young people as part of our schools' programme to promote a love of water and STEM skills
- Supported over 3,700 hours of volunteering in our local communities, a 43% increase compared to last year
- 223 apprentices now on board, and five T-level industry placements during the year – T levels are courses offered after GCSEs and give students practical and knowledge-based learning at a school or college together with on-the-job experience through an industry placement.
- Launched new water walls, with Team Thames covering 370 shifts through the day and night to run water stations during the period of national mourning for Her Majesty Queen Elizabeth II
- Partnership with Mayor of London on 'Water Only' schools initiative to encourage schools to only have access to water on site

Biodiversity

What we've achieved in 2022/23

- Created over 6 hectares of new biodiversity habitat
- Generated 28.69 biodiversity units of habitat, where we have been able to measure
- Enhanced 46 sites for biodiversity
- 94% of our SSSI site are in favourable condition
- 20,000 trees planted

Targets

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

Shaping the future continued

A leap forward in transparency

Discharges of untreated sewage are unacceptable to us, our customers and the environment, and are working with the government, Ofwat, the Environment Agency and others to accelerate work to stop them being necessary.

Getting to a position where storm overflows are no longer necessary will take time, effort, and sustained investment, however we've been taking a progressive stance and positive action to move forward.

Transparency is critical to rebuilding trust, which is why we decided to launch an interactive map showing near real-time storm discharge activity as indicated by our Event Duration Monitoring (EDM).

You can use the map to see if our monitors indicate:

- that an overflow could be currently discharging into a watercourse
- the date, time and duration of the last recorded discharge

The launch of our EDM map is putting significant new information into the public domain. We need people to understand what's going on and to help bust the myths of sewage "dumping". Only then can we have a conversation about what collectively needs to be done, who's going to do it, how it gets paid for and – given that it'll take 30 years – what order to do things in.

The myths of sewage "dumping"

Combined sewers carry wastewater from homes and businesses; however, they also collect rainwater which falls onto areas like streets and roofs. In normal conditions this water travels to a sewage treatment works to be treated before it is discharged back to rivers and streams.

However, during a weather event (i.e. a storm or extremely heavy rainfall), storm overflows can be used to store wastewater until the treatment works has capacity to treat it or divert some of the water into watercourses – known as a 'storm discharge' or 'spill'. This is essential to prevent sewers flooding our homes, gardens and streets. Although the water does contain some untreated sewage, storm discharge is heavily diluted because it's mostly rainwater.

Storm overflows should only be used when necessary. Storm overflows are regulated by the Environment Agency and discharges are legally allowed, under the conditions of the Environment Agency permit.

> "Getting to a position where storm overflows are no longer necessary will take time, effort and sustained investment, however we've been taking a progressive stance and positive action to move forward.

How our map works

We decided to show the data from EDMs in near real-time and make it user friendly so customers know at the same moment as our operational managers whether there could be a spill. It's important to us to have information accessible for customers quickly and run the risk of needing to make corrections, rather than verifying data first that would have stopped the map being a live resource.

Although EDM gives us valuable insight to how our storm overflows are working, it isn't always accurate. The monitors are sensitive – even the movement of a weed growing in front of the monitor could set it off which could indicate that the overflow is active when it isn't.

EDM doesn't confirm discharges, it only indicates where an overflow could be active. We're being open and sharing our data exactly as we receive it, so you can make more informed choices. We're working with stakeholders to further develop the map and consider what additional information would best help to build trust. An initial focus is on current year EDM data and web cam images.

Our map only indicates storm overflow activity, not the other potential hazards in watercourses. With so many different factors affecting river water quality and safety of our watercourses, our data should not be used to determine if it's safe to enter the water.

Scan to see our EDM map

Shaping the future continued

Chesham sewage treatment works is just one of many works we're investing in as part of our record investment programme, with £20 million being invested in two phases.

This investment will help improve our resilience to climate change and population growth, preventing storm discharges and helping achieve good ecological status for the River Chess, one of the beautiful chalk streams in our region.

During the first phase of work we've increased the amount of wastewater we can treat by 112 litres per second. This phase of work was focused on increasing the capacity of the works and enhancing the treatment process.

Phase two is all about further reducing levels of phosphorus in the River Chess. We also have a programme to reline sewers and seal manholes to further increase the resilience on our network.

As well as investing in Chesham sewage treatment works to improve the River Chess, it's also the focus of one of our three, pioneering smarter water catchment plans for this regulatory period.

The smarter water catchments initiative sees us working closer with communities, to make bigger and better improvements to river environments, with a focus on collaboration and nature based solutions.

As well as being designed to improve river health in a sustainable way, the initiative has created jobs in the local community, with the team engaging with schools and hosting community outreach events.

Our approach has secured co-funding for projects, generating £4 of public value for every £1 invested, and the learnings are helping us to build plans for other rivers in our region.

With the combination of investment to improve our works and a focus on collaboration to improve river health through smarter water catchments, we're making real headway to improve the health of the beautiful River Chess, and create an environment for all to enjoy.

Looking after our people

Building a strong Team Thames

"We're building a pipeline of skills from our communities and education sector, ensuring we have a diverse and inclusive workforce that represents the customers we serve and provides good work for all. We want to contribute to the creation of a fair society and tackle real challenges, such as digital skill shortages and in-work poverty, and ensure our people receive the right investment in skills development to have successful and sustainable careers.

Lynne Graham
People Director

Health and safety

Making sure that our colleagues and those who work with us to deliver our essential services to our customers go home safe and well every day is our most important priority. During the year, we saw an increase in lost time incidents to a frequency of 0.17 per million hours worked, mainly due to minor slips/trips that resulted in RIDDOR notifiable incidents due to the nature of the injury. We've continued to focus on raising the importance of situational awareness to encourage colleagues to be more aware of their surroundings and spot potential hazards, to help reduce incidents.

	2023	2022
Health and safety lagging indicators		
RIDDOR incidents	**21**	19
Number of lost time injuries (non-notifiable)	**29**	27
Lost time injury frequency rate	**0.17**	0.15
Non-lost time injuries	**144**	116
Near miss ('high potential') incidents	**20**	26
Days lost to work-related illness	**379**	193
Days per FTE of absenteeism due to sickness	**6.2**	7.43
Health and safety leading indicators		
Health and Safety observations	**84,318**	98,342
Senior management site visits	**1,545**	641
Health and Safety inspections	**35,825**	38,236
Health and wellbeing surveillance	**2,758**	2,665
Corrective actions closed	**31,545**	35,952

Investing in strong leadership to drive our turnaround

Effective leadership is critical in supporting our frontline-first approach, ensuring we deliver for our customers and achieve our turnaround plan. Our leaders must not only have the relevant skills and experience to take us into the future but create a culture of engagement by role modelling our values and behaviours.

The strategy to create a stronger leadership team is twofold: recruit externally and develop those within Thames Water.

We've maintained our focus on strengthening our Executive leadership team and wider leadership community. The Executive team spend two days every four months focusing on building trust, effective mutual challenge, and support to be a high performing team. Leading a business through a turnaround requires stamina and resilience so we've also focused on our wellbeing and that of our teams.

We continue to provide development opportunities for all leaders in line with our Leading with Purpose framework. The framework sets out what "good" leadership looks like by defining the People, Performance and Personal behaviours expected of all our leaders. A key enabler of each of these behaviours, and consequently employee enablement and engagement, is coaching, so it's a key part of the turnaround plan. Developing leaders who coach as part of their everyday leadership style is key to ensuring our colleagues feel empowered, supported, and motivated to perform at their best. By encouraging our leadership teams to listen and question more, we're aiming to increase empathy and trust.

We've also continued to invest in the two-day Leader as Coach programme, with over 80 senior leaders attending since 2021. Coaching training is also available to our front-line managers through the Coaching@Thames programme. This programme is delivered via two online workshops and has now reached over 300 managers across all areas of Thames.

A new addition to the Leadership development portfolio is the Leading@Thames programme that aims to give leaders a range of skills and tools that will enable them to demonstrate the Leading with Purpose behaviours. Content of this series of one-day workshops includes self-awareness, leadership styles, change management, employee engagement, collaboration and systems thinking. The workshops are being scheduled in locations across the Thames Water region to maximise accessibility.

Investing in our people

Working in collaboration with our Trade Union partners, this year we've implemented a new job family structure underpinned by market benchmarked pay ranges. All our people were mapped to these new job families to ensure we provide competitive market-based pay. Where employees fell below the minimum of the new pay ranges their base pay was uplifted and in addition, a 5% pay increase in base pay was awarded to all grade A and B employees. Whilst reviewing our pay structures, we also took into account the many variable pay elements which were complex and also made market comparisons difficult to understand. We combined various allowances into base pay to provide our employees with greater certainty and higher pensionable earnings. The overall increase in pay for our frontline colleagues was just under 7.5%.

In addition, as part of the restructuring of pay, we undertook a major review of our ways of working and terms and conditions during 2022. This impacted working patterns and provided a simplified structure for how we reward our employees.

Engaging with our people

We have continued to prioritise front-line engagement and listening to colleagues across the business through Hear for you: Live (see page 35), our internal social media platform (Yammer), our network of designated Engagement Champions and Board Director engagement sessions (led by Ian Pearson). All provide rich sources of feedback that inform the business and people plans developed and managed at all levels across the business.

In April 2023 every employee was invited to respond to our 'Hear for you' colleague engagement survey. 6,082 colleagues took part (an 80% response rate), our highest ever. Our engagement index score of 69% was the same as 12 months ago, despite the challenging year it has been for many.

Reconnecting with our values and behaviours

We want all our employees to behave in ways that align with our values, so we are set up for success to deliver our turnaround plan.

We launched our new 'Living our Values' programme of events to senior leaders in January 2022 using personal stories and videos to bring the values and behaviours to life. Since then, we've continued to roll out 'Living our values' sessions to all teams, to embed our Purpose, support engagement and help create a great place to work.

Looking after our people continued

We've reviewed all our people processes – from recruitment to objective setting – ensuring we embed our values and behaviours in everything we do and to link with key business outcomes. We've also relaunched Speak Up, our campaign to encourage employees to feel able to speak up if they see something that isn't right, with a fresh campaign linked to values.

The reaction to the Living our Values sessions has been positive. A feature of the latest "Hear for you" results is the positive impact of the work we have done; 87% agreed that they understand how they can "apply our Values and behaviours in their role" and 82% of respondents said they "feel committed to Thames' Purpose." As well as measuring changes in behaviours in our annual engagement survey, we're also rebranding our annual recognition awards to reflect great behaviours.

Creating diverse and inclusive careers

Enabling everyone to bring their whole selves to work is critical to achieving our Purpose and is underpinned by our values and behaviours.

In late 2022, we aligned our diversity and inclusion strategy with resourcing, skills, and emerging talent to create a more joined up approach. As a result, we have created a central team to help the delivery of key priorities. We also reviewed our diversity strategy and are focusing on four key priorities:

Our diversity strategy

1. **Living our values;**
   Collective behaviours essential for inclusivity
2. **Attraction and retention;**
   Create a great place to work for everyone
3. **Reporting and insights;**
   Effective use of data in decision making and action
4. **Empowered networks;**
   To deliver meaningful and sustainable change

We remain committed to ensuring that inappropriate behaviour is dealt with promptly and appropriately. Following feedback from the employee networks we've introduced two new interventions.

The first has been to recruit and train a group of 15 internal mediators from diverse backgrounds to provide an informal channel for people to raise concerns and resolve with support.

We have also developed an externally delivered programme called 'Respect at Work' which enables managers to practice, in a safe environment, how to deal with instances of inappropriate behaviour.

Our inclusion networks

We have a vibrant set of inclusion networks – each of which has an Executive team and Leadership Community sponsor.

Our networks have delivered a number of key initiatives and created forums to support our people with real life challenges. Below are some examples of the great work and impact during the year.

- Our Women's network has delivered a Menopause campaign that has engaged with many colleagues across the business and created a menopause space on our Occupational Health online portal
- Our Pride network has led the way to achieving the Stonewall LGBTQ+ Inclusive Employer Silver Award and Highly Commended Network Group for 2023 in the Workplace Equality Index
- Our Multi Faith network has collaborated externally, engaging with companies to develop best practice for multifaith networks, with the aim of establishing a national faith friendly workplace accreditation
- The Men's Allies network provides a safe environment for men to talk openly and honestly about themselves and how they are feeling. Just over a year old, they have over two hundred active members and delivered several lunch-and-learn sessions covering subjects such as Suicide, Fertility, Prostate Cancer, Mental Health & Wellbeing, Financial Advice and Physical Health
- Our Parents and Carers network has been working together to understand the challenges of the parenting journey and developed a 'Becoming a parent' supporting guide to help. They have formed a support group for colleagues going through fertility treatment and created the platform to hear from colleagues who are parents of neurodiverse children.
- Our DAWN (Disability, Allies, Wellbeing and Neurodiversity) network has renamed itself so they now represent those with a disability (visible and non), as well as people with long term health conditions and those with a learning difference or who are neurodivergent

'Winning in Waste' awards

Last December, after a series of Living our Values events with our managers, we hosted our first ever 'Winning in Waste' Awards.

The awards gave everyone in wastewater operations (London and Thames Valley and the Home Counties) the opportunity to recognise their colleagues for demonstrating the very best of our values.

We received more than 190 nominations across eight categories and over 300 people tuned in to hear the results. We're already looking forward to hosting the awards again this year and celebrating all the wonderful achievements of TeamWaste.

See more at www.weblink.com

Over 190
nominations across eight categories

Looking after our people continued

- Our People Director, Lynne Graham, chairs the Energy and Utility Skills Diversity and Inclusion Strategy Group that brings together businesses to share learnings and agree initiatives to make the entire sector more diverse.

Recruiting a workforce that reflects the diversity of our region

One of the biggest people challenges we face is securing the core skills we need today and for the future; particularly those skills which are either industry-specific or in high demand and short supply.

In early 2021, we launched our Skills Strategy, designed to support our Purpose, and create a diverse workforce for now and the future. You can find a copy of our Skills Strategy on our website.

It enables us to be forward-thinking, considering both the short and long-term skills requirements for the business as well as the external skills landscape and wider economic factors. A skilled workforce supported by a robust education and skills system will drive social mobility, promote inclusion, and provide quality work opportunities for all. We want to contribute to the creation of a fair society and tackle real socio-economic challenges.

In the last year, we've engaged with local untapped talent and formed meaningful partnerships with organisations, including within the education sector. We want to grow representation from under-represented and lower socio-economic groups including care system leavers, young black men, prison leavers, refugees, and survivors of domestic abuse.

To ensure more candidates progress into employment, we've invested in a new recruitment operating model including:

- Inclusivity training for hiring managers
- Removing the criminal conviction question from application forms
- Tracking progress of candidates that have come through partner organisations to ensure the right support is provided and barriers removed or specialist support provided
- Reducing referencing from five years to three years
- Promoting vacancies with community partners

These practices are having a positive impact. In the last year:

- As a signatory of Ban the Box, which opens employment opportunities to people with criminal convictions, we've recruited 9 employees who are prison leavers
- We've recruited 16 Young Black Men under the GLA Mayor's design lab scheme
- We've signed the care leavers covenant and recruited 6 care leavers
- As part of our commitment to ensure 5% of our people are in 'earn and learn' roles by 2025, we've now got 223 apprentices (2021/22: 166) – 104 joined the programme from within Thames Water undertaking 28 active apprenticeship qualifications. We've also recently launched a shared apprenticeship scheme with some of our key suppliers, which will give apprentices the opportunity to gain experience with a variety of employers within the sector.
- We've welcomed 132 people into Thames Water that were at risk of long-term unemployment. The success of this is clearly demonstrated by our sustained rates of employment at 6 months which is currently 80%. We also brought our successful Kickstart programme to a close, hosting a total of 100 people onto placements of which 71% secured employment. 54% secured roles in Thames Water and 87% sustained employment beyond 6 months.

Top 100
best apprenticeship employers

Employers
Domestic Abuse covenant

Signed
race at work charter

10,000
black interns

Armed forces
covenant gold status

Ban the box
signatory

Disability
Confident Committed

5% Club
club member

Apprenticeship
diversity champions network

Stonewall Silver award
and highly commended

Care leavers
covenant

Looking after our people continued

- The intake for our summer intern programme, which supports placements from diverse groups, included 47% female, 84% from ethnically diverse backgrounds, 16% with an impairment, health condition or learning difference, 53% from a lower socio-economic background and 21% care system leavers. All interns that have graduated have secured employment with Thames Water, including as a Solar PV developer, demonstrating how these initiatives support us filling niche skills demands
- We launched our first ever T levels placements in engineering and digital, hosting 5 students on placements and acting as a pipeline into our apprenticeship programmes

Our gender pay and ethnicity pay gaps

We've delivered another reduction in our gender pay gap and a reduction in our mean (average) ethnicity pay gap.

On 5 April 2023, which is the date we capture the data each year, our results were:

Mean gender pay gap
5.3%
(2021/22: 9.1%)

Mean ethnicity pay gap
10.0%
(2021/22: 9.7%)

Median gender pay gap
10.8%
(2021/22: 15.0%)

Median ethnicity pay gap
7.8%
(2021/22: 10.4%)

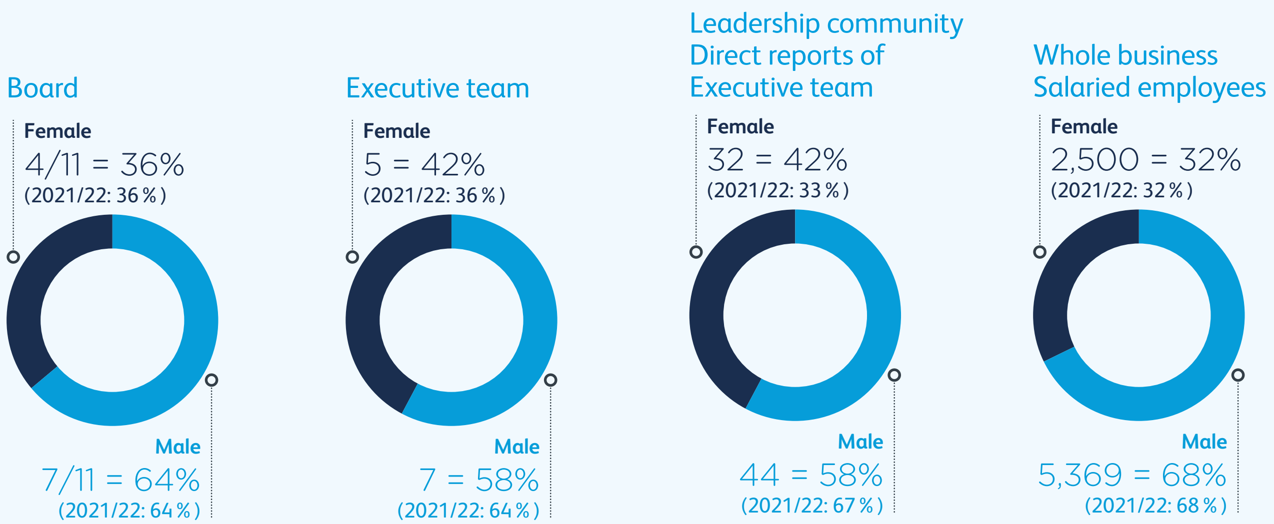
Mean gender bonus gap
-53.1%
(2021/22: -2.4%)

Median gender bonus gap
25%
(2021/22: 0.0%)

Leadership female on 31 March 2023
42%
(2021/22: 33%)

Leadership ethnic diversity on 31 March 2023
3%
(2021/22: 3%)

Gender diversity across Thames Water as of 31 March 2023



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

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

Proportion of females (of relevant employees) who received a bonus/incentive payment was 40.4% (2021/22: 42.0%). Proportion of males (of relevant employees) who received a bonus/incentive payment was 46.6% (2021/22: 41.5%).

In terms of base pay, the gender pay gap has improved from last year to a median of 10.8% and mean of 5.3%. This is primarily driven by improvements in female representation in both the executive team and the senior leadership population. However, overall, women are more likely to be in lower paid jobs (for example Customer Service Agents) than men (for example Process Controllers). Until we attract more women into technical roles (which have a higher base pay) we will continue to see a pay gap. The significant work being done by the Women in STEM group (championed by Sharon Duffy, Director of Engineering) aims to support the attraction and retention of women into these roles.

In terms of bonus, the mean gender pay gap is now -53.1% which is driven by the payments made to Sarah Bentley. The change in the median gap from 0% to 25% is driven by several factors including hiring more men than women into managerial roles (which are bonus eligible) as well as men receiving more long-service and instant rewards (as there are more men in the organisation).

Looking after our people continued

Inclusive recruitment

Business in the Community's inclusive recruitment campaign, Opening Doors, calls on employers to change how they recruit, by taking specific actions to unlock their jobs to untapped talent. We joined the campaign in 2022 as it closely aligns with our skills strategy, which includes plans to grow the representation of priority target groups within the business. Amongst others, these include care leavers, young black men, prison leavers, refugees, and survivors of domestic abuse.

Forming meaningful partnerships with organisations supporting these communities sits at the heart of our strategy. We invest time to attend community recruitment events to explain the different opportunities available in the business; and we advertise opportunities with specialist referral partners to reach disadvantaged groups, such as Drive Forward Foundation, Aspire Oxford, and Working Chance.

To inspire untapped talent, we run our own employability programmes "Surge" and "Flow", and we support the Department for Work and Pensions, Sector Based Work Academies.

To ensure more candidates progress into employment through these pathways, we've invested in our business-as-usual recruitment with positive results.

Some of the improvements we've been making include:

- Training hiring managers
- Enabling candidates facing barriers to identify these during recruitment to explore what additional support may be necessary
- Removing the criminal conviction question from application forms
- Tracking progress of candidates who have come through partner organisations to ensure the right support is provided and barriers are removed where necessary
- Reducing referencing from 5 years to 3 years
- Promoting vacancies with community partners

Over the last year, we've also signed the new Department for Work and Pensions (DWP) covenant – Ambitious about Autism Covenant for Employers (ACE), which creates positive, long term and sustainable solutions by removing the barriers to work for autistic people

We've continued to build on what we already have in place and made additional commitments to:

- improve accessibility in the workplace
- offer experiences of the workplace to autistic people in our communities
- raise awareness of autism within the workplace and encourage meaningful conversations
- enhance recruitment practices as an inclusive employer of choice
- offer inclusive paid workplace opportunities for autistic people
- share our experiences and encourage others to get involved including our supply chain

Ambitious About Autism supports employers in implementing these commitments. We've already engaged with several business areas to implement the above by piloting new approaches and offering training and development for our existing colleagues.

Other current DWP initiatives which are supported via new covenants are the Age Friendly Employer Pledge (Centre for Ageing Better) and The Crisis Homeless Covenant. We will develop plans to engage and sign these throughout this financial year.

In our activity to date, we've engaged with several autistic candidates through different programmes including Kickstart, apprenticeships, employability training and bespoke individual support via our community engagement routes.

Discover more online at
www.ambitiousaboutautism.org.uk

Non-Financial and Sustainability Information Statement

To comply with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006, we are providing the details below to help stakeholders understand our key non-financial matters.

We have used cross referencing as appropriate to deliver clear, concise and transparent reporting.

Non-financial information	Section	Pages
Business model	Business model	11
Policies	Non-financial information	32
Principal risks	Our principal risk and uncertainties	52
Turnaround plan	Overview	13, 19, 23, 24

Across Thames Water, policies, standards and guidance are in place to ensure consistent governance on a range of issues. Performance against our strategic non-financial performance measures is one indicator of the effectiveness and outcomes of our policies, standards and guidance. For the purposes of the NFR requirements, these include, but are not limited to:

Our people

People are at the heart of our business. We value and harness the unique skills, experiences, and backgrounds that everyone brings to Team Thames. Our ongoing commitment to maintaining a safe, inclusive, and great place to work enables us to attract and retain diverse talent. This helps us ensure we are representative of our communities, driving the right outcomes for our customers, business, and the environment. We have a comprehensive suite of policies that support our people which are available on our company intranet. Further information on our people is available in the following sections of this Annual Report.

Non-financial information	Section	Pages
Market drivers	Thames Water in context	9
People	People	27
Gender pay	People	30
Diversity of the Board	Corporate Governance	72
Ratio of pay	Remuneration report	88
Performance Commitments	Performance overview (and in our Annual Performance Report)	3

Policy/standard	Description
The Way We Work	The Way We Work brings our values and behaviours to life through the voices of our people at Team Thames. Its aim is to guide all employees in their day-to-day decision making, to help them live our values every day.
Board Diversity policy	The Board Diversity policy recognises and embraces the benefits of having an effective and diverse Board, representative of the communities we serve, as an essential element in promoting the long-term sustainability of the company.
People policy	The People policy provides an overview of Thames Water's commitment to our people and outlines our expectations of them as individuals. The People policy requires everyone to behave in a way that reflects our values and Purpose. This includes our commitment to equality, diversity and inclusion by providing employees and managers with the knowledge, guidance and support they need to ensure Thames Water is a diverse and inclusive place to work.
Health, safety and wellbeing policy	We aim to ensure that our people and those of our partners will return home safe and well every single day, enabling them to live their entire working lives both fit and healthy, and that members of the public and the communities that we serve are also protected from harm.
Employee Relations standard	The Employee Relations standard provides employees and managers with clear guidance on the standards of behaviour expected. We recognise that sound and effective employee relations are an integral part of the success of our business. We're committed to building strong relationships with our employees based on trust and mutual respect.

Policy/standard	Description
Mandatory training corporate standard	We recognise the importance of continuous training and development and there are some topics that are essential for all employees, for example, ethical behaviour and data protection. Our mandatory training corporate standard ensures responsibilities for mandatory training are clearly defined with regards to; content, design, completion, follow-up for those who have not completed the training, and compliance.

Social matters

We are proud of our record in supporting our people, our business partners and the communities we operate in. As well as the specific policies mentioned below, we have guidance and initiatives in place to support the following:

- Age UK, Citizens Advice Bureau and debt advice bodies
- An employee 'Time to give' programme and an employee charitable donations matching scheme to support local charities and groups
- Promotion of skills development through partnerships with universities and colleges
- Environmental groups such as WWF, RSPB and local Wildlife Trusts.

Further information is available in our Sustainability Report on our website

Policy/standard	Description
Public value and heritage policy	Our aim is to understand what stakeholders expect of us and to look for opportunities to work in partnership with them. We aim to be responsive to the needs of all our stakeholders, including our customers, employees, government, shareholders, investors, regulators, suppliers, alliance partners, and the wider community in which we operate.
Procurement standard	Our procurement standard incorporates our position on maintaining a sustainable supply chain and sets out how we source and procure all goods and services across the business responsibly, ethically and sustainably.

Policy/standard	Description
Tax management	We manage our taxes appropriately and efficiently, within both the letter and the spirit of tax legislation, for the benefit of our customers, shareholders and our local communities. See our Tax strategy on our website. Our tax arrangements are explained in detail in our booklet, 'Our Finances Explained', which is published on our website.

Environment

We fully recognise that, in providing our services, we influence, and are influenced by, the natural environment. We're committed to continually improving our environmental performance and, at a minimum, complying with environmental and regulatory standards.

What we do, and how we do it, can have a positive and lasting impact on society and the natural environment. We know there's more to do and we're focused on improving our pollutions and sewage discharges performance – see page 18 for more information. By going above and beyond the basics of delivering our essential service efficiently, we can create significant public value. We know we cannot do this alone and seek to work together with our customers, stakeholders, delivery partners, suppliers and regulators to make a substantive difference to the quality of our environment, including our rivers and catchment areas.

We have many policies in place to help us address our impact on the environment, all of which are available on our website.

Further information is available in the following sections of the report:

Non-financial information	Section	Pages
Shaping the future	Shaping the future (and Sustainability Report on our website)	23
Performance Commitments	Performance review	3
Environmental stakeholders	Stakeholder engagement	36

Non-Financial and Sustainability Information Statement continued

Policy	Description
Environmental policy	We are committed to continually improving our environmental performance, protecting and enhancing the environment in which we operate, preventing pollution and sustainably managing water resources.
Climate change policy	We believe that a twin track approach of managing the unavoidable impacts of climate change on our business ('adaptation'), combined with a reduction in our greenhouse gas emissions ('mitigation'), is essential if we are to manage the challenges that climate change represents. We have committed to reduce our operational emissions to Net Zero by 2030.
Biodiversity policy	To balance the needs of the animals, plants, birds and insects that call our sites home we are committed to continually improving our biodiversity performance at those sites and beyond, whilst aiming to deliver our services in the most sustainable way. Through our ambitious delivery programme we aim to achieve much more than compliance with all biodiversity, environmental and regulatory requirements. Our commitment to enhancing biodiversity during our activities goes beyond the 10% biodiversity net gain industry standard. We have also challenged ourselves to deliver 5% net gain on 253 of our most valuable biodiversity sites. Furthermore, as custodians of large areas of land and water, the increasing threat of invasive, non-native species is of real concern to us. To take care of our estate we are committed to ensuring compliance with all invasive, non-native species regulatory guidance through the implementation of good biosecurity practice.

Policy	Description
Energy policy	The essential services we provide are energy-intensive, so we aim to manage our energy use innovatively to deliver affordability, efficiency and resilience. We're committed to continually improving our energy performance, increasing our use of renewable energy and supporting our ambition of net zero operational carbon emissions by 2030.
Sustainability policy	Striking a balance, doing the right thing for people, for the performance of our business and for the natural environment is what being more sustainable means to us.
Public value and heritage policy	We have a long and unique heritage that allows us to tell the story of water supply and sewage treatment in the UK, with fascinating historic assets that bring the story to life. As a minimum we will ensure compliance with all heritage and regulatory requirements.

Human Rights

We acknowledge and operate in accordance with the United Nation's guiding principles on business and human rights. We promote human rights through our employment policies and practices and through our supply chain. We have policies (including those mentioned in the section on Our people), and processes in place which ensure we're compliant with these requirements, and they're enforced throughout our business.

Further information is available in the following sections of this Report:

Non-financial information	Section	Pages
People metrics	People	27
Stakeholder engagement	Stakeholder engagement	36
Gender pay	People	30

Policy	Description
Modern slavery act statement	We recognise our responsibility to comply with all relevant legislation including the UK Modern Slavery Act 2015. In accordance with the requirements of the Act, we release an annual statement on Modern Slavery, which outlines the actions we have taken to address the risks of modern slavery and human trafficking in our operations, supply chain, and customer and client relationships. Our modern slavery act statement is also available on our website.
Privacy notices	Our Thames Water privacy notice is available on our website. It explains how we process the personal data of our customers and other individuals with whom we have contact. We have a separate privacy notice outlining how we process our employees' data. We regard sound privacy practices as a key element of corporate governance and accountability.
Data governance, privacy and information security policy	Our data governance, privacy and information security policy sets out how we manage the data and information we use within a secure environment which is designed to safeguard the confidentiality and integrity or proprietary, personal, and commercially sensitive data and protect against loss or misuse.

Anti-corruption and anti-bribery

We seek to promote a culture of honesty and integrity in all our dealings, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data from the business. Wee have a number of policies in place to guide our people including 'the Way We Work'. These are available on our company intranet.

Furthermore, we have a confidential 24-hour anonymous 'speak up' hotline, details of which are published in the Honest and ethical behaviour policy. This, and a robust whistleblowing process, is available to all to raise concerns, including our employees and contractors. We also have a responsive internal Business Integrity team available to answer questions, investigate issues and/or address concerns raised as well as an established probity process safeguarding against improper gifts and hospitality and conflicts of interest.

Policy	Description
Honest and ethical behaviour policy and standards	To provide the best possible service and safeguard our employees, we're committed to conducting all aspects of our business in an honest, ethical and transparent manner.
Competition compliance policy	The policy also sets out Thames Water's principles regarding competition law compliance and the steps that are taken to mitigate the risk of breaching competition law.
Corporate criminal offence statement	Within our Corporate criminal offence statement we communicate the group's approach to the Corporate criminal offence of the failure to prevent the facilitation of tax evasion. Our Corporate criminal offence statement is published on our website.

Workforce engagement

Our Board's workforce engagement

> For the last few years, it has been my pleasure to represent the Thames Water Board at its offices and sites, listening to employees about the things they want to improve.

Ian Pearson
Workforce Engagement Lead Director

As engagement lead for the Board, it provides me with valuable insight about what is on the minds of Team Thames, to help enrich Board discussions. I also provide feedback to the Executive team where necessary.

We have built on previous years' engagement, with a mixture of both virtual and face-to-face engagement sessions on a monthly basis. I also meet twice a year with Thames Water's network of engagement champions who represent and support their business areas on all aspects of engagement.

Every year I visit a new selection of operational sites and office-based teams and always look to include those who have both high and low engagement scores. This enables me to not only see those teams who are satisfied, but also learn from those who are not, so I can better understand why. This year I have attended 19 sessions at sites including Guildford, Oxford, Beckton and Swindon.

The sessions are always constructive, with open and honest conversations about how it feels to work for Thames Water. It is clear this is a workforce under pressure, which has been trying to cope with a lot of change and uncertainty during the year. That said, there is largely strong support for the moves to insource the repair and maintenance of the water network, and the tankering operation.

People are clearly proud to work for Thames and are very sensitive to the criticism the sector is receiving in the media, feeling there is a lack of understanding about the practical issues and the scale of what Thames Water does every day. There is, however, some frustration over the investment decisions that were made under previous ownership, which are causing them issues today.

Health and safety at Thames Water is seen as being taken seriously, with people feeling empowered to call out bad behaviours or unsafe work. There's a real alignment with the values and behaviours, which is also evident in the results of the most recent employee engagement survey. The approach to work life balance was seen as positive, with praise for the shift patterns in the frontline waste teams. There was also positive feedback about the support for new fathers.

The apprenticeship scheme at Thames Water is seen as leading, however the time it can take to recruit candidates is adding pressure to existing members of the team. The opportunity to develop in their careers was seen as a positive by the teams, and many appreciated the range of training opportunities. However, others noted the delays or unavailability of some courses.

People felt they had ownership when it came to the responsibility for their sites, however, would like more engagement with teams such as Capital Delivery on the work they carry out.

We're already three months into this year's programme of engagement and it's continued to provide rich insight into the thoughts of the frontline, helping us, as a Board, make the right decisions to support improvements. This year I believe the opportunity to continue to listen, learn and respond to the teams at Thames will help the Board give this knowledgeable and dedicated workforce an even greater chance to perform at their best and deliver the hugely stretching turnaround plan.

Workforce engagement continued

Executive workforce engagement

> Over 7,000 people make up Team Thames and every single one of them has a crucial role to play in turning around this business. Making sure they have a voice in Executive team decisions is absolutely crucial

To be able to deliver our plan, we all need to work together, and understanding the challenges the frontline is facing helps inform the decisions the Executive team is making to support the turnaround.

Every single day our frontline customers are delivering life's essential service and the leadership team needs to support them to deliver their best. That's why listening and having open conversations with colleagues is so important – and Sarah Bentley, former-CEO, launched a programme to build stronger connections between the Executive team and frontline.

In September 2022, Sarah launched a new programme of engagement called Hear for you: Live. Hear for you is our annual employee survey and serves an important purpose. The live sessions were designed so the CEO and Executive team could spend time listening to and supporting the frontline.

The frontline employees offer such important insight into the day-to-day challenges as they deliver life's essential service to our customers. By being connected, the Executive team can support colleagues to take greater ownership in finding solutions.

Sarah, together with the executive team, hosted 29 informal, in-person sessions at 24 sites. Hundreds of colleagues have been able to share their ideas, experiences and challenges, which kickstarted some brilliant employee-led solutions.

The first pillar of the turnaround is to fix the basics, and getting that right was echoed in the themes that were talked about in these sessions. It was clear there are fundamental basics which have been preventing colleagues from serving our customers.

As a result of the sessions, some very basic basics were fixed. They include:

- WiFi connectivity and IT support being more accessible for our frontline teams who work in more remote areas.
- Fleet vehicles that were not being used every day are now available for colleagues to hire, using an app designed by our very own Data Insight team.
- Colleagues now have dedicated channels to flag cost savings for everyday kit.

Teams across the business are so passionate about delivering for our customers and they need to be listened to so their passion can go even further to deliver life's essential service.

Stakeholder engagement

Building trust with our stakeholders

This year, we've continued to be proactive and transparent in our engagement as we rebuild the trust with our stakeholders that is so important to a successful turnaround and the future of Thames Water.

There's rightly been increasing focus on river health and we've engaged with a wide range of stakeholders about the action we're taking, as well as the challenges we face. It will take time, sustained investment and collaboration to get things right, and we're taking a progressive stance.

This year we took a significant step in our commitment to transparency becoming the first company to publish a live map of sewage discharges, and we've been engaging with many of our stakeholders about the map and our plans to tackle river health.

Customers

What they expect

- A water and wastewater service that 'just works' today and in the future;
- A service provided at an affordable price and in an environmentally responsible way, by a company that always has good customer service and which gives something back to the society and communities it touches.

How we've engaged

- We are committed to understanding our customers' needs and expectations and responding to them in our ongoing operations and long-term plans. Our programme of customer engagement is led by our Retail Director and overseen by the Customer Service Committee and, for our long-term planning, the Regulatory Strategy Committee (both sub-Committees of our Board).
- To understand what customers want, we have a customer engagement programme that continuously gathers insights into customers' needs and behaviours.
- Our insights are gained from working with diverse customer groups, using a wide variety of techniques. This includes bespoke research into specific topics, continuous surveys on brand perception and service satisfaction, analysing complaints and listening to social media.

Outcome/how we've delivered

- Reduced our complaints and complaints response time
- Digitised more of our communications
- Onshored our customer facing call agents
- Increased numbers on our social tariffs and priority services register
- Continued our roll-out of smart meters
- Our 'every drop counts' campaign to help customers save water during the Summer 2022 drought, together with reduced usage through a temporary hose pipe ban

Link to strategy

- Our performance commitments are a response to customer expectations and provide a transparent way of demonstrating the extent to which we are delivering for customers

Employees

What they expect

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

How we've engaged

- Engaged all colleagues on our values through our Living our Values Experience–bringing our values to life through personal stories, and with new booklet – 'the way we work'
- Annual employee survey
- Values-led engagement sessions with all our customer agents, customer teams and leaders in retail, Operations and Digital
- Hear for You Live sessions with CEO Sarah Bentley
- Delivered an annual calendar of engagement sessions around our offices and sites with Board Director Ian Pearson both virtually and face to face
- Our employee ideas platform Think Tap
- Reinvigorated our Hear for You Engagement Champions network with more recruitment and ideas sharing monthly meetings
- Redesigned dedicated communications to our leaders through targeted Manager's Toolkit channel
- Business KPIs scorecard issued every month
- Multiple two-way channels through the Way We Pay project
- Wellness Wednesday channel and business unit specific Health and Safety all hands calls
- Launched Talking Thames vidcast channel covering diversity and inclusion and mental health subjects including neurodiversity, gender identity and men's mental health.

Outcome/how we've delivered

- Increased face-to-face engagement
- We're creating an environment where colleagues feel able to be more open about the challenges they face
- We've broadened the channels through which our employees can engage

Link to strategy

- We're developing stronger leadership as we fix the basics as part of our turnaround plan
- We're building a more diverse team to reflect the diversity of our region
- More values-led engagement, to ensure teams are living the values

Regulators

What they expect

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

How we've engaged

- The Board, Executive team and senior management regularly meet with our sectoral regulators, providing updates on how we're performing, the challenges that we face and what we're doing to overcome them (including the delivery of our turnaround plan)
- We continue to cooperate fully with both Ofwat's and the Environment Agency's ongoing investigations into sewage treatment work discharges.
- We've also engaged on a wide range of other issues during the year, including river health, the summer drought and December freeze/thaw event, leakage, financial resilience, WINEP, supporting our customers through the cost of living crisis and board leadership, governance and transparency.
- Engagement on PR24 is ramping up ahead of the Business Plan submission in the Autumn.

Outcome/how we've delivered

- We recognise that we've historically had a difficult relationship with some of our regulators and we continue to focussed on turning that around
- We're rebuilding trust and confidence based on a common understanding of how Thames Water is performing today and what we're doing to deliver our Purpose
- We're increasingly regarded as demonstrating transparency through difficult times and heading in the right direction – but we acknowledge the need to demonstrate clear progress in the delivery of our Turnaround Plan.

Link to strategy

- We continue to work with our regulators to shape our Turnaround Plan and our approach to PR24.
- We also continue to engage in the long-term conversations about the future challenge that the sector and the company faces particularly in light of climate change, population growth and asset health deficit.

Stakeholder engagement continued

NGOs and community groups

What they expect

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

How we've engaged

- > 80 Meetings and site visits to understand their views on our work in their areas to inform neighbourhood plans
- Open forums to discuss issues such as flooding
- Develop partnerships to deliver projects and programmes, such as smarter water catchments and the Oxford Rivers project
- Schools education programme engaged over 23,000 children
- Over 3,700 hours of employee volunteering
- We brought our successful Kickstart programme to a close, hosting a total of 100 people onto placements of which 71% secured employment, 54% within Thames Water with 87% sustained employment beyond 6 months.

Outcome/how we've delivered

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

Link to strategy

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

Policy makers and elected representatives

What they expect

- For us to provide a reliable and affordable service – and to do the right thing when things go wrong
- For us to support our customers during challenging times, such as the cost of living crisis
- To play an active role in shaping the future direction of the sector
- Demonstrative leadership and ambitious targets that drive better performance across the sector

How we've engaged

- A structured programme of engagement with MPs; councillors and London Assembly Members, including letters, regular meetings and site visits
- Memberships with groups such as BusinessLDN, the Thames Valley Chamber of Commerce, the Aldersgate Group and Business in the Community (BiTC)
- Giving written and oral evidence submissions to government consultations and Parliamentary Committees, such as the House of Lords Industry and Regulators' Committee inquiry into the work of Ofwat
- Engaging with officials to discuss how government policy can enable progress in the sector, such as a visit by HMT representatives to our Smarter Water Catchments partnership on the River Chess

Outcome/how we've delivered

- We're kept close to policy changes that affect us and our environment
- We're able to contribute directly to the development of policies affecting water and the environment, such as the introduction of provisions from the Flood and Water Act to require sustainable drainage in new developments
- This year, we have increased our engagement with the GLA and London Assembly Members on a range of issues including river health and the impact of unflushables on our sewers

Link to strategy

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

Suppliers

What they expect

- Clear and honest two-way communication about opportunities and issues that might affect their business and plans
- A fair approach to procurement
- The opportunity to discuss more innovative ways of doing things
- To understand how we view their performance, while being given the chance to feedback on our processes
- To understand our strategic priorities and the role suppliers play in delivering them and our turnaround plan

How we've engaged

- A Supplier Summit, with the opportunity to talk 121 with suppliers and get direct feedback on their challenges and the things on their mind
- Realigned our Procurement strategy to closely align with supply markets
- Emails and newsletters
- Review performance at regular meetings
- Interaction with the wider supply market through market engagement and events
- Innovation days with key suppliers
- Senior level engagement with suppliers to give more information about our objectives, strategy, and longer-term vision to 2050
- A "Voice of the Supplier" survey, to understand what it is like to work with Thames Water and identify improvement areas

Outcome/how we've delivered

- Keeps us at the forefront of market trends and allows us to develop our operational approach collaboratively with our supply chain
- Engaged suppliers sharing ideas, helping us to deliver our wider strategy
- Insights and knowledge that help mitigate risk, improve resilience and drive added value for customers

Link to strategy

- Through engagement, we're able to work together to make improvements to customer service and we can understand the impact of macro and micro supply chain risk on our ability to deliver our essential service.
- Ongoing supplier engagement is key to our turnaround plan, our current priorities, and key issues such as resilience, PR24 planning and our longer-term vision to 2050.
- Proactive engagement provides a clearer view of supplier performance to support delivery of our current priorities and our turnaround plan.

Investors and external shareholders

What they expect

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

How we've engaged

- Our external shareholders have representatives on our Board, so they can hear directly from the rest of our Board, Executive team and other senior management
- We have been regularly engaging with our shareholders, as part of the equity process for our revised business plan
- We listen to, engage and update our lenders through 1-2-1 meetings, group calls and presentations and provide information through our annual reports and statements. We hold results presentations twice a year

Outcome/how we've delivered

- By understanding our challenges and the improvements we need to make, our external shareholders have continued to support the decision to not pay dividends out in the six years to 2022/23, and have invested £500 million during the year to support our turnaround. They have also agreed to provide a further £750 million of equity contributions during this regulatory period, subject to certain conditions
- Through transparent engagement, our external shareholders are able to balance the needs of their investment with the needs of our customers.
- With their experience of other sectors, they can also provide constructive advice and share different viewpoints

Link to strategy

- This ongoing engagement is key in aligning our collective views on our turnaround plan, our current priorities, key issues such as river health, PR24 and our Vision to 2050
- We've been increasing our engagement around ESG as we reinforce our alignment with our Purpose

Section 172 statement

Our approach

Under S172(1) of the Companies Act 2006 ('S172'), the Directors of Thames Water must act in the way they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole. In doing so, the Directors must have regard (among other matters) to:

a. The likely consequences of any decision in the long term

b. The interests of the Company's employees

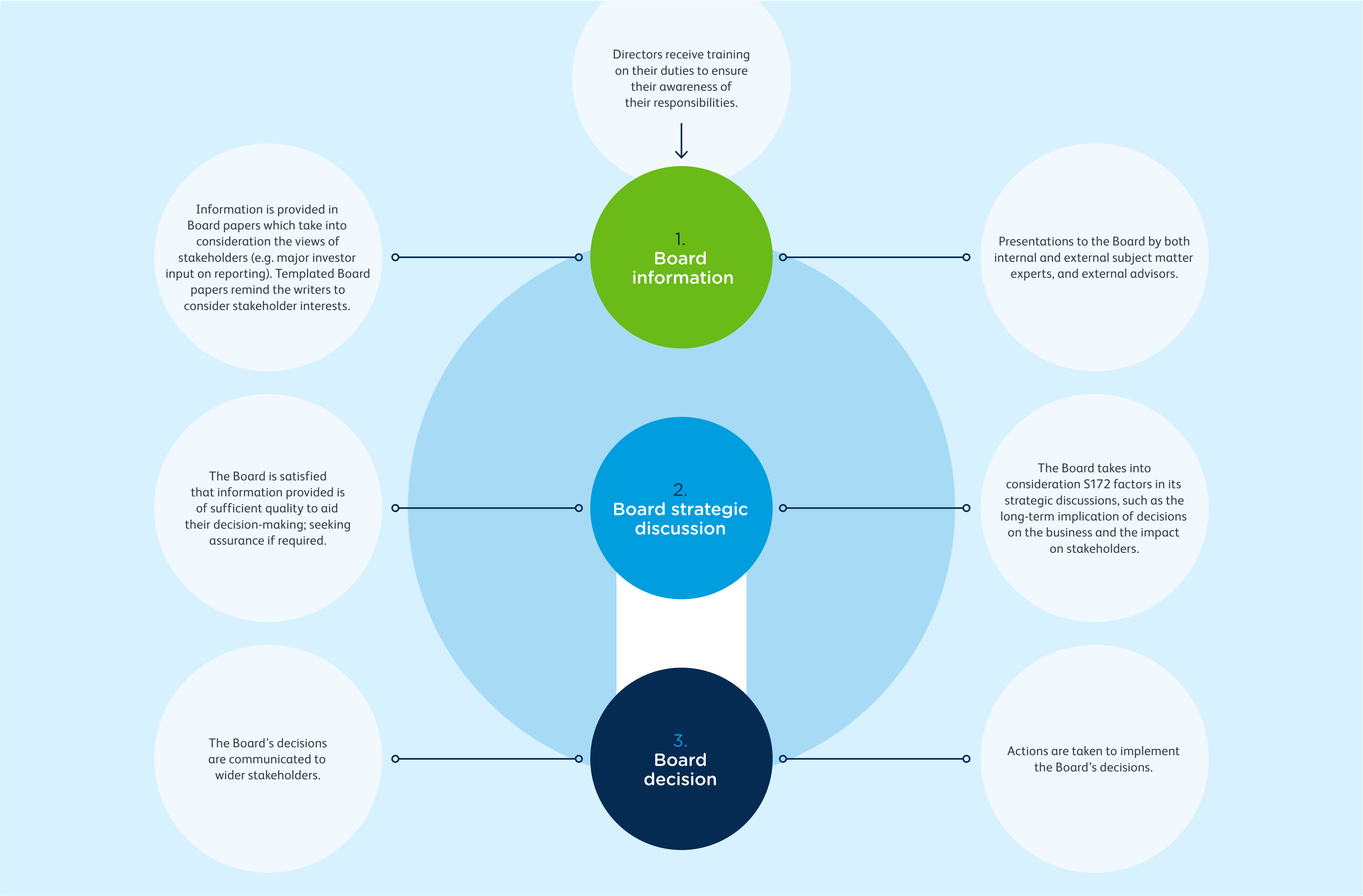
c. The need to foster the Company's business relationships with suppliers, customers and others

d. The impact of the Company's operations on the community and the environment

e. The desirability of the Company maintaining a reputation for high standards of business conduct

f. The need to act fairly as between shareholders of the Company

Thames Water's governance framework is conducive to Board-level decisions being made with stakeholder interests, and the longer-term impact, in mind. On the following page are some examples of how the Board of Directors considered matters and reached decisions, demonstrating how they have had regard to S172 when discharging their duties this year.



Section 172 statement continued

Each Director at Thames Water receives, as part of their induction, a formal introduction to the business and the Executive team, a full briefing on their legal duties as a Director, including those covered by section 172 of the Act and training on Thames Water's regulatory obligations. The induction process is managed by the Company Secretary, and, if considered necessary, includes input from independent advisers.

All Directors receive a monthly report on the performance of the business covering a range of management information that includes health and safety, customer experience, operations, digital strategy and transformation, asset management, regulation, capital delivery, corporate affairs and sustainability, people, finances and commercial activity.

As set out in the Governance Report (from page 66), the Board met formally eight times during the year in full session. The Board has six sub-committees, which all report up to the Board. Details of how Board members engage directly with stakeholders, including customers, employees, investors, community groups and policymakers can be found on page 78.

The likely consequences of any decision in the long term – s172(1)(a)

The Company's governance structure, based on appropriate delegation of management responsibility, allows the Board to remain focused on the longer-term strategic issues affecting the business. The Board also includes Non-Executive Directors appointed specifically to represent the interests of the Company's ultimate shareholders, which ensures an additional emphasis on longer-term considerations in the decision-making process given the relative stability of the Company's equity investor base.

The Company takes a comprehensive and long-term approach to risk management, an activity which is overseen by the Audit, Risk and Reporting Committee ("ARRC"). Board Directors receive regular updates from ARRC, as they do from all Board Committees. The ARRC report for this year can be found on page 85, while an overview of the Company's risk management system, and the long-term viability statement, can be found starting on page 52.

In September 2022, the Board held its annual day-long strategy session, at which it reviewed, among other matters, development of our Vision 2050 and strategic enablers which underpin delivery.

The interests of the Company's employees – s172(1 b)

The health, safety and well-being of the Company's employees are critical to the business and an area of focus for the Board and the Health, Safety and Environment Committee, whose report can be found on page 82. Detailed reports and updates relating to health and safety and to staff wellbeing and engagement are standing items regularly presented to Board meetings.

Ian Pearson, the Non-Executive Director who leads the Company's workforce engagement programme, has continued to hold sessions with employees throughout the year, and provided regular updates to the full Board. This year, the Board continued to engage with employees at sites across the region, including Guildford, Oxford and Swindon. They discussed a variety of issues including the move to our future way of working, the progress of our Turnaround plan, and issues around facilities and training. Further details on the Board-led workforce engagement programme and the feedback generated by it can be found on page 34.

Details on how the Company as a whole engages with employees more generally can be found in the Stakeholder Engagement section on page 36, while its approach to workplace environment and culture can be found in our people section on page 27.

The need to foster the Company's business relationships with suppliers, customers and others – s172(1)(c)

Day-to-day business relationships are managed by Executive team under the supervision of the Board, and details of how the wider Company engages with suppliers are included in the Stakeholder Engagement section on page 36.

Oversight of customer service and engagement issues are within the remit of the dedicated Customer Service Committee of the Board. Directors also maintain regular contact with the Customer Challenge Group (CCG) (see page 14). The Chair of the CCG has attended Customer Service Committee meetings to discuss customers ' priorities, and our investment and service improvement plans.

The impact of the Company's operations on the community and the environment – s172(1)(d)

As a utility business engaged in the provision of water and wastewater services, the Company's interaction with and impact on both the communities it serves and the environment are of particular interest to Directors. Environmental protection and climate change is identified as a principal risk requiring the Board's attention. The ARRC leads on mitigation of that and other risks on behalf of the Board, while environmental considerations are a key part of the remit of the Health, Safety and Environment Committee.

The Shaping the Future (sustainability) section in the Strategic Report, on page 23, provides further detail on the Company's activities in relation to climate and environmental concerns. The Company's engagement with community groups and NGOs is explained in the stakeholder engagement section on page 36, while the Board's direct role in such engagement is set out on page 78 of the Governance section. You can also read more about our approach to managing climate risks in the Task Force on Climate-Related Financial Disclosures (TCFD) report on page 45.

The desirability of the Company maintaining a reputation for high standards of business conduct – s172(1)(e)

The Board is clear about the need for Thames Water, as a high-profile Company running a critical public service and operating in a tightly regulated environment, to maintain the highest standards of business conduct. ARRC is charged with managing oversight of the Company's systems for managing compliance, fraud and whistleblowing and of the internal audit function, and making appropriate recommendations on policy and actions to the Board.

Under the Company's Policy Framework, all policies relating to "significant strategic, operational, financial or compliance risk areas" move up for review and sign-off through the Executive, to Board Committees if needed and then to the full Board. Details of our policies are included in the Non-financial and Sustainability Information statement on page 32.

The need to act fairly as between members of the Company – s172(1)(f)

Since Thames Water is ultimately owned by a limited number of institutional shareholders, who are, in addition, represented on the Board through Non-Executive Directors, there is direct and regular contact between all equity investors and the Board. The composition of the Company's Board is detailed on page 72. The Board of Thames Water's ultimate parent company, Kemble Water Holdings Ltd, is composed entirely of shareholder representatives, acting between themselves for all investing entities.

During the year, the Board approved a payment of £45.2 million to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent company solely to service debt obligations and group related costs of other companies within the wider Kemble Water Group. No dividend is paid without the Board assessing the payment against our dividend policy, which can be found on page 105.

During 2022/23 the Board, together with our shareholders, approved various significant investments by the shareholders to ensure the resilience of Thames Water in the long term. In November 2022, Ofwat approved a £300 million investment to improve the performance of our assets in London. Thames Water shareholders have more than matched this, committing £400 million to water improvement works in London, Thames Valley and the Home Counties.

In June 2022, the Board and shareholders of Thames Water approved a revised £11.5 billion business plan for the current regulatory period (ending 31 March 2025). This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed in our final determination for 1 April 2020 to 31 March 2025. In accordance with the commitment made by shareholders in June 2022, £500 million of new funding was drawn by Thames Water on 30 March 2023. Our shareholders have now agreed to provide a further £750 million of equity contributions across AMP7. This further funding is subject to satisfaction of certain conditions, including the preparation and approval of a business plan that underpins a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over the next three years and is supported by appropriate regulatory arrangements. Shareholders have also acknowledged that delivery of the Turnaround Plan will likely require the provision of further equity support in AMP8 significantly in excess of the current AMP7 commitment. Indicatively, the AMP8 equity support is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the business plan for the AMP8 period and the regulatory framework that will apply to the AMP8 period.

Section 172 statement continued

The table below sets out a sample of how the above matters were factored into individual decisions taken by the Board and its Committees during the year:

Driving culture, living our Purpose and embedding behavioural change

Relevant Section 172 Categories

(a) Long-term Impact

(b) Employees

(e) Business conduct

Discussion/Action

The Board continued to receive progress updates on ‘Living our Values’ and the programme’s plan to embed behavioural change across the next 12-18 months to support Turnaround Plan delivery. The programme aims to engage Thames Water employees in a collective journey of behavioural change, inspire conversations to reset behaviours and build storytelling and coaching skills. The board also:

- stressed the importance of rolling out the Living our Values programme to contractors and those colleagues joining through insourcing initiatives.
- requested further updates from the executive team during the year to review progress of how the programme has successfully driven culture change and embedded values across the company.

Outcome/Impact

The Board received ‘Living our Values’ programme updates and supported the Executive Team in delivering its roll out.

Employee engagement

Relevant Section 172 Categories

(a) Long-term Impact

(b) Employees

Discussion/Action

Directors reviewed the results of the 2023 ‘Hear for you’ employee engagement survey and the insight it provided.

The Board acknowledged the positive feedback from colleagues on embedding Thames Water’s Purpose and values and the programme for the year included monthly Board engagement sessions with teams and at Thames Water sites, which were a combination of face-to-face and on-line sessions, to maximise the opportunity for colleagues to attend.

Outcome/Impact

- New management tools created to allow greater engagement, with a management hub in development to provide one, central resource for managers and their teams.
- Expanded programme of events to reinforce the Thames Water story including, e-briefs, Team Talk cascades and ‘Ask the exec’ sessions.

Oversight of customer service and engagement strategies

Relevant Section 172 Categories

(a) Long-term Impact

(b) Employees

(c) Relationships with suppliers, customers and others

(e) Business conduct

Discussion/Action

The Customer Service Committee (‘CSC’) received updates throughout the year on customer service and communications along with details on financial support for customers. For example, on the topic of financial support for customers, members of the CSC reviewed Thames Water plans to incorporate online income and expenditure forms to support customers facing the impact of the Cost of Living Crisis and ensure levels of support align with customers’ expectations, supporting vulnerable customers. This was followed by an update on the continuing and increasing support the social tariff offers to eligible customers, aligning with the Real Living Wage Foundation guidance.

Outcome/Impact

- The CSC endorsed the additional support to customers including the social tariff to support the most vulnerable customers.
- Insights gathered from customer feedback, particularly our customer voices community, were consolidated with other customer research to create an initial framework of what customers and communities expect Thames Water to address in our PR24 plan.

Smarter water catchments

Relevant Section 172 Categories

(c) Relationships with suppliers, customers and others

(d) Community and Environment

(e) Business Conduct

Discussion/Action

The Board continued to review progress of the Smarter Water Catchment programme which aims to work with stakeholders to understand and address broad catchment needs and building better functioning river catchments that, in turn, are better equipped to support water company and ecosystem services.

Outcome/Impact

The Board visited the River Chess scheme to assess the programme’s progress and to better understand the risks, issues and planned interventions.

This was also discussed at the September 2022 Board strategy day with plans submitted to the EA/Ofwat on expansion in our region.

Feedback against the programme is monitored to identify areas for improvement with increasing satisfaction on engagement from stakeholders as part of the scheme over the previous few years.

Vision 2050

Relevant Section 172 Categories

(a) Long-term Impact

(b) Employees

(c) Relationships with suppliers, customers and others

(d) Community and Environment

(e) Business Conduct

Discussion/Action

The Board considered the feedback received from stakeholders and provided comprehensive feedback to the Executive at meetings throughout the year.

At the Board away-day in September 2022, the Board and shareholders discussed Vision 2050, strategic enablers to underpin delivery and the plan’s development following feedback from customers and stakeholders on what they want Thames Water to deliver.

Outcome/Impact

The Board directed the Executive to continue to engage with wider stakeholder groups on the plan’s development and identify short-term milestones as building blocks to realise Vision 2050 and long term strategic initiatives.

Our Financial Review

Our financial performance

Strong liquidity and shareholder support underpin our refocused turnaround plan

Alastair Cochran
Chief Financial Officer

Our financial performance in the year reflected challenging economic and climate change related headwinds. These manifested themselves in high inflation, declines in real wages and record energy prices, as well as extreme weather conditions that severely tested the resilience of our network infrastructure. In this unprecedented environment we have increased the level of support provided to vulnerable customers, increased investment in leakage and asset resilience, whilst also pursuing a strategy to increase operational efficiency. Overall, external pressures resulted in operating costs increasing at a faster rate than revenue growth, which depressed margins and reduced both operating profit and operating cash flow.

Last year also witnessed successive month-on-month increases in interest rates from historic lows as the Bank of England sought to combat inflationary forces. This, together with an increase in borrowing to finance the planned ramp up in our capital investment programme and higher debt accretion charges, increased net financing costs by 24%. However, the cash impact was more than mitigated by prudent treasury management policies, including 97% of our debt being fixed in real or nominal terms. Rising interest rates were also reflected in a non-cash gain on financial instruments, which contributed to a material reduction in our reported loss after tax this year to £30 million.

During the year we ramped up our capital delivery programme, notwithstanding the challenging operating and economic environment, investing a record £1.8 billion in our network and assets. This was founded on our new, insourced capital delivery model, which has driven a six-fold increase in spend delivered by our in-sourced capital delivery in the last two years. We remain well-placed to maintain these high levels of capital investment for the rest of AMP7, despite well-chronicled supply chain shortages.

A hallmark of our prudent financial policy is to pre-fund our capital investment programme, operating requirements, and near-term maturities. Consequently, we maintained a strong liquidity position with £4.4 billion of cash and committed funding as at 31 March 2023. This provides us with the headroom and runway we need for most of the current price control period and positions us well to execute our new focused turnaround plan over the next three years.

Shareholder support for the delivery of Thames Water's business plan and its management team was evidenced by the commitment of £500 million of equity funding, drawn in March 2023, and the decision to not take a dividend for the sixth year in a row. This first tranche of additional funding is being used to improve performance and outcomes for customers, leakage and river health and to accelerate delivery of Thames Water's turnaround. More recently, our shareholders have agreed to provide a further £750 million of equity funding across AMP7. This further funding is subject to satisfaction of certain conditions, including the preparation of a business plan that underpins a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over the next three years and is supported by appropriate regulatory arrangement. Shareholders have also acknowledged that delivery of the Turnaround Plan will require the provision of further equity support in AMP8, significantly in excess of the current AMP7 commitment. It is anticipated that AMP 8 equity support is expected to be in the region of £2.5 billion, but the nature and level of such medium-term support will depend on the finalisation of the business plan.The continued support of our shareholders comes at an important time for Thames Water as we seek to secure the support of all our stakeholders to improve the management of our assets, to increase investment in their resilience, to deliver our turnaround and to transform performance for customers and the environment . With this support in place, we can sustainably deliver our Purpose – to deliver life's essential service, so our customers, communities and the environment can thrive.

Financial performance

	31 March 2023			31 March 2022		
Year ended	**Underlying**	**BTL[1]**	**Total**	Underlying	BTL[1]	Total
Revenue (£m)	**2,180.7**	**84.5**	**2,265.2**	2,092.0	84.9	2,176.9
Operating expenses (£m)	**(2,016.7)**	**(0.1)**	**(2,016.8)**	(1,843.3)	(0.1)	(1,843.4)
Operating profit (£m)[2]	**271.6**	**84.4**	**356.0**	344.4	84.8	429.2
EBITDA (£m)[3]	**1,001.8**	**84.4**	**1,086.2**	1,039.4	84.8	1,124.2
Net finance expense (£m)	**(476.5)**	**–**	**(476.5)**	(384.5)	–	(384.5)
Net gain/(loss) on financial instruments (£m)	**122.3**	**–**	**122.3**	(895.5)	–	(895.5)
(Loss)/Profit before tax (£m)	**(82.6)**	**84.4**	**1.8**	(935.6)	84.8	(850.8)
Profit/ (Loss) after tax (£m)	**(132.3)**	**102.2**	**(30.1)**	(1,042.0)	68.7	(973.3)
Capital expenditure including intangibles (£m)	**1,769.7**	**–**	**1,769.7**	1,344.0	–	1,344.0
Operating cash flow (£m)	**1,114.4**	**1.8**	**1,116.2**	1,191.4	1.6	1,193.0
Net debt (statutory) (£m)	**13,958.6**	**–**	**13,958.6**	12,935.0	–	12,935.0
Dividends paid to immediate parent company (£m)	**45.2**	**–**	**45.2**	37.1	–	37.1
Distributions paid to external shareholders (£m)	**–**	**–**	**–**	–	–	–
Gearing (%)[4]	**77.4**	**–**	**–**	80.6	–	–
Credit Rating	**Baa2 stable/BBB stable[5]**			Baa2 stable/ BBB+ watch negative		

1 Refer to page 127 for information about the Bazalgette Tunnel Limited ("BTL") arrangement
2 Operating profit includes revenue and other operating income (disclosed in note 2), offset by operating expenses
3 EBITDA in the prior period has been revised to take Impairment of property, plant and equipment into account
4 Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 132
5 S&P Class A debt rating placed on Watch Negative on 30 June 2023

Our Financial Review continued

Financial Performance

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

Revenue

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

Our total revenue for the year ended 31 March 2023 increased by £88 million to £2,265 million (31 March 2022: £2,177 million). This increase was driven by higher allowed revenue set by our regulator Ofwat.

BTL revenue remained consistent at £85 million (31 March 2022: £85 million) due to the phasing of construction works.

Bad debt

We have a range of support options to help our financially vulnerable customers who cannot afford to pay their bill in full. The bad debt charge reflects our estimated risk exposure across our customer base of customers not paying their bill. During the year ended 31 March 2023, our overall bad debt cost increased by £23 million to £90 million (31 March 2022: £67 million). This increase was primarily due to the impact of a decline in real wages due to high inflation leading to lower cash collection rates.

The bad debt charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £68 million (31 March 2022: £57 million), which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £22 million (31 March 2022: £10 million), which is shown as a cost within operating expenses. Our total bad debt charge equates to 4.0% (31 March 2022: 3.2%) of appointed revenue. We are working hard to reduce bad debt and have implemented several initiatives to reduce the overall charge as a percentage of appointed revenue.

EBITDA

EBITDA was £1,086 million for the year ended 31 March 2023, a decrease of £38 million compared to the prior year (31 March 2022: £1,124 million). This was driven by a £138 million increase in total operating expenses (excluding depreciation, amortisation and impairment of fixed assets) partially offset by a £88 million increase in revenue and a £12 million increase in other operating income.

The movement in total operating expenses reflected:

- a £42 million increase in our employment costs as we insourced activities and invested to improve our service to customers;
- a £53 million increase in our power costs driven by high energy costs;
- a £26 million increase in raw materials and consumables, driven by significant increases in chemical and materials prices due to high energy costs; and,
- a £17 million increase related to other operating expenses, principally the one-off impact of a rates rebate received in the prior financial year and increases to environmental and legal provisions.

Underlying EBITDA for the year, excluding amounts related to BTL, decreased by £38 million to £1,002 million (31 March 2022: £1,039 million).

Profit before tax

Our total profit before tax for the year was £2 million, an increase of £853 million compared to the prior year (31 March 2022: £851 million loss before tax, relecting adverse movements in financial instruments).

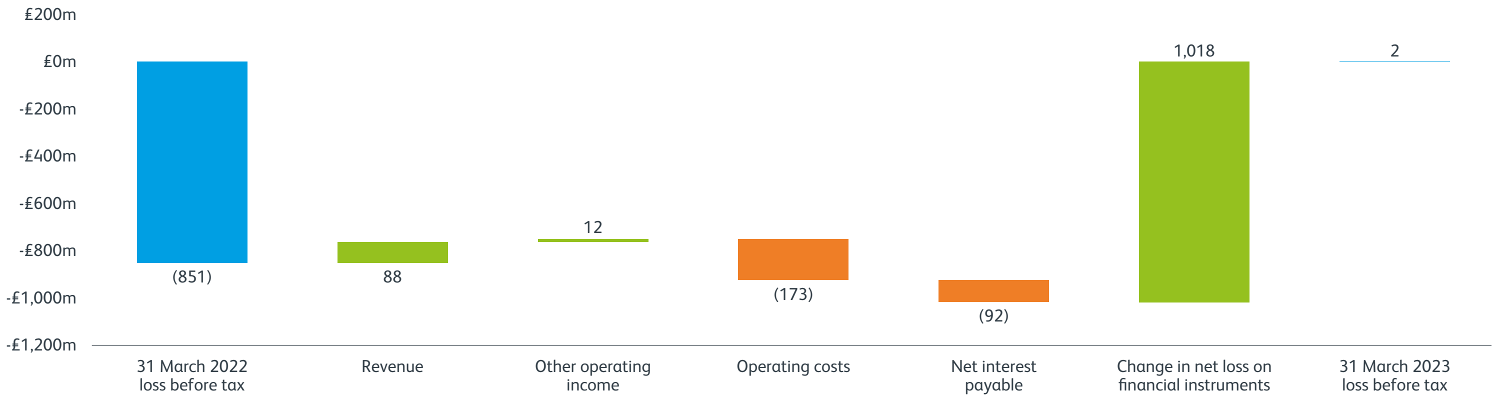
This year-on-year increase arose principally from non-cash net gains on financial instruments, comprising:

- a £246 million net gain arising on swaps where hedge accounting is not applied (31 March 2022: £822 million net loss);
- a £102 million net exchange loss arising on foreign currency borrowings (31 March 2022: £42 million net loss); and,
- a £21 million loss on cash flow hedge transferred from equity (31 March 2022: £31 million).

Swaps hedge interest rate risk, inflation risk and foreign exchange risk against our borrowings allowing us to better manage our overall financing risk in the face of volatile financial markets. Fluctuations in external market variables such as changes in interest rates, inflation and foreign exchange rates together with cash settlements during the period generate changes in the balance sheet value of these financial instruments with the associated accounting gains or losses impacting profits.

There has also been an increase in our net finance expense of £92 million, from £385 million to £477 million, mostly reflecting higher accretion on borrowings and interest costs, partly offset by higher capitalised borrowing costs (£100 million), higher interest income on swaps (£53 million) and intercompany loans receivable (£39 million).

A summary of the movement in our Loss Before Tax (LBT)



Tax

During this financial year, we paid £258 million (31 March 2022: £218 million) to HMRC in business rates, PAYE, National Insurance Contributions and other taxes. Of this, £159 million (31 March 2022: £127 million) was incurred directly, mostly through business rates, and £88 million (31 March 2022: £81 million) was collected and paid on behalf of our employees. In addition, £11 million (31 March 2022: £10 million) was incurred indirectly, mainly through Climate Change Levy but also including Landfill Tax and Insurance Premium Tax. Consistent with prior years, the Group has not paid any corporation tax. This is primarily due to our interest costs and tax relief for our capital investment programme.

The Group incurred a total tax charge of £32 million (31 March 2022: £123 million) comprising a deferred tax charge of £123 million (31 March 2022: £112 million) and a current tax credit of £91 million (31 March 2022: current tax charge of £11 million). The deferred tax charge for this financial year largely relates to the decrease in the cash flow hedge deferred tax asset following gains in the fair values of financial derivatives, and also included the residual impact of the increase in the corporation tax rate from 19% to 25%, which was enacted in the prior period and resulted in a further one-off tax expense of £35 million in this financial year. The current tax credit for this financial year reflects the use by other group companies of the Group's forecast tax loss for this financial year.

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

Loss after tax

Our loss after tax was £30 million for the year ended 31 March 2023, a decrease in loss of £943 million compared to the prior period (31 March 2022: £973 million loss).

Capital expenditure

During the year, we invested £1,770 million (31 March 2022: £1,344 million) in our assets, including £215 million related to capitalised borrowing costs. The material year on year increase reflected the planned increase in investment in our infrastructure to increase resilience in our network and help mitigate the dual impacts of climate change and population growth.

Our Financial Review continued

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

- £449 million invested through our in-house Capital Delivery vehicle, including: £54 million on Water distribution mains replacement and rehabilitation in London and the Thames Valley; £40 million on the installation of new Water Trunk mains, including the Faringdon to Blunsdon route; and £11 million on inspection and refurbishment of London's raw water transfer tunnels and Thames Water ring main;
- £250 million invested through our Infrastructure Alliance on our Water Network to reduce leakage and improve our trunk main network;
- £150 million on major projects, including £48 million on upgrading our major sewage treatment works at Beckton;
- £35 million on connecting our network to the Thames Tideway Tunnel, including £17 million on the Beckton Inlet Works; and
- £77 million on our Metering Programme.

Dividends

For the sixth year in a row, no income was paid to external shareholders of the group, who own shares in our ultimate parent company, Kemble Water Holdings Limited. During the year, we distributed £45 million (31 March 2022: £37 million) to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent company solely to service debt obligations and group related costs of other companies within the wider Kemble Water Group. In total, Kemble Water Finance Limited ("KWF") together with its subsidiary Thames Water (Kemble) Finance plc paid a total of £70 million net financing costs on third party debt, which was funded by distributions from TWUL and cash reserves. A flow chart is presented below that shows how our dividends are paid to service debt obligations:

Pensions

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

We contributed £29 million (31 March 2022: £27 million) to our defined contribution scheme during the year.

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

In the 2019 financial year, we completed the triennial valuation dated 31 March 2019 for our two defined benefit pension schemes. The accounting valuation of these two schemes has been updated to 31 March 2023 on our behalf by an independent consulting actuary, Hymans Robertson LLP. The total net accounting pension deficit for the two schemes as at 31 March 2023 was £176 million (31 March 2022: £245 million). The £69 million year-on-year decrease was due to changes in actuarial assumptions occurring across all industries, which included an increase in the discount rate for both schemes due to higher corporate bond yields, which has resulted in an actuarial gain. Under UK regulations, the Group has 15 months to complete the triennial valuation from the valuation date of 31 March 2022. This review will be completed and signed off after the financial statements have been published.

We have been taking measures to reduce the overall deficit by making regular contributions and deficit repair payments. As part of the last triennial valuation dated 31 March 2019, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027. The Company decided, with the agreement of the trustees, to accelerate these payments and make an exceptional £70 million payment during the year ended 31 March 2021, which covered the remaining deficit payments agreed during AMP7.

Credit ratings

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

In December 2022, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating ("CFR") for TWUL continuing as Baa2 with a stable outlook (31 March 2022: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (31 March 2022: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (31 March 2022: Ba1 with stable outlook). Moody's published an Issuer Comment on 29 June 2023, with no change to the ratings.

In September 2022, S&P lowered the ratings of the Company's Class A debt to BBB (31 March 2022: BBB+) and Class B debt to BB+ (31 March 2022: BBB-), with stable outlook (31 March 2022: CreditWatch negative). On 30 June 2023, S&P placed those ratings on CreditWatch negative.

Financing our investments

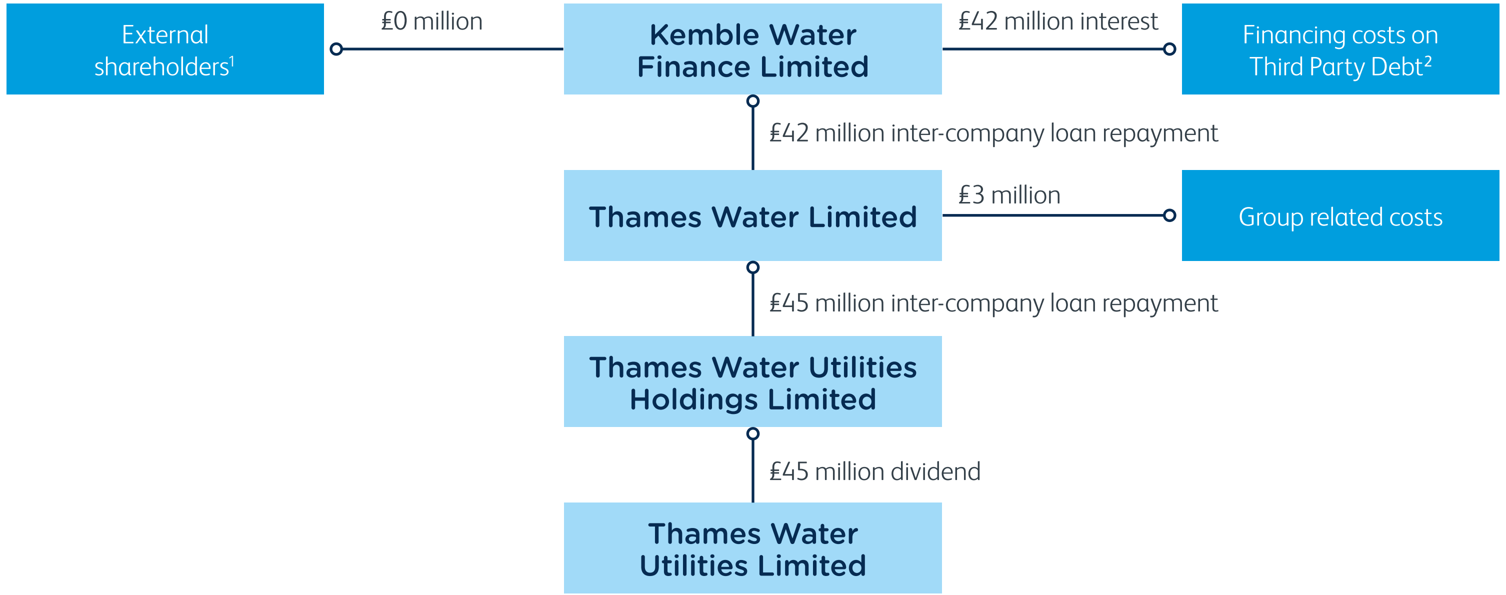
As we increase investment in our assets, we are focusing on diversifying our sources of funding, pre-funding maturities and maintaining a balanced debt maturity profile. This prudent funding strategy is particularly important in a period of heightened uncertainty caused by macroeconomic factors and the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

In the year, we secured £3,550 million equivalent in new debt issuance and facilities through:

- a £150 million Class B loan agreement due 2029 in April 2022, which was fully drawn in September 2022;
- a £100 million Class A loan agreement due 2029 in May 2022, which was fully drawn in August 2022;
- a £50 million Class B loan agreement due 2025 in May 2022, which was fully drawn in September 2022;
- a £900 million Class A revolving credit facility due 2026 in November 2022, which remains undrawn;
- a £100 million Class A loan agreement due 2026 in November 2022, which remains undrawn
- a £99 million Class A loan agreement due 2029 in December 2022, which remains undrawn;
- a £65 million Class B loan agreement due 2027 in December 2022, which remains undrawn;
- £623 million equivalent from $81 million notes due 2037, $95 million notes due 2029, $256 million notes due 2032, £18 million notes due 2029, £150 million notes due 2037 and £90 million notes due 2042, priced in August 2022 and fully drawn in November 2022; and
- £1,463 million equivalent of public debt in January 2023 through a €650 million bond due 2027 and a €1,000 million bond due 2031.

In April 2022 we prepaid £63 million Class A loan due 2027 in full and £12 million of a £63 million Class A loan due 2029.

A £100 million Class B loan agreement entered into in September 2021 was fully drawn In September 2022.



1 Dividends are typically distributed to external shareholders via Thames Water Utilities Limited's ultimate parent holding company Kemble Water Holdings Limited. No dividends were paid to external shareholders during the year.
2 KWF together with its subsidiary Thames Water (Kemble) Finance plc paid a total of £70 million financing costs on third party debt.

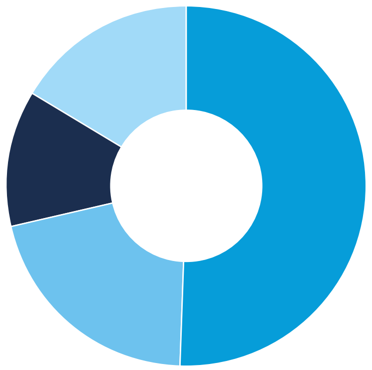
Our Financial Review continued

On 29 June 2022, the Thames Water Utilities Limited Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5-year regulatory period. To support Thames Water Utilities Limited in the delivery of its business plan, shareholders provided an Equity Commitment Letter agreeing to contribute an aggregate of £500 million in equity, which was drawn in full by the Group in March 2023, and cascaded from Kemble Water Holdings Limited to Thames Water Utilities Limited via intermediate holding companies.

As at 31 March 2022, the TWUL Group had total liquidity of £4,425 million comprising cash, short term investments and undrawn committed bank facilities. TWUL Group also has £550 million of undrawn liquidity facilities, which can only be drawn in limited circumstances. The liquidity facilities are renewed in August every year.

Since 31 March 2023, a total of £370.7 million Class B Revolving Credit Facilities and a £300.0 million Class B bond were repaid. Consequently, liquidity as at the end of June 2023 was approximately £3.9 billion.

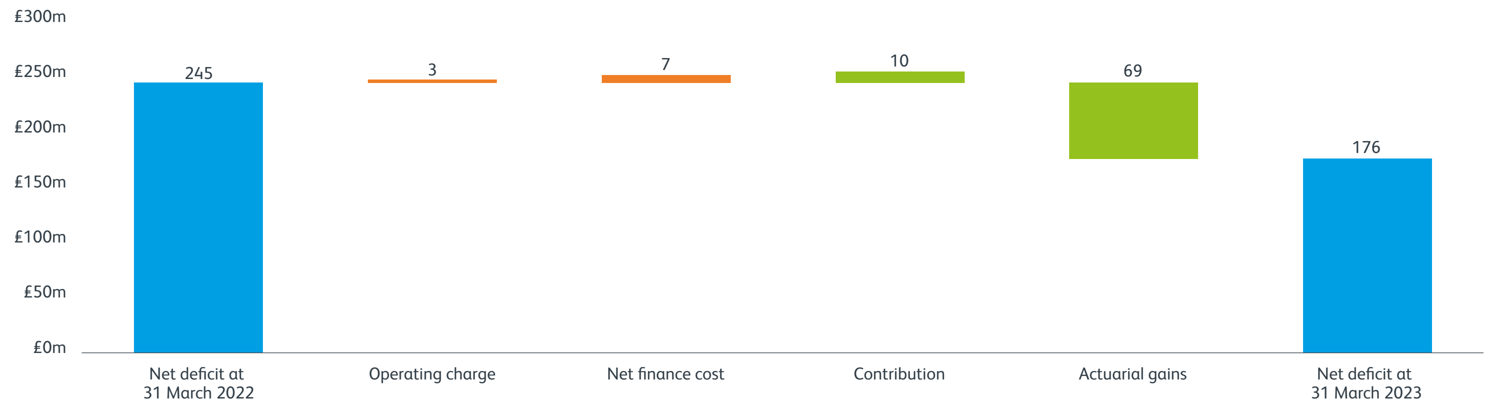
The following pie chart shows the overall debt mix, excluding the impact of swaps and amounts owed to group undertakings, as at 31 March 2023.



GBP bonds	7,889
Foreign currency bonds	3,233
United States Private Placements	1,900
GBP loans	2,528

Overall debt mix of £15,550 million reconciles to Note 18 Borrowings, line items "secured bank loans and private placements" and "bonds" when rounded to the nearest million.

A summary of the movement in the Defined Benefit Pension Scheme



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

As at 31 March 2023, on a post swaps basis, fixed rate debt outstanding was 33.8% of Regulated Capital Value ("RCV"), index-linked debt was 50.2% of RCV and floating rate debt was 2.8% of RCV.

During the year:

- we transacted £1,827 million notional of cross currency swaps to hedge foreign currency debt issuances into GBP;
- we transacted £1,000 million of pay index linked swaps, receiving fixed rates.
- we prepaid accretion of £310 million on index-linked swaps, bringing the settlements forward to March 2023 from September 2023 and October 2024.

Some of our interest expense is incurred on borrowings to fund major capital projects. Under IFRS accounting rules we are able to capitalise these interest costs, with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £215 million in the financial year (2022: £115 million), with the increase reflecting an increase in the average net interest rate on our net debt used for the borrowing cost capitalisation calculation.

We also monitor a number of financial covenants within our lending documentation. Our PMICR (see PMICR definition on page 132) was 1.6x at 31 March 2023 (2022: 1.8x), above the minimum covenant requirement of 1.1x. Net cash interest on a PMICR covenant basis for the year ended 31 March 2023 was £235 million (31 March 2022: £283 million).

Gearing

As we continue to invest in the business, significantly beyond the Final Determination ("FD") allowances, our statutory net debt (as defined on page 132) increased by £1,024 million to £13,959 million (31 March 2022: £12,935 million).

The increase in net debt was accompanied by an increase in the Regulatory Capital Value ("RCV"), as published by Ofwat, of £2,304 million to £18,945 million (31 March 2022: £16,641 million), meaning that overall gearing (on a covenant basis), as at 31 March 2023, was 77.4% (31 March 2022: 80.6%), below the maximum allowed under the covenant of 95.0%. The decrease in gearing reflects a number of factors including the impact of higher inflation on RCV (partly offset by higher accretion on RPI-linked debt and swaps).

Environment, Social and Governance (ESG)

Aligned with our Purpose and our approach to becoming more sustainable, we continue to put ESG at the heart of our financial and operational decision-making. Our support for customers, roll-out of smart meters and investment in our waste network to improve river health are just some examples of projects that support our approach.

We're also enhancing the way we oversee climate risk, with the creation of our formal, climate change working group during the year, led by our Engineering and Asset Director and reporting to the Executive and Board. The working group includes representatives from the finance, sustainability, engineering and energy teams, to increase oversight across the business. In this report, we have included our disclosures against the Task Force on Climate-Related Financial Disclosures (TCFD) – see page 45.

The issuance of green and sustainable bonds via our current Sustainable Financing Framework (SFF) supports the financing of our projects related to the environmentally sustainable management of natural resources and land use, as well as climate adaptation. We aim to provide transparency, disclosure, integrity, and quality in all of our related reporting. We appointed the internationally accredited verification company DNV to review our framework, as well as a selection of example projects and eligibility criteria. In January we issued further green bonds under the SFF, raising €1,650 million (£1,463 million after conversion to Sterling) across two debt issues, to refinance eligible projects across multiple areas including renewable energy and pollution prevention and pollution control.

We will report on the positive ESG-related impacts that both our new and existing green bonds have contributed towards via our annual Impact Report, which will be published on our website alongside all previous reports. We also continue to tie in the interest cost on our main £1,646 million Revolving Credit Facility (RCF) to our sustainability performance, via our participation in the annual Infrastructure Global Real Estate Sustainability Benchmark (GRESB) assessment.

GRESB is an independent external ESG benchmark that assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Our latest GRESB score is 92 out of 100, which, we are delighted to report is our highest ever score since we started participating in 2016. As a result of this performance, we are currently benefiting from a small reduction in the margin paid on drawdowns under the facility. As we have promised, these financial benefits will be distributed to our charitable fund for water and health or environmental causes.

As we look forward, we will be re-evaluating the benchmarks and disclosures we align with, to ensure we meet business needs and those of our stakeholders.

Task Force on Climate-Related Financial Disclosures

Introduction – our approach to tackling climate change

2022/23 was another reminder of the increasing impact of climate change on our world and our business.

As the provider of life's essential service, climate change is one of our biggest risks, as well as one of our biggest opportunities. With that in mind, assessing and addressing climate-related risks and opportunities is, has been, and always will be an important part of how we operate and plan for the future.

Mitigating and adapting to climate change are two pillars of our long-standing sustainability policy and our generation of renewable energy dates back to the 1930s. Over the last year, we've engaged with a range of stakeholders on our Vision for 2050. Responding to the heightening pressure of climate change has been an important consideration in defining our long-term Vision.

With the risk increasing, it's important we make the right decisions today to reduce the impact of climate change on future generations and we're continuing to invest heavily in our approach to climate change. The Thames Tideway Tunnel is also nearing completion. The over £4 billion project, being delivered through a pioneering financial model, will reduce discharges into the tidal Thames by 95% when it goes into operation.

Reporting on climate change

We regularly report on our approach to climate change through a range of reports, such as:

Climate Change Act 2008

In response to the Adaptation Reporting Power process in the Climate Change Act 2008, we voluntarily reported on any activities that help us mitigate the current and future risks of climate change to the UK Government's Secretary of State. Our latest submission is available on our website

Task Force on Climate-Related Financial Disclosures

This is our second year of voluntary reporting of Task Force on Climate-Related Financial Disclosures, in advance of the required mandatory reporting next year, when we will align with the required disclosures.

In this section we outline our progress against each of the four pillars of TCFD – Governance, Strategy, Risks and Metrics and Targets – and we'll continue to evolve our approach in the coming years, as we address customer needs and align with the evolving regulatory and statutory reporting requirements.

Our Water Resources Management Plan and Drainage and Wastewater Management Plan

In this report, we refer to a number of documents and plans we've published, which give more detail and important context for our approach to tackling climate change. They include our Water Resources Management Plan and Drainage and Wastewater Management Plan, which describe how we will continue to deliver our services over the long-term, in the face of risks such as climate change. Given how extensively we consider climate change risk, mitigation, and adaptation in our planning, we feel it's important to reference these documents and, given their length, it's not possible to include the documents in full in this report.

Sustainability Report

This year, we're publishing a separate Sustainability Report and ESG Statement, which includes further information about our approach to managing climate change and can be found on our website.

Governance

Our Board has ultimate responsibility for climate-related risks and opportunities. Together, our Board Directors have significant experience in assessing and managing climate change. You can find more information in our Board skills matrix in the Governance section on page 72.

We've strengthened the governance of our approach to climate change over the last year. In 2022, we set up a formal Climate Change Working Group, chaired by our Asset and Engineering Director, Caroline Sheridan and including managers from the Corporate Finance, Investor Relations, Risk, Sustainability and Energy and Carbon teams. The group reports to the Executive Team's Executive Decision-Making Committee, led by the CEO and attended by the CFO, and the Board's Health Safety and Environment Committee.

The objective of the Climate Change Working Group is to provide oversight and effective governance of our approach to managing climate change with a focus on ensuring compliance with relevant statutory and regulatory obligations and reporting. That includes, but is not restricted to, the five-yearly Periodic Review, Water Resource Management Planning, Drainage and Wastewater Management Planning, our Adaptation Reporting Power response, TCFD, and our Net Zero transition plans.

As a company, the Board approves our overall governance arrangements, our risk and control framework and our risk appetite. Day-to-day risk management is carried out throughout our business, led by our Director of Risk, Audit and Assurance, and overseen by our Chief Financial Officer with the wider Executive team. Our principal risks (see page 52) include risks relating to the physical and transitional risks of climate change and these are reviewed each year by the Board.

The Audit, Risk and Reporting Committee (ARRC) meets quarterly, where it reviews risk updates as well as how risks are being managed, including those related to protecting the environment and meeting the challenges posed by climate change.

See the Governance section of this Annual Report 2022/23 for more information on our governance disclosures (see page 67)

Strategy

At Thames Water, adapting to and mitigating our contribution to climate change have been important parts of how we do business for a long time, and we're continuing to improve the way climate risk becomes an inherent part of our strategy and business planning. We have made significant assessments to understand climate related risks and opportunities, and their impact on our future plans, with more detail in our WRMP and DWMP.

Here's our two-pronged approach to tackling climate change in more detail:

Adaptation

We've been using climate scenario analysis for a number of years to understand the different pressures climate change creates – like water resource availability, water demand and flooding potential – and to ensure that we make the best strategic and investment decisions to meet the challenges of an uncertain climate future. This includes managing our resources more effectively and improving the resilience of our infrastructure. You can read more about our planning and scenario analysis on page 46.

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

Mitigation

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

Since we made our Net Zero pledge in 2019 there have been some significant changes to the original assumptions used by the water sector, that will significantly impact the size of the net zero challenge.

They include:

- Changes to our understanding of the levels of Nitrous Oxide emitted from the wastewater treatment process, a significant operational emission.
- An increase in operational emissions due to an improved understanding of underlying assumptions
- Increases in treatment standards linked to WINEP and associated emissions
- Population growth

Whilst we don't yet fully understand the impact of these changes on our net zero plans, we are continuing to work towards our 2030 commitment. We are continuing to explore a range of opportunities to reduce our emissions including:

- Generating more renewable electricity
- Energy and fuel efficiency
- Substituting fossil fuels for lower/no carbon fuels
- Exploring lower carbon processes
- Resource recovery
- Nature based solutions

As with our original route map we intend to reduce our emissions by taking positive action ourselves. Buying offsets will be a last resort, but, if it becomes essential to meet our commitment after 2030, we'll buy UK offsets supported by the UK Government.

As our understanding of our emissions and reduction opportunities continues to develop, we regularly update on progress, challenges, and opportunities.

As we take steps to continue reducing our emissions, we're increasing our use of renewable energy to service our operations and using sludge as a fuel to produce biogas to generate additional energy. In 2022/23 we self-generated 21.3% of our electricity needs renewably (23% in 2021/22).

Task Force on Climate-Related Financial Disclosures continued

Scenarios

Climate Change Scenarios

As part of our five-yearly regulatory planning cycle we already consider and manage a range of climate related risks and opportunities. We have provided illustrative risks in the Physical Risk section of this disclosure.

Since our first voluntary TCFD disclosure last year, our use of climate scenarios has continued to develop. Moving this work forward, we're evolving our understanding of the interconnectivity of climate change risks and opportunities, and how best to manage these to reflect climate change risk as part of our wider strategy. We're now using our own UK Climate Projections 2018 (UKCP18) modelling to increase our understanding of how climate will impact our business.

We perform a significant amount of modelling to assess the impact of future climate scenarios, looking at key climate-related risks. These relate primarily, but not exclusively, to water resource availability, water demand and wastewater management. A detailed description of these key risks, the regions that may be impacted, and the strategies in place to manage them are outlined in our draft Water Resources Management Plan and Drainage and Wastewater Management Plan.

At a high-level, climate modelling based on the UKCP18, suggests that, in a world of 2°C, the UK will experience, on average, 1 to 2°C higher annual temperatures by the end of the century compared to the baseline period (1981-2000). This warming could be higher in the South East, with average summer temperatures increasing 3 to 4°C relative to the 1981- 2000 baseline.

For precipitation, changes are less certain, but it's projected that the south of the country will experience wetter winters and drier summers. Alongside these changes in average temperature and precipitation, it's generally agreed that climate change will increase the variability of weather, for example extreme events, such as heat waves, floods and droughts, which are expected to be more intense and frequent. However, the timing and extent of these changes is very uncertain.

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

Representative Concentration Pathways

To model and project future climate it is necessary to make assumptions about the economic, social and physical changes to our environment that will influence climate change.

Representative Concentration Pathways (RCPs) are a method for capturing those assumptions within a set of scenarios. The conditions of each scenario are used in the process of modelling possible future climate evolution.

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

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

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

The spread of future temperatures covered by the RCPs are broadly captured by our previous analysis of a 2°C and 4°C world which we have previously highlighted in our latest update to the UK Government in our adaptation report 'Protecting our Water and World', which can be found in the climate change section of our website.

The potential implications of climate change on our activities have been reflected in the development of a number of key long-term company plans including:

- Water Resource Management Plan 2025-2050
- Drainage and Wastewater Management Plan 2025-2050
- Price Review Business Plan 2025-2030 (draft plan to be submitted to Ofwat in October 2023)

In addition, we have supported the development of a regional water resilience plan by Water Resources in the South East (WRSE). WRSE is an alliance of the six water companies that cover the South East region of England. Its aim is to secure the water supply for future generations through a collaborative, regional approach to managing water resources resiliently.

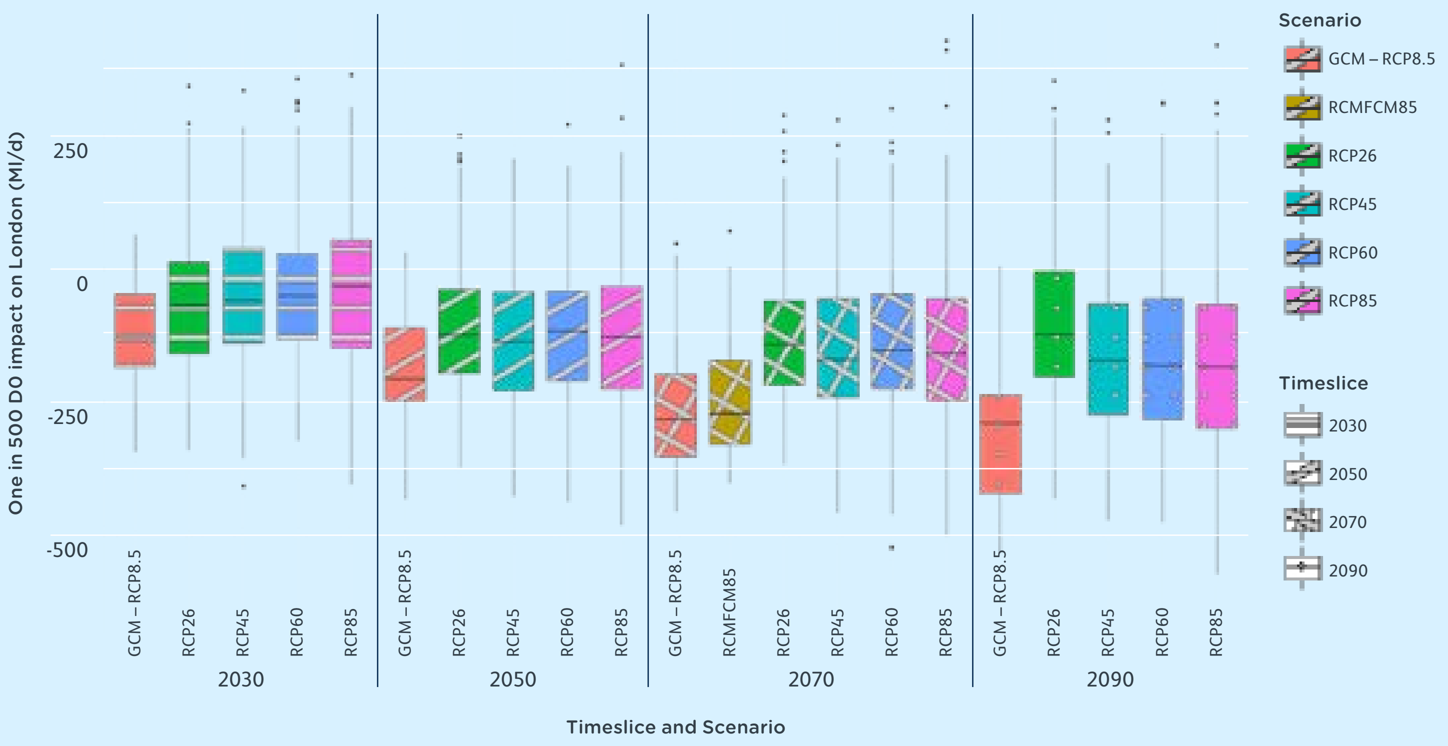
Draft Water Resource Management Plan 24

The impact of climate change on drought risk is, however, very complex, and highly uncertain, and so we have undertaken extensive modelling to assess the impact of climate change on our supply capability under different future climate scenarios.

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

In our previous plan, WRMP19, climate change assessment made use of UKCP09 climate change projections. Between WRMP19 and dWRMP24 the UKCP09 projections have been superseded by UKCP18. UKCP18 provides the most up to date, comprehensive set of climate change projections available for the UK. UKCP18 is not a 'like-for-like' replacement for UKCP09, and there are several important differences between the two datasets which have driven changes in our assessment methodologies. UKCP18 emissions scenarios are classified on the basis of changes to radiative forcing rather than socio-economic assessment. These projections are named RCP2.6, RCP4.5, RCP6.0, and RCP8.5, where the value following 'RCP' is the radiative forcing in 2100. Further detail is provided in Appendix U of the dWRMP24.

Change adaptation



Task Force on Climate-Related Financial Disclosures continued

By way of illustration the figure below provides a summary of the results for the four emissions scenarios for which probabilistic projections were analysed for impact on Deployable Output for London and a 1 in 500-year impact (where failure would require the need for emergency drought measures) for different time slices and RCP scenarios (RCP2.6, yellow; RCP4.5, green; RCP6.0, blue; and RCP8.5, purple). Further detail is provided in Appendix U of the dWRMP24.

Drainage and Wastewater Management Plan

In a similar way to how we have developed our long-term WRMP we have produced our first Drainage and Wastewater Management Plan (DWMP). The plan is based on the national DWMP Framework. The DWMP is a long-term costed plan that is focused on partnership working, which sets out the future risks and pressures for our drainage and wastewater systems. This long-term, collaborative plan aims to ensure a resilient and sustainable wastewater service for the next 25 years and beyond. It identifies the actions that are required to make sure we can continue to deliver our services reliably and sustainably, whilst also achieving positive outcomes for our customers, communities and environment. Where significant uncertainties are identified in developing the plan, we have used adaptive pathways in developing their preferred plan.

Adaptive planning provides a framework for exploring how sensitive a plan may be to alternative scenarios, risks and uncertainties, to ensure that the plan is flexible and resilient to different futures e.g., climate change. The approach identifies where thresholds and trigger points for alternative adaptive pathways exist, providing the basis for monitoring and review of the strategy and interventions, mitigating the risk that short-term decision making might reduce or jeopardise choices in the future.

The plan has been developed to mitigate the projected impacts of climate change and population growth. The annual volume of rainfall over the next 25 years, from 2025, is projected to increase by 15% based compared to today. For more information see Appendix G [link]. In addition, as with the WRMP we have looked at adaptive pathways planning in the context of RCP2.6 and 8.5.

Ofwat

As part of the development of the five yearly business plan we produce for our financial regulator Ofwat, we are also required to review in the context of RCP2.6 and 8.5. Ofwat's guidance on long-term delivery strategies sets out guidance that within our adaptive planning we should consider a 'low' future scenario based on the 50th percentile of RCP2.6 probabilistic projections, and a 'high' future scenario based on the 50th percentile of RCP8.5 probabilistic projections.

Where to find our disclosures:

- This Annual Report 2022/23
- Sustainability Report and ESG Statement 2022/23
- Annual Performance Report 2022/23
- Draft Water Resources Management Plan 2024
- Drainage and Wastewater Management Plan 2024
- Climate Change Adaptation Report (2015-20)
- Five-year plan (2020–25)
- Drought Plan (2022–27)
- Pollution Incident Reduction Plan (2020–25)
- Green Bond Impact Report 2021/22

Our risks and opportunities

We have a robust approach to considering and managing our risks so we can deliver our Purpose and objectives, while also managing our risks, including climate change, to an acceptable level rather than eliminating them completely.

Climate change has the potential to significantly impact our business and we already consider and manage a range of climate related risks and opportunities. Moving this work forward, we're evolving our understanding of the interconnectivity of climate change risks and opportunities, and how best to manage these to fully reflect climate change risk as part of our wider strategy. See page 52 for more information about our approach to risks.

We've strengthened the governance of our approach to climate change over the last year. In 2022, we set up a formal Climate Change Working Group, chaired by our Asset and Engineering Director, Caroline Sheridan. The group includes managers from Corporate Finance, Investor Relations, Risks, Sustainability and the Energy and Carbon teams.

Risk Management

We operate an enterprise risk management ('ERM') framework where we implement risk management across the business. As part of our risk management process, we identify, assess and agree mitigation options for climate-related risks. We disclose these risks in documents such as our Water Resources Management Plan, Drainage and Wastewater Management Plan and Climate Adaption Report. For more information on our risk management process please see the risk section in our Annual Report on page 52.

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

Where we're going

As we evolve our climate change understanding, we're continuing to review the risks in our enterprise risk management system and build on information already recorded.

Physical risks

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

Transition risks

Risks that arise as a result of economic and regulatory transition toward a low carbon future

Opportunities

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

A sample of these of physical risks, transition risks, and opportunities is set out on the next page.

Task Force on Climate-Related Financial Disclosures continued

Physical Risk

Water – Physical Risks

Risk	Drivers	Potential Impacts	Opportunities
Failure to provide enough wholesome drinking water	Higher temperatures, hotter, drier summers and increased frequency and intensity of droughts will increase demand and reduce water availability Population growth will also impact demand Increased customer awareness of climate change and associated water risks	• Additional infrastructure investment required to secure supply • Additional operational costs to ensure supply e.g., during droughts • Regulatory penalties/fines could increase	• Agree Water Resource Management Plan which assesses and plans for future water resource needs including reference to climate change • Reduce leakage by 50% by 2050 • Increase penetration of smart water meters • Improve our resilience to a 1 in 200-year drought by 2030 • Support customers to use less water

Wastewater – Physical Risks

Risk	Drivers	Potential Impacts	Opportunities
Failure to effectively transport and adequately treat wastewater	• More intense bursts of rainfall increasing volumes of water to wastewater systems • Additional demands on wastewater systems and increased risk of flooding both to properties and the environment • Potential damage to infrastructure • Increased population and land cover leading to increased runoff • Increased customer awareness of climate change and associated wastewater risks e.g. rivers	• Prolonged wet weather could increase risk of flooding • Surcharging of sewage networks and treatment works could lead to more pollution events • Could lead to increased fines/penalties	• Develop our Drainage and Wastewater Management Plan that takes a 25 year forward look including climate change which will inform our business plan for the period 2025-30 • Deliver on commitment to reduce the total annual duration of untreated discharges by at least 50% by 2030 • Continue active educational programmes with customers to promote safe use of the wastewater system, including appropriate disposal of wet wipes and cooking fat

Transition Risks

Risk	Opportunities
Failure to deliver Net Zero operational emissions by 2030	• Monitor and drive progress through a dedicated cross functional Net Zero Taskforce • Deliver emissions reductions using systems for monitoring and reducing emissions from treatment processes and elimination of waste. • Improving our sludge treatment processes to reduce fugitive emissions and recover more energy from the sludge we treat. • Replace emission sources with alternative fuels, materials and technologies such as increasing the amount of renewable energy we generate, including biogas and solar, developing more gas to grid options, and purchasing renewable energy. Developing low/no carbon transport solutions; fossil fuel substitution, and exploring nature-based solutions • Deliver emissions avoidance measures, such as demand management, energy efficiency, and avoidance of travel related emissions by embracing technology
Increasing costs of grid electricity	• Renewable energy – increasing the amount of renewable energy we generate including biogas, wind and solar power • Delivery of energy efficiency solutions to reduce exposure to price volatility • Development of an energy portfolio including a Power Purchase Agreement profile to spread the risk of spikes in energy costs • Identification and delivery of opportunities to reduce cost and create cost certainty
Lack of availability and affordability of low carbon goods and services	• Actively engage with supply chain to understand and quantify scope 3 emissions and encourage the development of low carbon goods and services
Financeability and affordability of moving to an adapted low carbon future	• Engage with regulators and government bodies to align our plans and encourage incentives in areas of need. • Work with suppliers to reduce costs and develop alternative procurement solutions
The Net Zero goal becomes more challenging as understanding of the extent of our operational process emissions evolves e.g. changes to process emission assumptions and increased treatment standards etc	• Increased monitoring of process emissions to increase understanding and develop mitigation options • Optimisation of existing processes using monitoring to reduce emissions from treatment processes • Development of process alterations that reduce emissions • Work with key stakeholders to understand the size of the challenge and possible costs of solutions so they can be integrated into government plans
Conflicting challenges between the need to deliver statutory duties to increasing standards, whilst minimising capital carbon e.g. WINEP	• Work with our supply partners to reduce our capital carbon emissions • Work with key stakeholders including Government and Regulators to understand the impact of changes to standards on carbon emissions

Task Force on Climate-Related Financial Disclosures continued

Potential future impacts on our finances

Time horizons

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

	Tactical Short-term	Regulatory Review Medium Term	Strategic Long Term
Time Horizon	0-2 Years	5-year regulatory period	25 years +
Approach	Implementing tactical response plans for delivery of our annual performance targets in the face of acute physical risks. Informs needs for future improvements. Focus includes incident management plans & process driven response plans, drought plan and localised response strategies	Every five years we produce a business plan that describes what we need to deliver in the next five-year period to ensure we can deliver water and wastewater services within a longer 25-year context. It is a Regulator approved rolling 5-year investment plan approach	Long term plans exploring & accounting for the future potential risks we may face, including climate change uncertainty. How we will meet future challenges, and the steps that need to be considered Water Resources Management Plan produced every five years with a 25 year plus outlook Publishing our first Drainage and Wastewater Management Plan looking at wastewater requirement in 2023
Includes	Undertaking an appraisal of the health of our assets to inform our Asset Health Insight Dashboard. Assessing and delivering operational tasks/operation & maintenance of assets.	Engaging with key stakeholders to agree response plans including Environment Agency, Ofwat, Customers and local communities. Use of scenarios to determine responses. Assessment of Capital investment needs including the promotion and delivery of large-scale capital solutions	Active consideration of the potential long-term impacts of climate change on our essential services in Water Resources Management Plan and Drainage and Wastewater Management Plan.
Relationship		Dynamic and interrelated	

Time horizons are considered as part of our climate risk assessment process – see risk section on page 52 for more information

Task Force on Climate-Related Financial Disclosures continued

Metrics and Targets

We're measuring and monitoring our response to climate-related risks and opportunities. Our well-established approach to climate change mitigation and adaptation means that we've incorporated a range of climate-related metrics and targets into our business plan and our Annual Report, Annual Performance Report and our Sustainability Report and ESG Statement.

The following metrics and targets are used to help us assess and manage climate change related risks and opportunities.

	Metric description	Trend and/or data	Related Activities/Targets/Achievements
GHG Emissions	Net Scope 1, 2 and 3* GHG emissions ($kTCO_2e$) – market based	321.9	• Develop plan to achieve net zero operational emissions by 2030
	Carbon intensity of water services ($kTCO_2e$/Ml) – market based	40.2	• 100% of purchased electricity is renewable
	Carbon intensity of wastewater services ($kTCO_2e$/Ml) – market based	182.2	• 811GWh of self-generated renewable energy by 2030
Transition Risks	% energy consumption from self-generated renewable energy	27.1%	• Improve energy security and reduce impacts of price volatility by generating more renewable energy • 811 GWh of self-generated renewable energy by 2030 • Use energy more efficiently
	Energy costs and volatility	↑	• Identification and delivery of opportunities to reduce cost and create greater cost certainty
Physical Risks	Security of Supply Index (our ability to maintain a water supply, particularly during a drought)	99%	• Maintain Security of Supply Index (SOSI) of 100% • 0% of customers at risk from a 1 in 500-year drought by 2040
	Risk of sewer flooding in a 1 in 50-year storm	10.25%	• Produce and agree the 25 year Drainage and Wastewater Management Plan
Climate related Opportunities (material opportunity)	Amount of energy self-generated	536 Gwh	• Generate more renewable energy • 811 GWh of self-generated renewable energy by 2030 • Use energy more efficiently
	Per Capita Consumption Ml/d (three-year rolling average)	146	• Water efficiency activities • Per capita consumption plan
	Leakage reduction compared to 2019/20 baseline (%)	10.7	• 20.4% Leakage reduction by 2030 • 50% Leakage reduction by 2050
	Removal of impermeable surfaces (Ha)	>1	• Remove over 7,000 Hectares of impermeable surfaces draining into our sewers by 2050 • Healthier Rivers • Working with Local Authorities to deliver projects
	Clearance of blockages (No.)	73,780	• Bin it – don't block it campaign
	End purchase of fossil fuelled powered LGV vehicles	31/3/26	• Trialling electric powered LGV vehicles • Exploring alternate fuels
	Gas to Grid solutions delivered	1	• Our largest gas to grid installation at Deephams sewage treatment works delivered in 2022. We intend to complete another connection at Mogden sewage treatment works during 2023
	Smarter Water Catchment Initiatives	3	• Between 2020 and 2025 we're trialling this in 3 catchments and will be working in partnership to deliver the plans.
Capital/Financial	Net operational carbon per £million revenues = Net Carbon/Revenue (market based)	147.6	• Use energy more efficiently • Reduce operational emissions
	Net operational carbon per £million revenues = Net Carbon/Revenue (location based)	245.8	• Increase the amount of self-generated renewable energy • Use energy more efficiently • Reduce operational emissions
	Renewable Electricity generated vs electricity purchased, improving energy security and reducing the impact of price volatility	21.3%	• 433 GWh of self-generated renewable electricity by 2030
Remuneration	35% of the CEO/CFO Performance-Related Plan is linked to environment outcomes including net energy usage	✓	• Long Term Incentive Plan • Annual Management Bonus

We disclose Scope 1, Scope 2 and Scope 3* greenhouse gases using the UK Water Industry Research Accounting Carbon Workbook. Emissions are standardised to global warming potential represented as carbon dioxide equivalents. Our full energy management and operational greenhouse gas emission disclosure is outlined on page 109.

Task Force on Climate-Related Financial Disclosures continued

Thames Water Net Zero Emissions by scope

Scope 1	Scope2	Scope 3*
Water and wastewater treatment process and fugitive emissions	Grid Electricity	Outsourced activities* (to meet licence condition)
Own vehicle emissions		Energy well to tank (extraction, production, transmissions and distribution)
Fossil fuel combustion		Business travel
		Private vehicles used on company business
		Chemicals used
		Disposal of waste from operations

* While we do not control our supply chain, we can influence it to change and find solutions to reduce carbon emissions or develop alternate offerings, for example emissions associated with the chemicals we use to treat water to meet drinking water standards. We are currently exploring scope 3 emissions associated with purchased goods and services and capital projects. Whilst these are important emissions, they are not fully included in the scope of the Operational Emissions Net Zero Goal.

Our net zero ambition is based on four themes:

1. **Avoid** – Where possible avoid producing emission through efficiencies.
2. **Reduce** – Where economically and technologically viable, emissions from our activities are to be reduced as far as possible.
3. **Replace** – Where economically and technologically possible replace emission sources with alternative fuels and materials
4. **Offset Internal/External** – This includes the sequestering of atmospheric carbon and generation of low carbon products.

In 2022/23 our emissions were 321.9 $ktCO_2e$, this is an increase of 52.1 $ktCO_2e$ that is related to an increase in reported scope 3 emissions to include chemicals, waste to land, and energy & fuels Well to Tank (WTT). These emissions were not previously included in the Scope of the industry's carbon reporting. When using a like for like methodology our net operational emissions decreased by 12 $ktCO_2e$ to 257.6 $ktCO_2e$ compared to 2021/22 levels.

An example of our innovative progress is the gas grid injection facility at our Deephams STW. The plant has the potential to produce around six million cubic metres of biomethane a year, avoiding more than 8,000 tonnes of carbon dioxide equivalent from entering the atmosphere each year. This is the same as taking more than 2,200 diesel cars off the road.

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

Reports and plans containing more information about our understanding and response to climate change:

Plan/publication	Period covered	Description
Our business plan	2020 – 2025	Our business plan draws together insights from our modelling, engagement with stakeholders, and our regulatory environment – and sets out our key plans, priorities and targets as a business for the next five years to ensure we're focusing on the most important areas. These clear focus areas will help us to manage and mitigate our climate related risks
Climate Adaptation Report	2015 – 2020	Our Climate Change Adaptation Report (which was submitted to Defra in December 2021) describes our climate-related risks and how we've been working with our stakeholders to address those risks.
Drainage and Wastewater Management Plan	2025 – 2050	Our first DWMP will focus on the impact of growth, climate change and urban creep on drainage and wastewater effectiveness between 2025 and 2050. This will help us understand pressure points in our existing drainage and wastewater management solutions, identify opportunities for new solutions, and develop plans for a variable future. It takes an in-depth analysis of climate scenarios to look at geographic regions that will be affected by climate change and to highlight key risk areas, particularly around wastewater management and pollution event planning. The plan outlines our strategic response to these risks so we can manage them effectively with an adaptive approach.
Water Resources Management Plan	2020 – 2045	Our current WRMP plan sets out how we plan to manage our water resources efficiently and develop new supplies of water. Technical Appendix U outlines in detail the considerations we've made about climate change, and how these have been built in to our risk management processes. Like our DWMP, the WRMP requires in-depth climate scenario analysis to assess geographic regions that will be impacted by climate change and to highlight key risk areas, particularly around water availability and water demand. The plan outlines our strategic response to these risks so that we can manage them effectively through an adaptive approach. We are currently updating WRMP which builds on our current plan (WRMP19) and reflects the draft South East regional plan. It sets out how we'll keep taps flowing for customers over the next 50 years, looking ahead to 2075. We will publish our new plan later in 2023.
Drought Plan	2022 – 2027	Our Drought Plan shows how we will react to a period of unusually low rainfall. It also sets out our plan to protect our business against more severe droughts as weather patterns change. The plan doesn't directly reflect the future impacts of climate change, but it's used to understand how severe drought will impact our water supply, and how the risk can be managed effectively. We are currently developing the next update of this plan.
Our Pollution Incident Reduction Plan	2020 – 2025	By 2025, we've committed to reducing the number of pollution incidents in our area by 30. Our plan investigates the causes of pollution and explores the initiatives we're putting in place to tackle the problem. It also highlights some of the activities we're doing to address pollutions, like increased sewer cleaning, investment in our infrastructure, and public campaigns like 'Bin it – don't block it'. These types of actions will help manage pollution risks in a variable climate future.
Roadmap to net zero	2021 – 2030	Our roadmap to net zero, published in May 2021, sets out our key metrics and targets relating to our carbon reduction commitments.
Green Bond Impact Report	2021/22	Our Green Bond Impact Report sets out the environmental benefits that our funded Green Bond projects deliver. It outlines the key performance indicators associated with environmental and climate-related projects we're investing in, including energy generated from renewables, carbon and water savings, and effluent discharge prevented.

Principal Risks and Uncertainties

Managing our risks to support long-term, sustainable success

At Thames Water we seek to manage risk across all parts of our organisation; managing the threats and optimising the opportunities to effectively pursue our turnaround plan and deliver on our purpose. Our Enterprise Risk Management department have responsibility for risk management across the organisation, providing expertise and support to the business units and reporting risk information to the Executive Team, Board and its Audit, Risk and Reporting Committee (ARRC)

As we turnaround Thames Water our Enterprise Risk Management department has implemented a new framework and tools which ensures that risk management forms a fundamental part of our decision making in everything we do. We are proactively managing our risks as we implement our plans to fix the basics, raise the bar and shape the future and are embedding processes that enable us to quickly identify and adapt to the dynamic environment in which we operate.

We recognise the importance of an effective risk culture, and our Enterprise Risk Management Framework has been designed to enable this, encompassing our values and behaviours and encouraging timely and transparent risk reporting. This is supported by a strong, consistent tone from the top which is cascaded throughout the business.

Enterprise Risk Management Process

Our risk management process centres on a clear and simple approach, based on globally recognised risk management frameworks. It provides a consistent end-to-end process to all directorates, as well as integrating activities with the Executive Leadership and Board to ensure alignment with our turnaround plan.

Risk Oversight & Governance

Embedding a clear and consistent approach to risk oversight and governance is key to ensuring that risk management is effectively implemented across the business. The Board has overarching responsibility for ensuring the effectiveness of the risk management and internal control systems, supported by the ARRC, which maintains oversight over the principal risk landscape and how the business is responding.

We follow the established Three Lines Model to enable an effective relationship between risk, control and assurance, ensuring clear accountability and responsibility throughout.

Our principal risks and relevant emerging risk information is formally considered and challenged at least quarterly via Directorate Leadership Team risk reviews; the Executive Risk Committee; and the Audit, Risk and Reporting Committee (ARRC). Further information on our ARRC and other Board committees can be found in our governance section on page 66.

Diagram 2: Risk Management Process

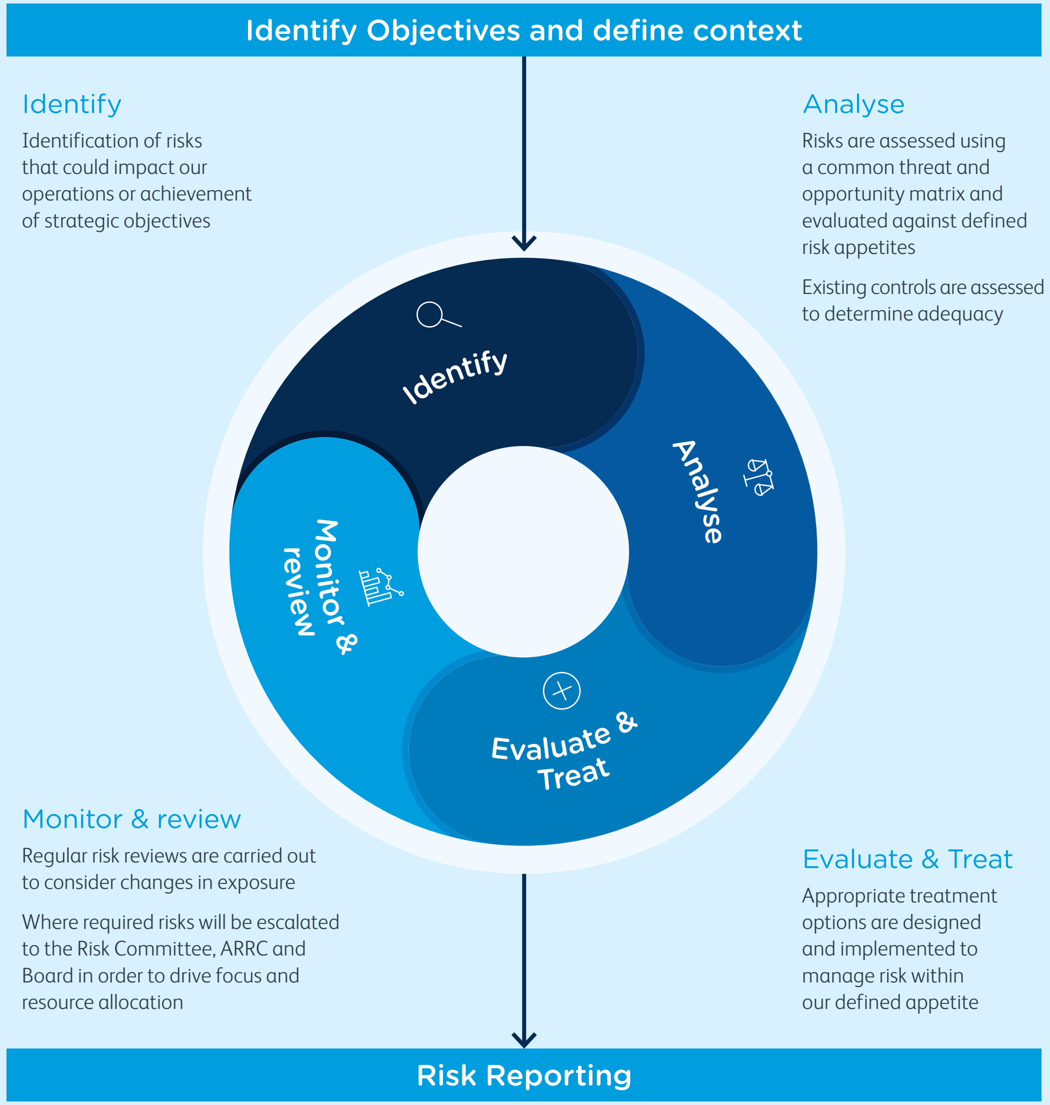
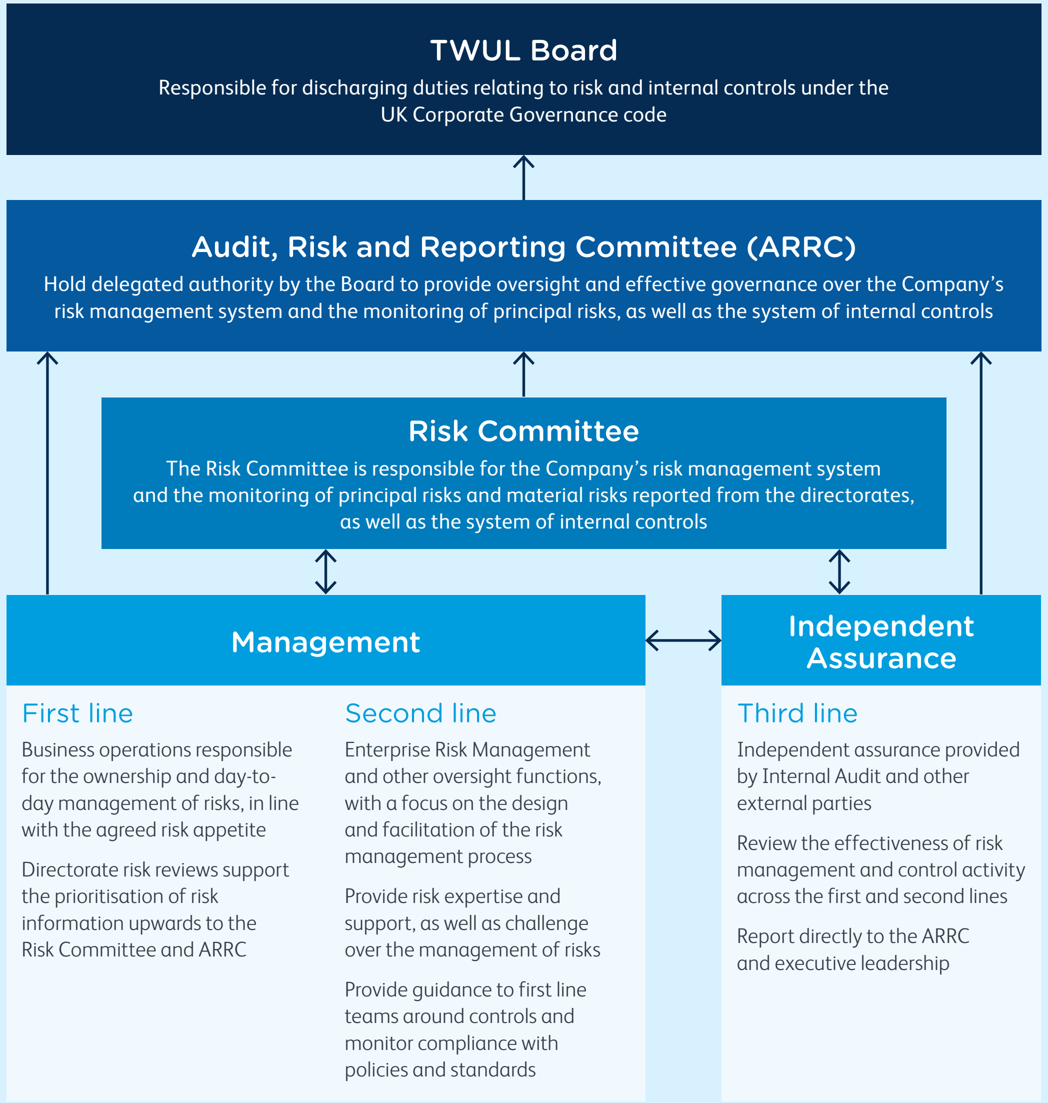


Diagram 3: Risk Governance Structure



Principal Risks and Uncertainties continued

Continuous improvement

Over the past twelve months a significant effort has been made to consistently embed the foundations of Enterprise Risk Management across Thames Water, resulting in improved risk reporting, clarity on our risk appetite, collaboration across directorates and a stronger risk culture. We have also matured our alignment between risk and resilience management to ensure a more holistic, joined-up approach going forward.

We have appointed a Board Risk Sponsor to each of our principal risks, holding deep dive reviews of each with the sponsor, Executive risk owner and the sub-risk owners. This has introduced an additional level of challenge to the management of our risks.

We have also:

- Invested in improvements to our control environment, including establishing a dedicated team to deliver our Control Improvement Programme (CIP)
- Created a new internal control framework which ensures our corporate policies and standards are clear and consistent
- Introduced formalised and embedded financial controls
- Implemented a new compliance controls framework

Focus for the year ahead will include further improvement to our control environment, including implementing a new operational controls framework and further embedding existing controls. We will continue to work collaboratively across the organisation through increased business partnering and improved engagement, supported by the facilitation of risk workshops and training. Plans are in place to mature our bottom-up risk management to ensure it fully integrates with other existing process within the business units, therefore streamlining and strengthening the overall process. In addition, focus will be placed on improving the understanding of interdependencies between our risks, creating efficiencies in their management.

The Enterprise Risk department will continue to review and enhance the Thames Water Risk Framework and tools to ensure that our approach to the management of risk remains current.

Principal risk profile

We have closely managed our principal risks through a year of considerable external and internal change. The external risk landscape continues to be dominated by the cost-of-living crisis, rising inflation, continued volatility in energy prices, and disruptions in global supply chains, including the availability of key chemicals. In addition, rapid population growth and changing weather patterns are placing increasing pressure on our ageing infrastructure, while we strive to meet higher environmental standards. The ongoing delivery of our Turnaround Plan, including implementation of our new regional operating model and insourcing initiatives have impacted the internal environment and will continue to do so in the year ahead.

In addition, as mentioned in our Task force for Climate Related Financial Disclosures update on page 45, there have been some significant changes to the original assumptions used by the water sector, that could add risk to the delivery of our net zero operational emissions by 2030 target. We are, however, still committed to our target.

Despite the significant changes in our operating environment, there have been no new risks added this year, although the profile of the existing risks has changed. The table on this page provides detail of each.

Although our enterprise risk management process is robust, we cannot provide absolute assurance, and as such some risks may be affected by factors outside our control and unknown risks may manifest without warning. In these situations, we deploy our well-established incident management process to minimise the impact to Thames Water, our customers and our stakeholders.

Emerging risks

Emerging risks are those that are newly developing or rapidly changing and therefore their extent and implications are not fully understood. As such they cannot be fully assessed in the same way as our contemporary risks however, they do have the ability to affect the future viability of Thames Water if appropriate steps are not taken to understand and respond accordingly. Therefore, as part of our risk management process, we regularly consider changes in our operating landscape and the subsequent emerging risks that could arise over the short, medium and long-term timescale.

We identify emerging risks using similar techniques to the standard risk assessment process, including workshops with key stakeholders, horizon scanning and insights from a variety of internal and external sources. Measures to monitor and respond to these risks are put in place as appropriate, including the creation of new principal risks when necessary.

An example of one of our emerging risks relates to potential changes in the structure of the water utilities sector – should government priorities or public opinion change in relation to the privatisation of utilities, then this could significantly alter the way in which we operate.

Principal risks

The directional trend of each of our principal risks is summarised in the table below and further details on how the risks are being managed can be found in the following section.

Risk Category	Risk no.	Principal Risk	Risk trend	Board sponsor
Strategic	PR01	Customer experience	Stable	Catherine Lynn
Financial	PR02	Collect revenues	Deteriorating	Catherine Lynn
Operational	PR03	Capital projects	Deteriorating	Michael McNicholas
Strategic	PR04	Biodiversity, climate change and population growth	Stable	Ian Marchant
Operational	PR05	Digital systems	Stable	John Holland-Kaye
Operational	PR06	Employee and physical asset protection	Stable	Ian Marchant
Operational	PR07	Cyber security/data protection	Deteriorating	John Holland-Kaye
Operational	PR08	Asset integrity and resilience	Deteriorating	Michael McNicholas
Operational	PR09	Treat wastewater	Deteriorating	Ian Marchant
Operational	PR10	Supply of wholesome water	Stable	Michael McNicholas
Operational	PR11	Physical or mental harm	Stable	John Holland-Kaye
Operational	PR12	Attraction and retention of talent	Stable	Jill Shedden
Compliance	PR13	Values, behaviours, standards, legal and regulatory obligations	Deteriorating	Hannah Nixon
Financial	PR14	Liquidity	Deteriorating	Nick Land
Financial	PR15	Inflation and interest rates	Stable	Nick Land
Compliance	PR16	Regulatory, legislative and political developments	Stable	Hannah Nixon
Strategic	PR17	Public value	Stable	Ian Pearson
Strategic	PR18	Engage stakeholders	Stable	Ian Pearson

Risk trend: Deteriorating Stable Improving

The principal risks have been used as the basis for the downside events and scenarios in the Long-Term Viability Statement on p63

Principal Risks and Uncertainties continued

1 – Customer experience

Executive Owner – Retail Director

Risk

A key component of our Turnaround Plan is to improve customer service, however failure to adequately identify and support the needs of our customers will result in a poor experience. This in turn may lead to an increase in complaints, poor performance on our C-MeX and D-Mex measures, potential Ofwat investigations, penalties and failure to achieve the necessary customer advocacy and support to secure a PR24 plan that enables us to deliver our long-term ambitions.

Trend:

Trend Commentary

We have delivered a number of significant changes in FY23 to improve our service levels; insourcing our Billing Contact Centre and transforming our back-office services such that they offer a more data driven, customer-centric solution. These continuous improvements in our ways of working and enhanced digitised communications, including the launch of WhatsApp capability, are already delivering a marked improvement in complaints compared with prior year. This however is yet to translate into a C-MeX improvement.

As we continue to mobilise our new sourcing strategy and drive an increased customer focus, it is expected that this will manifest into a positive C-MeX change. Our developer customers will also benefit from our new sourcing strategy including the back-office transformation, and we expect to see this reflected in improving D-MeX scores. The trend to date has been positive.

Mitigations

Mobilisation of the C-Mex Improvement and Customer Transformation plans to address customer dissatisfaction, including the delivery of our new sourcing strategy, bringing voice capability back in house and transitioning to new partners to provide improved digital contact and back-office services.

Streamlining our systems to improve customer experience when moving house and automating Income and Expenditure online assessments to better support our customers who face challenging financial circumstances.

Continuing to increase the number of customers on our Priority Services Register and advancing our inclusivity agenda by maintaining our British standards Institution (BSI) accreditation for our provision of inclusive services.

Continued investment in a variety of channels through which customers can contact us.

Ongoing roll-out of digital Smart Meters, allowing our customers to automatically track the amount of water they use, keep track of their bills and support us to find and fix leaks more quickly.

Robust Customer Incident Management capability and regional based operational service model to build local customer and community relationships and inform local decision making.

Redesigning our Developers customer service experience and replacing the systems that support them.

KPIs

- C-MeX
- Total Household Complaints

2 – Collect revenues

Executive Owner – Retail Director

Risk

External factors impacting both our household and non-household customers result in the risk that we are unable to effectively collect revenues for prolonged periods and/or support customers to pay their water bills. This could lead to a shortfall in recognised income and a strain on our cashflow and associated covenants.

Trend:

Trend Commentary

Despite the improvements made throughout the year, significant uncertainty remains surrounding the exogenous factors driving this risk, including when the impact from the cost-of-living crisis will peak and for how long it will endure. Across both the water and wider industries, opinion suggests that the impact is not yet being fully felt and is likely to increase should the energy price cap be raised, and Government support withdrawn.

Mitigations

We have organically grown the number of customers supported by social tariff schemes and have secured cross-subsidy funding to support more customers in financial hardship, with two new schemes being introduced in April 2023.

An online affordability tool has been launched to undertake income and expenditure assessments for customers, with the objective of being able to offer customers affordable and sustainable payment plans. Further developments to this will be delivered during FY24.

We continue to invest to deliver service improvements, including to our billing to payment journey, and building self-service capability and automation. These improvements focus on strengthening our systems and processes to ensure fair and consistent outcomes for our customers and to enable prompt payment.

KPIs

- C-MeX
- Total Household Complaints
- Revenue
- EBITDA
- Total (Loss) after tax
- Credit Ratings
- Dividends to service debt obligations and other group costs
- Dividends to external shareholders

Principal Risks and Uncertainties continued

3 – Capital projects

Executive Owner – Capital Delivery Director

Risk

We continue to deliver the sector's largest capital infrastructure renewal programme which is experiencing inflationary price pressures and project scope increases due to the underlying asset condition. There is a risk that we are not able to deliver our outcomes within our agreed cost and time targets. This may result in reputational and financial losses as well as potential delays to delivering our commitments to customers, communities and the environment.

Trend:

Trend Commentary

Mitigation plans are becoming strained due to the strengthening inflationary headwinds and the business demand for additional projects to address compliance and drought risks. The programme delivery is larger than has been historically delivered within Thames Water and is scaling rapidly but is underpinned by robust and understood assumptions which are monitored and tracked by the Board and Executive. The assumptions consider required recruitment run rates, supply chain capacity and workload density, and outage management considerations.

Mitigations

We seek to optimise our portfolio of projects through the risk-based planning and investment business planning cycle. We are focused on our Turnaround Plan, which includes significant investment in people and processes for the efficient and effective delivery of our capital programme.

We continue to insource capability and capacity and through targeted recruitment activities have been able to grow our headcount by over 150 Full Time Equivalents since April 2020. We are on track to have no more than 30% consultant support in our client management organisation by the end of AMP7 and have recruited over 20 apprentices to date and will continue to recruit year on year.

Our initial cohort of professional project management training through the Association for Project Management commenced in November 2022 and will continue through FY24.

We are using an industry standard project methodology to measure and track our effectiveness of our people and processes which is driven through our Improvement Plan.

Our Improvement Plan supports realising our annual internal efficiency targets for our client organisation and has achieved approximately 300 milestones in the past two years.

We have been able to increase our capital delivery spend via our new insourced capital delivery model by nearly sixfold in the past two years and will continue to grow activity levels by a further 50% in the remainder of the regulatory period.

KPIs

- Investment in assets
- Leakage
- Pollution incidents
- Treatment works compliance
- Internal sewer flooding

4 – Biodiversity, climate change and population growth

Executive Owner – Engineering and Asset Director

Risk

Prolonged periods of drought, extreme weather events and the challenge of influencing customers to use less water, may result in failure to protect biodiversity and to mitigate the effect of climate change and population growth.

This could lead to irreversible damage and an increased frequency and severity of disruption to our customers. It could result in higher costs to operate as the headroom for water resources and the availability of water changes, which will also impact our ability to achieve our Net Zero Carbon 2030 (NZC) target. This could be further exacerbated by proposed changes in the industry standard Carbon Accounting method.

Trend:

Trend Commentary

During the year whilst we experienced several notable incidents, including a period of drought, more extreme flooding and temperature changes leading to system failures and adverse customer impacts, this risk remains stable as we continue to deliver on required improvements as part of our turnaround plan.

However, there is an increased need for our biodiversity habitats to become more resilient against the effects of accelerating climate change. Although we are taking action to manage our sites more effectively during these extreme events, there is increased risk exposure. Additionally, changing customer behaviour remains challenging.

Mitigations

Ongoing work with the other water companies in the South-East and nationally to provide an overall Water Resources Management Plan (WRMP).

The WRMP and Drainage and Wastewater Management Plan (DWMP) process both include climate change and population forecasts and form a key part of the PR24 process to secure future funding.

Ongoing focus on demand reduction schemes to influence customer usage, including the continued roll-out of digital smart meters and water efficiency improvement plans.

Development of new water supply options to manage how much water we abstract from rivers.

Continuing to enhance biodiversity on our sites through a combination of changing grassland management and creation of new habitats such as wetlands, ponds and woodlands.

Continued work with local partners on Smarter Water Catchment initiatives to nurture the water cycle, improve river quality and enhance ecosystems.

Creation of cross business Net Zero Task force to identify and develop opportunities to further reduce our carbon emissions.

KPIs

- Per Capita Consumption
- Water quality
- Acceptability of water to customers
- Leakage
- Pollution incidents
- Clearance of blockages
- Internal sewer flooding
- Water supply interruptions
- Treatment works compliance
- Sewage discharges

Principal Risks and Uncertainties continued

5 – Legacy technology

Executive owner – Digital Transformation Director

Risk

Our continued focus on digitalising our business processes, and our increasing dependence on information technology (IT) systems for our core operations mean that we are heavily reliant on secure, affordable and resilient IT services. Any failure could have a significant impact on our reputation, ability to operate, and the resilience of our operational assets. A serious event could result in disruption to our corporate, operational and customer systems and services.

Trend:

Trend Commentary

The overall risk is stable due to having prepared our systems for hybrid working between home and office and the ongoing enhancements of our contact centre and work management systems to improve customer service. We are also continuing our shift to cloud services to offset aging physical technology risk.

Mitigations

Upgrading critical systems used to manage leakage and test water quality to keep them current.

Replacing out of date applications with modern platforms including the replacement of 3,500+ analogue telecoms lines with digital services by 2025, replacement of aging telemetry and control units from the London Water control system and continuous upgrades to our asset operational work scheduling systems.

Continuing to move applications to the cloud and beginning the Operational Technology (OT) journey to the cloud to improve resilience and security posture.

Upgrading networks, operating systems and servers to keep current and in support.

Implementing commercial resilience by having two different suppliers for our on-premises data centres; one for production and one for DR.

Decommissioning hardware/software no longer required or as part of our modernisation plans.

Performing DR tests on critical systems to ensure recoverability in the event of a severe outage.

Ensuring PR24 plans continue to include funding to treat obsolescence going forward.

KPIs

- C-MeX
- Total household complaints
- Employee engagement
- Water quality
- Leakage
- Total revenue

6 – Employee and physical asset protection

Executive owner – Operations Director, Thames Valley & Home Counties

Risk

A breach of our protective security arrangements could result in harm to our employees and the general public as well as material loss or damage to key operational sites, assets or services. This in turn could lead to interruption in the service provided to customers and/or potential environmental damage (through contamination or uncontrolled release of water) as well as substantial remediation costs.

Trend:

Trend Commentary

Whilst the overall terrorism threat to the UK has remained stable (unchanged since February 2022), we are seeing an increase in domestic threats, exacerbated by the use of disruptive social media and the likes of “urban explorers” who actively seek to breach our sites. In addition, protests unrelated to Thames Water taking place near our operational sites can result in security implications. We have experienced an increase in general criminality across our region, including the theft of diesel and metal cabling, but this has had minimal operational impact. Due to the efforts in place to manage this risk the overall outlook remains stable but is constantly reviewed to keep pace with changes in our internal and external environment.

Mitigations

Annual mandatory Security Awareness training for all employees, re-enforced by regular communications, including a dedicated yammer group and security portal where updates, policies and guidance are readily accessible.

Embedded dedicated security teams within our operational business act as both subject matter experts and educators to ensure we continue to develop the Physical Security awareness and culture across our business.

Our dedicated Protective Security department is responsible and accountable for forward reviews, inspections and recommendations relating to meeting both our regulatory and internal security standards across our estate.

We take a proactive approach to monitoring our security systems in compliance with Security Protective Guidance (PSG) and Water UK Security Standards (WUKSS). This is enhanced by working closely with the relevant government agencies and the sharing of best practice with other water and utilities companies.

We conduct regular security risk assessments that follow industry best practice and National Protective Security Authority (NPSA) guidance and have introduced an Insider Threat Risk Assessment.

Implementation of the Security and Emergency Measure Direction (SEMD) programme and associated audit programme.

We have an established security incident reporting and response process to quickly and robustly manage incidents and is continuously improved through the use of ‘lessons learnt’.

KPIs

- LTI frequency rate
- Water quality
- Pollution incidents
- Water supply interruptions

Principal Risks and Uncertainties continued

7 – Cyber security and data protection

Executive owner – Digital Transformation Director

Risk

At Thames Water we operate Critical National Infrastructure and hold large amounts of personal and payment data for our customers and employees. If we do not defend our data and assets against internal and external threats this could result in disruptions to our business operations with the loss of critical business systems or data. This could affect our ability to provide safe drinking water, protect the environment or respond to our customers' needs.

Trend:

Trend Commentary

The risk of cyber-attack is increasing as a result of the wider geopolitical climate and the complexity of our internal technology estate. Over the year we improved controls through our dedicated cyber security programme, and we continue to monitor the wider geo-political landscape carefully to respond to a deteriorating threat position.

Mitigations

We continue to invest in our cyber defences, rebuild our IT capability and to enhance our respond and recover capabilities.

Specific areas of focus include, but are not limited to, deepening our detection capabilities, modernisation of our technology estate, strengthening access control and stress testing our respond and recover playbooks.

KPIs

- C-Mex
- Total household complaints
- Employee engagement
- Total revenue

8 – Asset integrity and resilience

Executive Owner – Engineering and Asset Director

Risk

Failure to maintain asset integrity and resilience may result in a major event or an ongoing drag on operational performance, caused by water main bursts or sewer collapses, instances of water treatment or sewage treatment outage or structural failures to critical assets. This could have subsequent health, safety, environmental and financial impacts, and cause disruption to customers and to the efficiency of our operation and may result in failure to meet our regulatory obligations.

Trend:

Trend Commentary

The overall risk remains stable in the short term. The outlook is more uncertain in the medium term. Mitigating the impact of poor asset health and asset deterioration has been countered by macro-economic factors resulting in increased costs and subsequent pressure on investment plans. Work is ongoing to understand the impact of investment prioritisation will have on the ability to hold asset health stable through AMP8.

Mitigations

The Engineering and Asset function has been reorganised to focus on maturing our company-wide asset management capability, with clear focus on setting asset strategy, prioritising investment and developing the approaches needed to understand asset health and investment needs over the longer term.

Strategic asset plans are being developed in collaboration with operational colleagues in London and Thames Valley, ensuring the investment portfolio is aligned to the operational priorities and key asset risks. This approach is underpinned by our ISO 55001:2014 certified Asset Management System.

Our understanding of critical assets, asset health and system resilience continues to develop through the Critical Asset Programme, Asset Health Insight Programme and Water Supply Resilience Assessments. This insight enables more proactive identification of emerging trends and risks that have the potential to impact service, such that they can be considered as part of our planning and mitigation for future AMP periods.

Targeted maintenance and inspection programmes based on asset criticality defined within our asset register support the proactive risk identification approach and reduce the likelihood of catastrophic failures.

In the event of asset failure our Incident Management processes and governance structure ensure we respond quickly and robustly to minimise impact to customers and the environment.

KPIs

- C-Mex
- Total Household Complaints
- Water quality
- Acceptability of water to customers
- Leakage
- Pollution incidents
- Clearance of blockages
- Internal sewer flooding
- Water supply interruptions
- Treatment works compliance
- Sewage discharges
- Investment in assets

Principal Risks and Uncertainties continued

9 – Treat wastewater

Executive Sponsor – Operations Director, Thames Valley & Home Counties

Risk
Enabling our natural environment to thrive is a key element of our Purpose. However, failure in our operational wastewater collection, treatment and/or recycling, or blockages and failures on the waste network could result in sewerage discharge to the environment, leading to serious pollution incidents with long lasting adverse public health or environmental impacts including to river health, disruption to business and domestic customers, reputational damage and regulatory action.

Trend:

Trend Commentary
We've seen an increase in total pollutions to 331 in 2022, from 271 in 2021 (calendar year measure) despite investing record sums in upgrading our sewer systems and treatment works and striving every day to reduce the discharge of untreated sewage into our rivers. We were the first water company to publish live sewage notifications from all our 468 overflow locations, demonstrating our commitment and determination to improve. However, there are no quick fixes. Population growth will increase the strain on our sewage network and treatment centres. And because of climate change, the Southeast of England is experiencing heavier downpours, which can overwhelm some sewage treatment works. You can find more information about pollutions on page 18.

Mitigations
Ongoing delivery of our Pollution Incident Reduction Plan (PIRP).

The PIRP is supported by our Smart Waste Digital Programme, to build an intelligent ecosystem of products that allows us to understand the operational performance of our wastewater assets so that we can apply the most cost-effective interventions, in the right place, at the right time.

Ongoing delivery of the £100 million upgrade of our Mogden sewage treatment works, as well as currently increasing sewage treatment capacity at a number of our other sewage works across the Thames Valley, including Witney, Chesham and Fairford to be completed by 2025.

£4 billion investment in the 'Super Sewer', Thames Tideway Tunnel to reduce discharges by around 95% into the Tidal Thames in a typical year.

Expansion of the Event Duration Monitors (EDMs) programme rollout to record the frequency and duration of any discharges to the environment, with live sewage notifications published.

KPIs
- Serious pollution incidents
- All pollution incidents
- Treatment works compliance
- Sewage discharges

10 – Supply of wholesome water

Executive owner – Operations Director, London

Risk
As a water utility company, the supply of wholesome water is our number one priority. This could be compromised due to the failure of a water treatment process or a water quality incident that results in water unfit for consumption with potential public health concerns. Or we may fail to supply enough wholesome water to meet demand resulting in service disruptions for our customers and communities.

Trend:

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

Mitigations
Our Water Resource Management Plan (WRMP) sets out how we will manage the water supplies in our region to meet current and future needs up to 2100.

Implementation of the Thames Water risk based Public Health Transformation Programme, addressing key water quality and resilience risks, focusing on customers, people, investment and processes. It also includes the delivery of agreed Drinking Water Inspectorate improvement programmes.

We continue to provide a programme of employee training and upskilling to reduce operational risk and improve resilience of supply to customers.

Long term Industry leading Conditional Allowances programme to reduce risk at our large water production facilities and high-risk trunk mains, thereby improving the resilience of supply of potable water to customers

Leakage reduction programme, including successful completion of our ambitious plans to insource the repair and maintenance activity of our potable water infrastructure.

Delivering Smart Metering and Smart Water (SMART) proactive management of our potable water network, using data and insights to drive system-wide performance improvements from source through to our customers taps. These programmes include demand management, customer water efficiency, leakage targeting, improving real-time process and network data, and proactive programmes to manage pressure across our system to prevent bursts and reduce leakage.

Accelerating our programme of critical asset maintenance, including the largest ever number of maintenance activities on our critical London Trunk Main and significant work at our large London Water Treatment Works.

KPIs
- C-Mex
- Total household complaints
- Water quality
- Acceptability of water to customers
- Water supply interruptions
- Investment in assets

Principal Risks and Uncertainties continued

11 – Physical or mental harm

Executive owner – Engineering & Asset Director

Risk

Health, safety and wellbeing are a top priority for Thames Water and our aim is to protect our people, contractors and customers who live and work in the communities we serve. We ensure that Thames Water operations are carried out safely every single day. It is therefore imperative that we have in place systems and measures to prevent physical and mental harm to ensure that no individual suffers serious life changing injury or there are any fatalities.

Trend:

Trend Commentary

The overall risk is stable. There have been no significant process or asset safety failures in year, however we continue to have a strong focus on improving our understanding of our risk profile and control environment in these areas. During the year we have completed a review of our biogas risk, with both internal and external inputs.

We have experienced an increase in lost time incidents, largely due to minor injuries that resulted in RIDDOR notifiable incidents, however there was continued focus on raising the importance of Situational Awareness throughout the year to increase personal hazard perception and attention. Incidents of damage to buried utility services has increased and management is focused on reducing these now that the repair and maintenance of our water networks has been insourced. There was a large increase in cases of stress and anxiety disorders linked to internal organisational changes and focus for the forthcoming year will be on managers and how they address issues at an early stage.

During FY23, one of our supply chain employees was fatally injured whilst undertaking a routine preparatory task involving a sewer jetting vehicle. The incident remains subject to investigation by the regulators and the root causes are still to be established, however Thames Water, it's supply chain partner and other interested organisations within the industry are working together to design out the need for manual interventions in the activity that was being undertaken.

Mitigations

We are committed to our long standing Zero Incidents, Zero Harm, Zero Compromise approach. Supported by our corporate value of 'Take Care', this provides a framework for all colleagues and leaders to engage, communicate and improve our health, safety and wellbeing understanding, environment and culture.

The Health & Safety Management System is externally accredited to ISO 45001. Our Health, Safety & Wellbeing (HSW) team provides advice, support and interventions across process safety, asset safety and occupational health & safety, to ensure we are continually evaluating our risks and their control effectiveness.

We have processes in place to monitor and provide assurance across all business operations to ensure we continually to learn and improve. These are overseen by our existing governance committees at executive and divisional level. We also collaborate and benchmark externally through our stakeholder relationships with Water UK and our regulators, such as the Health & Safety Executive.

We have an existing Board approved strategic Health, Safety and Wellbeing Improvement Programme, which is aligned with our Turnaround Plan. This programme is currently on track. Due to the wider Thames Turnaround Plan and resultant organisational changes, we continue to review and enhance our strategy to ensure it remains fit for purpose.

Additional focus for 2023/24 will be building our HSW organisational capability to improve business partnering with the business and continuous improvement in how we manage all HSW risks, including our biogas risk exposures.

KPIs

- LTI frequency rate
- Employee engagement

12 – Attraction and retention of talent

Executive owner – People Director

Risk

The attraction, retention, and engagement of a diverse and inclusive workforce, with the right skills, is essential for us to be able to serve our customers, support our front-line operations and deliver our Turnaround Plan. We have aligned our People strategy to our Purpose to create a working environment where we can all perform at our best, provide good quality career opportunities, and deliver the skills we need now and for the future. However there is a risk, exacerbated by external employment market conditions, that we fail to achieve this.

Trend:

Trend Commentary

The overall level of this risk is remains stable. We are responding well to external economic challenges in the recruitment market following the pandemic as well as inflationary pressures on the cost of living. We have also managed internal attraction and retention against a backdrop of a wide range of structural changes in operations, retail and corporate functions, while simultaneously modernising our ways of working and pay and conditions arrangements.

Mitigations

We have a comprehensive skills strategy focused on critical roles and the expertise required to build a diverse pipeline to address our current and future requirements in professional, technical and STEM roles.

We engage with communities, local authorities, charities and the education sector to provide apprenticeships, employment opportunities to under-represented groups, internships, and graduate roles.

We are rolling out competency frameworks aligned to professional bodies and investing in training and developing our people to ensure our technical competency meets current and future regulatory requirements. In addition, we are developing our leaders, including building coaching capability, to drive team performance and improve engagement.

Living our Values sits at the heart of fulfilling our Purpose and we have reinvigorated our engagement activities to connect and inspire our colleagues with the future direction of the business.

We work closely with our Trade Union Partnership to maintain good relationships and successfully manage change in the business.

Our Executive team connect with front-line colleagues directly and regularly to brief on progress against our Turnaround Plan, listening to and responding to feedback.

KPIs

- Employee Engagement

Principal Risks and Uncertainties continued

13 – Values, behaviours, standards, legal and regulatory obligations

Executive owner – People Director

Risk

We are a high-profile company running a critical public service operating in a tightly regulated environment. Our Board is clear that we must maintain the highest standards of business conduct. This includes complying with our legal and regulatory obligations and meeting the obligations of the UK Corporate Governance Code.

Should we fail to comply with our values and behaviours or with our legal and regulatory obligations this could result in reputational harm including loss of customer and investor confidence, legal action and investigation by Regulators, significant financial penalties, and for the most serious of breaches potential loss of our Instrument of Appointment to operate (commonly referred to as our licence.

Trend:

Trend Commentary

The overall level of risk is increasing as we experience an increased level of scrutiny from regulators and stakeholders. We continue to focus on our ongoing Section 19 undertakings relating to leakage and have delivered on those undertakings and commitments relating to non-household market data and smart metering respectively. We also continue to co-operate fully with the ongoing Ofwat and Environment Agency investigations involving a number of companies within the sector, including Thames Water, into compliance with environmental permits at sewage treatment works.

Mitigations

Our approach to achieving compliance with our ethical, legal and regulatory obligations is based on a framework of sound governance, risk management and systems of internal control.

We have rolled out mandatory training programmes in key areas (including competition law, bribery and corruption).

Our Regulatory Compliance Framework Standard is a key component of our internal control framework and is designed to maintain a robust control environment so that internal controls operate effectively to mitigate the principal risk of failure to comply with our regulatory obligations. We also conduct regular audits of compliance with key regulatory obligations.

We undertake regular horizon scanning to help increase awareness of changes in the legal and regulatory landscape.

We seek to set a strong tone-from-the-top and have clear Speak Up and whistleblowing procedures as well as processes for reporting any potential conflict of interest and offers of gifts and hospitality. Taken together, these controls help us identify and resolve any potential failure to comply with our values and standards as soon as possible.

KPIs

- C-MeX
- Per capita consumption
- Operations – All
- Credit ratings
- Dividends to service debt obligations and other group costs
- Dividends to external shareholders

14 – Liquidity

Executive owner – Chief Financial Officer

Risk

Weak financial resilience (real or perceived) due to operational performance or economic and market volatility that stresses financial covenants could result in Thames Water being unable to secure sufficient liquidity to meet our funding requirements, resulting in insolvency or insufficient resources to satisfy our Instrument of Appointment obligations.

Trend:

Trend Commentary

The overall risk is deteriorating. Geopolitical and macroeconomic challenges are having an inflationary impact on financing and operational costs, with subsequent risk to the realisation of the full benefits of the Turnaround Plan.

Mitigations

Shareholder funding support to invest in business improvement, thereby improving the resilience of operating cash flows, or to reduce gearing and the burden of interest charges

We maintain robust performance management processes to analyse and initiate action to improve cost base and cash collection performance, and this year have enhanced our internal performance reporting to ensure adverse trends are highlighted earlier.

Close management of working capital and cash flows through financial year to raise the bar on liquidity performance and to improve forecasting.

Our treasury strategy covers funding, hedging and cash management to maintain a strong liquidity position supported by committed credit facilities.

Credit ratings and financial covenant headroom remains a key focus and we have robust investment governance processes in place.

We monitor the capital markets regularly, with a focus on de-risking funding plans where possible and remain alert to bank counterparty risk.

We set and maintain risk appetite levels for key covenant metrics to demonstrate financial resilience, and address material financings at the earliest opportunity to reduce risk from market exposures and maintain liquidity.

Our Capital structure will be reviewed alongside PR24 developments to identify possible changes to protect financial resilience.

KPIs

- Credit Ratings

Principal Risks and Uncertainties continued

15 – Inflation and interest rates

Executive owner – Chief Financial Officer

Risk

Failure to adapt our cost base for changes in inflation or interest rates, or business inability to generate sufficient operating cash flow, could result in material financial losses or a breach of our financial covenants. This could lead to re-prioritisation of investment, impacts to operational performance and reduced service levels.

Trend: ⊖

Trend Commentary

Price pressures are ongoing, with the high inflation rate and requests from suppliers to increase pricing, including power and chemicals and materials. In addition, the ongoing economic pressures experienced by UK households increases the risk to cash collection and operating cashflow. Despite these headwinds, proactive and robust mitigations undertaken result in a stable overall risk outlook.

Mitigations

Our ongoing Supplier Management programme ensures that we deliver supplier performance and cost at the levels agreed in our contracts. Additionally, it facilitates collaborative ways of working with suppliers to mitigate cost inflation pressure and improve performance.

Power hedging to provide cost certainty over a large portion of power costs.

Robust performance management processes to analyse and initiate action to improve cost base and cash collection performance.

Management focus and action taken on working capital to improve cash positions.

Debt Improvement programme is focussed on optimising cash collections from our household customers.

Delivery of our Treasury strategy, specifically optimising the liquidity position; funding requirements; interest, inflation and cross currency hedging.

KPIs

- Credit ratings
- Total EBITDA
- Investment in Assets

16 – Regulatory, legislative and political developments

Executive owner – Strategy and External Affairs Director

Risk

Failure to protect our business from developments in the regulatory, legislative and political environments could materially impact our business operations, leading to new unfunded obligations or non-compliance with regulatory or legal requirements and significant reputational damage. Potentially significant investment over that originally anticipated in the business plan could be required to address the unfunded obligations or non-compliances.

Trend: ⊖

Trend Commentary

Political and regulatory scrutiny across the sector on environmental impacts remains high, with river health and leakage dominating the agenda. In addition, public stakeholders are requiring increased reassurance on the pace and progress of our Turnaround Plan.

Mitigations

Potential changes to the regulatory, legal and political environments are identified through regular horizon scanning, supported by intelligence gathering on drivers for change.

We inform and contribute to the water sector public policy debate through working in partnership with other organisations such as Water UK, other water companies and industry bodies.

We also actively engage (including through public consultation) with regulators, politicians and regional and local stakeholders on a broad range of issues, including resilience, river water quality and delivery against our Turnaround Plan.

KPIs

- Credit ratings
- Dividends to service debt obligations and other group costs
- Dividends to external shareholders

Principal Risks and Uncertainties continued

17 – Public value

Executive owner – Strategy and External Affairs Director

Risk

Our customers and stakeholders expect that we will provide public value (including customer value and environmental stewardship) in the way that we deliver our services, and it is core to our strategy. If we fail to do this, we will suffer reputational damage, negative stakeholder perception and it will undermine our ability to work in partnership. There is a potential for enforcement action with financial penalties, more investigations, adverse regulatory and public policy outcomes, and an adverse PR24 settlement.

The ultimate consequence would be loss of our Instrument of Appointment or being re-nationalised, possibly with little or no compensation.

Trend: ⊜

Trend Commentary

Overall risk is stable. Although public interest in some aspects of public value has increased (particularly those related to rivers and affordability), our pro-active messaging, ahead of the rest of the industry, on the unacceptability of discharging untreated sewage has been well-received, as has our commitment to transparency.

Mitigations

Ongoing pro-active messaging, commitment to transparency and an intensive programme of stakeholder engagement.

Public Affairs and community and stakeholder engagement work to identify emerging issues and understand and address local concerns.

Ongoing use of Customer Challenge Group to help us ground our work in customer and community engagement.

Rollout of newly developed public value framework to embed public value in our decision making. Pilots are taking place this year, including how to embed this in our PR24 submission.

KPIs

- C-MeX
- Total household complaints
- Per capita consumption
- Employee engagement
- Acceptability of water to customers

18 – Engage stakeholders

Executive owner – Strategy and External Affairs Director

Risk

We may be unable to secure the engagement, support and investment necessary to deliver our long-term ambitions which could result in renationalisation or loss of our Instrument of Appointment without compensation.

Trend: ⊜

Trend Commentary

Overall risk is stable, driven by the increased risk from the attention placed on untreated discharges and river pollution and our continued operational and performance challenges being offset by greater transparency and our Turnaround Plan.

Mitigations

Proactive and continuous engagement with customers and stakeholders on key business plans, 2050 Vision, Water Resources Management plan (WRMP), River Health Action Plan and Drainage and Wastewater Management Plan (DWMP).

We have worked with a third party to measure and evaluate our reputation and assess key areas of interest and influence for our stakeholders.

Extensive engagement with customers and with stakeholders at national, regional and local levels to understand their needs, expectations and preferences.

Ongoing implementation of our Turnaround Plan to improve our performance and customer service.

Ongoing delivery of the Public Value programme to support wider community engagement and environmental improvement.

Regular dialogue with investors to support them in their investments and reflect their priorities in our plans.

Working to ensure all commitments have been properly thought through and are tracked through to completion.

KPIs

- C-MeX
- Employee engagement
- Total revenue
- Dividends to external shareholders

Long-term viability statement

Introduction

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

Board's approach to the viability assessment

The Board regularly assesses the risks facing the Company and takes into consideration the preventative and mitigating actions available to it using various risk management processes (see page 52). The process includes financial forecasting, risk management assessment, regular and timely budget review and scenario planning analysis.

The Board has selected a 10 year assessment period ending 31 March 2033 which covers the remainder of AMP7, AMP8 and the early part of AMP9. The Company is developing an AMP8 business plan related to the 2024 price review ("PR24") with AMP9 representing an extension of such assumptions. Whilst the Company has reasonable visibility over AMP7, the level of uncertainty increases the longer the look-forward period as the variability of potential outcomes increases over time. Given the long-term nature of the business providing an essential water and waste water services, and the time horizon of the Company's planning process, the Directors consider the 10 year period to be an appropriate period to assess the Company's prospects.

Severe but plausible downsides and conclusion

The Board has assessed the financial resilience of the business against a range of severe but plausible scenarios derived primarily from the principal risks and uncertainties set out on pages 52 - 62. Each of the scenarios have varying negative impacts with operational cashflows decreasing and/or capex increasing due to remedial actions. By conducting stress testing, the Directors have considered the impact on the covenants attached to the Company's funding position, the credit rating and liquidity (taking into account the dependency on existing financing arrangements and the availability of new debt). Financial covenants pertaining to the Event of Default ("EoD") have been used to determine viability as non-compliance would typically result in creditors accelerating repayment and enforcing their security. Dividend Lockups and Trigger Events are features of Whole Business Securitisation ("WBS") and are designed to act as early warning signals, protecting creditors and preserving the value of the Company, as such in the short term are not meant to threaten the viability, but instead provide time for the business to initiate remedial actions.

As per the terms of the WBS, the Group has undertaken to maintain compliance with defined financial covenants, assessed biannually on several interest cover and gearing ratios. With headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

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

1. Adverse weather events – Scenario 9

These are particularly relevant given historical extreme hot, cold (freeze thaw) and wet weather events

2. Water quality failures – Scenario 10

Whilst remote, the industry has experienced Cryptosporidium contamination events. As Thames Water has a number of large assets, such an event could adversely impact a large number of customers

3. Cyber attacks and corresponding asset failures – Scenario 11

We have witnessed an increasing threat of cyber attacks as more activities move online

The adverse impact of these combinations was severe enough such that credit ratios neared EoD thresholds at certain points during the assessment period, particularly towards the end of AMP8 given the cumulative impact of such downsides. All combination downside scenarios include: (i) the impact of an adverse macroeconomic environment; (ii) significant cash flow shocks from regulatory penalties for failure to achieve certain performance targets; (iii) additional expenditure required to achieve business plan objectives; and (iv) an increase in the cost of new debt issuance associated with any potential credit rating downgrade arising from adverse operational and/or financial performance.

Scenario	Principal Risk
1. Economic downturn influenced by macro events such as Covid-19, cost of living and inflation Prolonged low GDP growth leading to low inflation and poor collection rates, mitigated in part by low interest rates and working capital management. Given the regulatory framework where Regulatory Capital Value ("RCV") and revenues are inflation linked, and that a material portion of the Company's debt is not linked to inflation, the Company's viability is more at risk in scenarios involving low inflation, assuming that the Company does not experience significant cost pressure above the inflation rate. In a low inflation environment, the RCV would decline. However, the material portion of the debt which is fixed and not linked to inflation would not be lowered by the same amount, as such gearing would increase. The majority of the Company's debt is either fixed nominal or inflation linked and part of our allowed revenue at each regulatory price review is linked to base interest rates. These factors significantly reduce the exposure of our nominal interest costs (on a cash basis) to changes in interest rates. We have assessed the impact of inflation being around 1.5% lower and interest rates being around 1% lower than base case assumptions for a total of 4 years, 2 years near the start and 2 years near the end of the assessment period	**PR14:** Liquidity **PR15:** Inflation and interest rates

Scenario	Principal Risk
2. Severe climate events and operational failures Unplanned costs associated with extreme hot, cold and wet weather events and the failure of key assets impacting delivery of our water and waste services. This reflects the risks mentioned in the disclosure around climate change reporting. We have assessed the impact of a series of adverse weather events involving an extreme hot, cold and wet weathers event taking place over 3 years near the start of the assessment period with this pattern repeating itself in the last 3 years of the assessment period. Such incidents amount up to around 4% of forecasted allowed totex (annual average) and is mainly based on our past experience in dealing with such adverse weather events. Note: Outcome Delivery Incentives ("ODI") penalties incurred due to consequential underperformance from adverse weather are reflected in scenario 5.	**PR01:** Customer experience **PR04:** Biodiversity, climate change and population growth **PR08:** Asset integrity and resilience **PR10:** Supply of wholesome water **PR09:** Treat wastewater **PR11:** Physical or mental harm
3. Water quality failures Widespread water contamination event involving Cryptosporidium, resulting in a significant supply interruption and penalties. We have assessed the impact of two incidents over the assessment period with each event amounting to around 4% of forecasted allowed totex (annual average). Note: Outcome Delivery Incentives ("ODI") penalties incurred due to consequential underperformance from water quality failures are reflected in scenario 5.	**PR01:** Customer experience **PR10:** Supply of wholesome water **PR11:** Physical or mental harm **PR16:** Regulatory, legislative and political developments

Long-term viability statement continued

Scenario	Principal Risk
4. Cyber security A severe but not catastrophic compromise of technology and systems which control the operation of our water or wastewater services. Such a breach has been assumed to be temporary in nature, with systems being restored within a few days. Costs incurred relate to opex. This down-side also includes failures of major water and wastewater assets requiring remedial measure, which result in totex increases. We have assessed the impact of an incident over the assessment period, amounting to around 1.5% of forecasted allowed totex (annual average).	**PR01:** Customer experience **PR05:** Legacy technology **PR07:** Cyber security and data protection **PR09:** Treat wastewater **PR10:** Supply of wholesome water
5. Failures to achieve performance commitments and non-compliance with regulations Penalties from failing to deliver performance as per the business plan and fines from regulatory/legal bodies. This involves 3 major fines over the assessment period, reducing operating cashflows. We have assessed the impact of further penalties and fines equivalent to around 3% of forecasted allowed totex (annual average). This includes an average of ODI penalties associated with (i) adverse weather, (ii) water quality failure and (iii) a cyber security risks. The ODI penalties incurred for each downside case is roughly double that assumed for the Base Case over the assessment period and take place on a yearly basis.	**PR01:** Customer experience **PR02:** Collect revenues **PR08:** Asset integrity and resilience **PR09:** Treat wastewater **PR10:** Supply of wholesome water **PR16:** Regulatory, legislative and political developments **PR18:** Engage stakeholders
6. Failure to achieve business plan objectives Further overspend incremental to the business plan. Based on our historical spend for AMP6 and our expected spend for AMP7 as per our latest business plan, Thames Water has invested more than the allowance set by Ofwat in each Final Determination. As such, we have assessed the impact of around £70 million p.a. average increase in totex over a 10 year period, incremental to the additional investment already incorporated in the business plan under the base case. Such overspend predominately relates to capex. This downside takes into account the progress made in the turnaround programme to control costs assumed in the base case. Under this downside, the over investment for AMP8 and AMP9 is roughly twice the amount assumed under the base case	**PR15:** Inflation and interest rates
7. Increase in the cost of new debt issuance An increase in the cost of new debt issuance has been assumed to reflect any potential credit rating downgrade arising from adverse operational and/or financial performance	**PR14:** Liquidity
8. Pandemic One year impact of another pandemic similar to the first year of Covid-19 in the UK involving lockdowns and social distancing. Consequences involve lower cash collections mitigated by lower volumetric activity and working capital management. Quantification of the potential impact is based on experience of events in 2020/21	**PR02:** Collect revenues **PR11:** Physical or mental harm
9. Adverse weather events based on a combination of scenarios 1, 2, 5, 6, 7, 8	See above
10. Water quality failures based on a combination of scenarios 1, 3, 5, 6, 7, 8	See above
11. Cyber attacks and corresponding asset failures combination of scenarios 1, 4, 5, 6, 7, 8	See above

The Directors have also considered various mitigating actions when applying the combined downside scenarios. To improve gearing, the Company would reprofile and/or delay capex spend, limit distributions and seek further cash injections sourced from raising incremental debt at the holding company level, namely from Kemble Water Finance Limited. Other mitigants such as stricter opex control management of working capital and increasing insurance cover where applicable would improve interest cover ratios. As a significant proportion of debt and some totex is index linked, the Company is reasonably well placed to manage inflation risk.

For completeness the Board has also considered how various economic downsides would impact the Company's defined benefit pension liability. As this pension liability is significantly hedged against movements in inflation and interest rates, we do not consider changes in such factors to have a severe adverse impact which would threaten our assessment of viability over the assessment period. It is recognised that increases in defined benefit pension contributions due to inflation would be accompanied by increases in our revenues which are also linked to inflation. Additionally, for the assumption around longevity, the Directors concluded that it is not considered that a plausible change in this assumption would be significant enough to have a severe impact on the defined benefit pension liability.

In conducting the viability assessment, the Board has assessed the intercompany arrangements and the corporate structure of the Group (as detailed on page 69). No scenarios were identified that would impact the fundamental viability of the Company.

We have in place an established process to assess the Company's prospects which is performed annually by senior management. The results of the assessment are considered by the Audit, Risk and Reporting Committee, which reviews and recommends the Long-Term Viability Statement to the Board, where it is then in turn reviewed by the Directors for approval.

Key assumptions underpinning the assessment include the following:

- The aggregate impact of adverse events and conditions, which are not considered in the scenarios modelled, would not exceed the additional mitigations available to management
- TWUL is able to continue to access debt finance and capital markets
- Determinations of future Price Reviews are based on reasonable terms which would take into account Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions with debt and equity capital

Long-term viability statement continued

- TWUL is not placed into Special Administration by the Secretary of State
- The water sector is not renationalised
- TWUL receives a further £750 million of shareholder funding in the remainder of AMP7 and significant additional funding will be required in AMP8 to, amongst other things, accelerate compliance spending, invest in improving operational performance and increase financial resilience. This assumption is made on the following basis:
  - To support Thames Water in the delivery of its turnaround plan, its shareholders have evidenced their support in AMP7 for the Company through a Support Letter in July 2023 (which replaces that from June 2022) where the shareholders have committed to fund the £750 million which is assumed in the Company's current business plan if certain conditions are met (and have undertaken to hold investment committee meetings in respect of such funding if certain milestone conditions are met and subject to approval, to negotiate in good faith commitment letters). Whilst this is subject to conditions and is dependent on governance arrangements between shareholders, given that the Company and its shareholders are currently engaged in a collaborative process to agree on and to facilitate the making of such additional commitments in respect of such shareholder funding and the Company (with shareholder input) is in discussions with Ofwat regarding the Company's regulatory arrangements, the Board believes it is reasonable to incorporate this additional £750 million of funding in its assessment.
  - Shareholders have also acknowledged that the development and delivery of the turnaround plan will require the provision for further equity support in AMP8 significantly in excess of the current AMP7 commitment. Indicatively, the AMP 8 equity support is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the business plan and the regulatory framework that will apply to the AMP8 period.
  - The Company will carefully monitor on a regular basis progress towards achieving such funding and satisfaction of the conditions for this and keep under review pathways to ensure the Company's continued financial resilience. The Board further notes that in the scenario where the funding was not forthcoming, the Company, would consider all options available at that time and could revise its business plan to fit with then available funding, and adjust total expenditure down accordingly. Implementing a revised business plan would deliver less for customers, communities and the environment.
  - The Board's viability assessment is subject to review by our external auditors who comment on whether there are any inconsistencies between this and the rest of the financial statements. Their audit opinion on page 113 of this Report has not highlighted any inconsistencies.

Board's conclusion

In assessing the impact of the principal risks, the Board has considered the preventative and mitigating actions that are available to address the aggregated impact and importantly the impact on the covenants that attach to the Company's key funding facilities. Based on this assessment, the Board has a reasonable expectation that the Company will be able to operate within its financial covenants, maintain an investment grade credit rating and maintain sufficient liquidity facilities to meet its funding needs over the ten year assessment period.

Governance

Governance report

Chairman's introduction

During a year of extreme external challenge due to climate change and macroeconomic headwinds, as a Board, we've been increasingly engaged on key climate related issues, including the extreme drought.

Ian Marchant
Chairman

Culture and Purpose

Being Purpose-led is critical to the success of Thames Water and, as a Board, we've continued to monitor culture and the integration of Purpose into the way Team Thames operates. A strong alignment with the values and behaviours of the organisation underpins the delivery of the Purpose, and it was pleasing to see how highly employees scored their understanding of how they can live the values during the latest employee survey. This followed an extensive roll-out of the Living our Values engagement initiative, led by the People Director, with the Board also being involved in sessions.

As a Board, we've continued to spend time visiting employees across the region, to understand the challenges they face, their views on culture and the changes that need to be made. Ian Pearson, our Workforce Lead Director, continued to lead an extensive programme of engagement (see page 34) and shared findings with the Executive team to support improvements.

During a year of extreme external challenge due to climate change and macroeconomic headwinds, as a Board, we've been increasingly engaged on key climate related issues including the extreme drought.

We've also formed the sub-committee for the development of the long-term Water Resources Management Plan and Drainage and Wastewater Management Plans, to provide guidance and challenge on the robustness of the plans.

Environment Social and Governance

ESG is something we consider in all Board decisions. We fully support the progressive stance the business is taking to cleaning up rivers and their increased engagement to raise the profile of the critical issues Thames, and the wider sector is facing, as we head into the next price review period.

The Section 172 Statement on page 32 in the Strategic Report explains how the Board and Directors have taken into account several of the issues that fall within the ESG categories, and you can find more information in this Corporate Governance Report. We also produce an ESG statement each year, which can be found at the back of our Sustainability Report on our website.

As a Board, we maximise the diversity of our skillset, and have assigned Board sponsors to each of the principal risks to increase governance of the critical issues facing the business.

Governance and Board evaluation

As a Board, we follow the UK Corporate Governance Code, with some minor exceptions as set out in the Compliance section, and the Ofwat Principles on Board Leadership, Transparency and Governance.

The Board conducted its annual review of effectiveness in December 2022, which was facilitated by an external consultant, Lintstock. This review included an evaluation of the board composition and dynamics, board oversight, meeting focus and support, and succession planning. The 2022 evaluation identified 20 actions for improvement across nine areas including: board composition, stakeholder engagement, board dynamics and support, management and focus of meetings, strategic and operational oversight, risk management and succession planning. Actions have been consolidated into a simplified list to track and monitor progress, in-line with best practice.

Embedding our Purpose

It's not just about what we do, but how we do it, and the Thames Water values and behaviours underpin the delivery of the turnaround plan.

We've continued to listen to, and engage with, teams across the business to monitor culture and understand how the business is embedding Purpose and values into everything it does. Being truly led by Purpose is fundamental to the turnaround of Thames.

Setting an example

- Acted as role models by ensuring that our own behaviour reflects Thames Water's values and behaviours
- Sarah Bentley, our former-CEO, led a change in the way we engage, with a more open and transparent approach to engagement with stakeholders to support the delivery of the turnaround
- Ensured appropriate incentives by aligning Executive remuneration to our Purpose (see the Directors' Remuneration report beginning on page 88)

Driving cultural change

- Took part in our annual Board strategy day, as we look ahead to the long-term provision of life's essential service
- Spending time with teams across Thames Water to ensure an open dialogue between the Board and frontline, and to act as a sounding board to support longer-term planning

Monitoring how our values are lived

- Received and discussed the results of the annual employee engagement survey, 'Hear for you' – we were very pleased to see such high scores relating to values
- Continued our extensive programme of Workforce engagement to engage with teams across Thames. It helps us better understand the culture of the business and how teams are living the values
- Policy appraisals ensure that Thames Water's policies remain up to date with expected behaviours

Compliance with the Corporate Governance Code

Compliance Statement

We're committed to robust standards of corporate governance, and we follow the requirements of both the UK Corporate Governance Code (the 'Code') and Ofwat's Board Leadership, Transparency and Governance Principles ('BLTG Principles'). We've complied with all the relevant provisions of the Code throughout the year except Provisions 9, 11, 17, 24 and 32, to the extent set out below.

Provision 17 of the Code and the BLTG Principles both require that a majority of members of the Nomination Committee are independent Non-Executive Directors. Although no Executive Directors currently sit on our Nomination Committee, for the period April 2022 – January 2023, only two of the five members were considered fully independent under the Code, since the Chairman and one Non-Executive Director representing our shareholders sat on the Committee. In January 2023, the Board appointed a further independent Non-Executive Director to the Committee and current composition complies with the Code. The Board is satisfied that this arrangement does not compromise the activities of the Committee and ensures effective and early shareholder engagement with appointments to the Board.

Provision 24 of the Code requires that the Audit Committee is composed of independent Non-Executive Directors. Although there are four independent members, one Non-Executive Director representing shareholders also sits on the Committee. As above, the Board is satisfied that this arrangement, which meets the BLTG standard of having an independent majority, does not compromise the activities of the Committee, and assists with investor scrutiny and oversight of the Company's activities and with effective engagement between the Committee and shareholders on audit and risk issues.

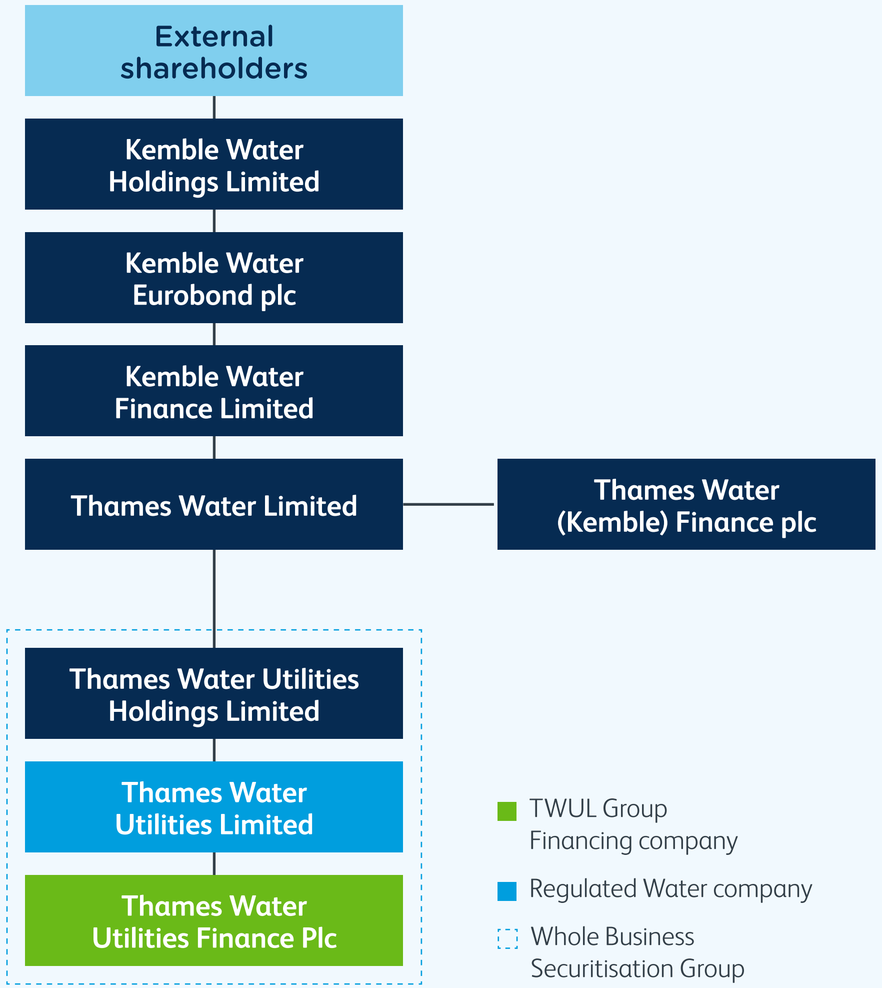
Under Provision 32 of the Code, the Remuneration Committee should comprise independent Non-Executive Directors. Although there are three such members, our Remuneration Committee also includes the Chairman and an additional Non-Executive Director, who represents the Company's shareholders. Again, the Board is satisfied that this arrangement, which meets the BLTG standard, does not compromise the activities of the Committee, and ensures effective shareholder oversight of remuneration policy at an early stage.

Corporate Governance Code Principles

BLTG Principles

Group structure

Our structure explained



Thames Water Utilities Limited is part of a group of companies owned by a consortium of institutional shareholders – mostly pension funds and sovereign wealth funds. A simplified structure, set out here, has been in place since 2006 when the Thames Water group was acquired from RWE. All the companies in this structure are registered in the UK, in accordance with the Companies Act 2006, and are also registered for tax with HMRC.

Further details of the functions of each of these companies can be found on our website

Who	How much	What they do	When
Ontario Municipal Employees Retirement System	31.777%	One of Canada's largest pension plans, with C$105 billion of net assets and global experience managing essential infrastructure	2017-2018
Universities Superannuation Scheme	19.711%	A UK pension scheme for the academic staff of UK universities	2017, 2021
Infinity Investments SA	9.900%	A subsidiary of the Abu Dhabi Investment Authority and one of the world's largest sovereign wealth funds	2011
British Columbia Investment Management Corporation	8.706%	An investment management services provider for British Columbia's public sector	2006
Hermes GPE	8.699%	One of Europe's leading independent specialists in global private markets and manager of the BT Pension Scheme (BTPS), one of the largest UK pension schemes for the private sector	2012
China Investment Corporation	8.688%	One of the world's largest sovereign wealth funds	2012
Queensland Investment Corporation	5.352%	A global diversified alternative investment firm and one of the largest institutional investment managers in Australia	2006
Aquila GP Inc.	4.995%	A leading infrastructure management firm and a wholly owned subsidiary of Fiera Infrastructure Inc., a leading investor across all subsectors of the infrastructure asset class	2013
Stichting Pensioenfonds Zorg en Welzijn	2.172%	A pension fund service provider managing several different pension funds as well as affiliated employers and their employees	2006

Meet our Board

The right skills and experience to turnaround Thames Water

Thames Water is governed by our Board, which is responsible for ensuring our long-term success. The Board comprises our Chairman, two Executive Directors, six independent Non-Executive Directors and two shareholder-appointed Non-Executive Directors. Together, they give us a strong mix of experience to offer an external perspective, challenge the Executive Directors on the development of strategy and performance, and address our diverse customer and stakeholder needs.

We've ensured that the Board has an appropriate combination of Directors so that no one individual or small group dominates the Board's decision making, and we continue to meet Ofwat's expectation that Independent Non-Executive Directors form the largest single group on the Board and the Code requirement that, excluding the Chairman, Independent Non-Executives make up at least half the Board membership.

The Board considers that each Director has sufficient time to fulfil their roles, including preparing for and attending Board and Committee meetings. It also looks closely at the other appointments held by its Directors – see page [xx] for our Directors' other interests.

All Directors are subject to formal annual re-election.

Key to Committees

- A Audit, Risk and Reporting Committee
- S Regulatory Strategy Committee
- R Remuneration Committee
- N Nominations Committee
- C Customer Service Committee
- H Health, Safety and Environment Committee
- ● Committee Chair

Chairman

Ian Marchant

Chairman – Thames Water Utilities Limited

Appointed to the Board: December 2017
Appointed as Chairman: January 2018
Appointed as Interim Executive Chairman: May 2019 – August 2020
Resigned as Chairman: July 2023

N S R

Relevant skills and experience

- Highly experienced Chairman, CEO and Non-Executive Director with a focus on the utilities sector
- Expertise in governance, finance, regulation, renewable energy and climate change mitigation

During his ten years as CEO of SSE plc, as part of a 21-year tenure at the energy company, Ian led transformational change, performance improvements and the development of renewables. He is currently Chair at Logan Energy and a Non-Executive Director of Fred Olsen Ltd, former Independent Chairman of energy services firm, John Wood Group plc and former Chair of Nova Innovation Ltd. Through his company Dunelm Energy Limited, Ian advises and invests in start-up businesses. In February 2023, Ian joined the board of Morgan Advanced Materials, as the Incoming Chair.

He is the former Chairman and founder of the Scotland 2020 Climate Group and served as the President of the Energy Institute and Chairman of the renewable energy firm, Infinis. Ian is the founder of Scotland's 'Lights up Malawi' campaign for Climate Justice and is Honorary President of the Royal Zoological Society of Scotland. He is also a member of the Prince's Council of the Duchy of Cornwall.

Interim Co-CEO* and CFO

Alastair Cochran

Executive Director/Chief Financial Officer – Thames Water Utilities Limited

Appointed: September 2021

Relevant skills and experience

- Extensive financial experience in industry-leading capital-intensive businesses
- Proven track record of developing, leading and delivering value-creating strategies, including business transformations

Alastair was previously Chief Financial Officer of Petrofac, where he developed and led the sustainability, digital and Finance transformation initiatives, which focused on reinforcing the Group's long-term cost competitiveness and delivering value for stakeholders through effective business partnerships. Prior to that, Alastair was at BG Group plc, where he was responsible for M&A, Treasury, Corporate Finance, Global Strategy and Business Development.

A member of the Institute of Chartered Accountants in England and Wales, he started his career with KPMG before enjoying a successful career in investment banking with Barclays de Zoete Wedd, Credit Suisse First Boston and Morgan Stanley.

*Interim Co-CEO with Cathryn Ross

Independent Non-Executive Directors

Nick Land

Deputy Chairman/Senior Independent Non-Executive Director

Appointed to the Board: February 2017

A R N C H

Relevant skills and experience

- Significant experience on the Boards of leading, global companies
- Highly experienced Chartered Accountant, with global financial and governance experience spanning more than three decades

Nick brings a wealth of multi-sector finance and governance experience following 11 years as Chair and CEO of EY as part of his 36-year career at one of the world's largest accounting firms. He currently Chairs The Instant Group and is a Non-Executive Director of IHS Towers. He also Chairs the Vodafone Group Foundation and the Private Equity Reporting Group of the British Venture Capital Association.

His is a former Non-Executive Director of the Financial Reporting Council and has a long history of Non-Executive Director roles at global companies such as Vodafone, Alliance Boots and Shell.

Catherine Lynn

Independent Non-Executive Director

Appointed to the Board: November 2018

C H

Relevant skills and experience

- Expertise in strategic business management within a regulated, highly dynamic environment
- Proven success embedding customer needs at the heart of business decision making in a large scale, complex organisation serving millions of customers

Catherine brings a wealth of commercial, operational, strategic and senior management experience having played a leadership role in Europe's low-cost aviation sector for 20 years, with a focus on delivering outstanding customer service. She was formerly the Chief Customer Officer for Parkdean Resorts, the UK's largest holiday park company, and the Group Strategy and Commercial Director of easyJet, where she was directly responsible for a number of major initiatives underpinning easyJet's successful exponential growth.

Catherine also has 18 years' experience as a Non-Executive Director.

Ian Pearson

Independent Non-Executive Director

Appointed to the Board: September 2014

A S R N

Relevant skills and experience

- Experienced Company Chairman, Non-Executive Director and adviser, with expertise in strategic orientation and value creation
- Wealth of experience in the development of public policy relating to climate change and the environment

Ian brings extensive business and public sector insight to the Board. During a distinguished Ministerial career from 2001-2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury.

He is currently Chairman of Eqtec plc, a clean gas technology solutions company, and Quantum Exponential plc, and has previously been a member of the UK Advisory Board of the accountants PwC.

Meet our Board continued

Independent Non-Executive Directors continued

Hannah Nixon

Independent Non-Executive Director

Appointed to the Board: January 2021

S A

Relevant skills and experience

- Thought leadership, delivery and influencing skills
- Progressive leader, with public/private sector experience across a range of industries
- Extensive regulatory expertise

Hannah has widespread experience in economics and regulation across a range of industries. She brings significant experience of developing and delivering key regulatory work, advising regulators and companies on regulation, market structuring and competition issues. She was the first CEO of the Payment Systems Regulator, the economic regulator of the UK's £80 trillion payments industry, responsible for driving competition and innovation in the interests of consumers.

Hannah was also a Senior Partner and Head of Profession for Economics at Ofgem, where she had responsibility for the networks division. Hannah is currently Chair of the Single Source Regulations Office and a non-executive director of National Grid Electricity System Operator, the Financial Reporting Council and WorldPay UK (a global payment processing company). She was formerly a NED of the Jersey and Guernsey Competition and Regulatory Authorities.

Jill Shedden MBE

Independent Non-Executive Director

Appointed to the Board: October 2018

R C N

Relevant skills and experience

- 30 years directing people strategies within a regulated utility
- Expertise in leading successful transformation programmes and driving the diversity and inclusion agenda

Jill is currently Group Chief People Officer of Centrica Plc after holding senior HR positions across the Centrica group. She has championed diversity and inclusion throughout her career and has focused on building a high performing environment and a great place to work. In her role at Centrica, she has led major culture change, cost reduction and reorganisation programmes, as well as achieving "Best Companies" and "Great Places to Work" awards.

Jill was awarded an MBE for her work with the Women's Business Council, a group set up to advise ministers how to maximise women's contribution to the future economic growth of the country.

Non-Executive Directors

Michael McNicholas

Non-Executive Director

Appointed to the Board: July 2019
Represents the interests of long-term investor, OMERS

A N R S H

Relevant skills and experience

- Chartered Engineer with a wealth of management experience
- Expertise in asset management internationally
- Experienced In utility operations, capital delivery and transformation

Michael is currently Managing Director, Asset Management at OMERS Infrastructure, with a focus on Europe. His asset management experience currently focuses on regulated utilities and energy transition with Board roles including Ellievio, Net4Gas and Groendus.

Michael previously held the position of Group CEO of Ervia, with responsibility for Ireland's National Gas Networks and its national Water Utility. Prior to that he was Group CEO of NTR Plc., an infrastructure investment company with a focus on renewable and sustainable infrastructure. He was also an Executive Director in ESB, Irelands national electricity utility, where he held leadership roles Including responsibility for Generation & Wholesale Markets, Customer Supply and latterly as Managing Director of ESB International.

Guy Lambert

Non-Executive Director

Appointed to the Board: September 2022
Represents the Interests of Investor, Infinity and China Investment Corporation

S

Relevant skills and experience

- Investment professional
- Expertise in asset management internationally

Guy Lambert is currently the Sector Head of Utilities for the Infrastructure Department of the Abu Dhabi Investment Authority (ADIA) where he is responsible, in collaboration with senior management, for developing and implementing the investment strategy for the utility infrastructure business globally. This includes managing ADIA's existing portfolio of infrastructure investments, as well as working with team members to originate and execute new transactions.

Guy previously held senior corporate finance and advisory roles at Macquarie and Dresdner Kleinwort Wasserstein and prior to this he traded equity derivatives at All Options International. Guy has a Master of Science degree in economics from Erasmus University Rotterdam in the Netherlands.

John Holland-Kaye

Non-Executive Director

Appointed to the Board: April 2023
Represented the interests of USS

H C S

Relevant skills and experience

- Expertise in leading major capital and infrastructure projects in the UK and internationally
- Proven success embedding customer needs at the heart of business decision making in a large organisation serving millions of customers
- Expertise in strategic business management and environment/sustainability within a regulated, highly dynamic environment

John has been CEO of Heathrow Airport since July 2014, leading its transformation in service. Before that, John was Development Director, responsible for delivering its £1 billion annual capital programme. John was previously Divisional CEO with Taylor Wimpey PLC and Managing Director, National Sales for Bass Brewers. He also worked as a strategy consultant with LEK Consulting.

John is currently Chair of the Aviation Task force of HM King Charles' Sustainable Markets Initiative, a member of the DEFRA Council for Sustainable Business, Chair of the West London Corporate Action Group and a Commissioner on the Energy Transitions Commission. John was formerly a Non-Executive Director of Thames Tideway Tunnel and Chair of Business in the Community's Employment and Skills Taskforce.

Former Directors

John Morea resigned on 29 September 2022

David Waboso resigned on 12 May 2023

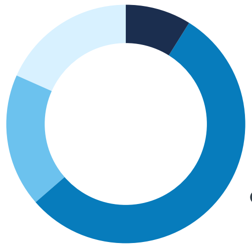
Sarah Bentley resigned as CEO in June 2023.

Governance at a glance as at 31 March 2023

Composition of the Board

Executive
2/11 = 18.18%

Chairman
1/11 = 9.1%



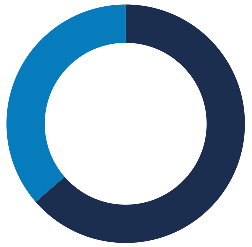
Non-Executive
2/11 = 18.18%

Indpendent Non-Executive
6/11 = 54.54%

Gender diversity

Female
4/11 = 36.36%

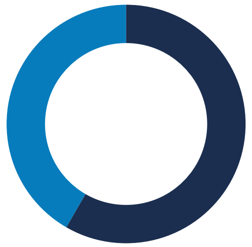
Male
07/11 = 63.63%



Executive team

Female
5/12 = 41.66%

Male
7/12 = 58.33%



Board tenure (years)

Chairman

Ian Marchant — 5 years, 7 months

CEO

Sarah Bentley — 2 years, 6 months

CFO

Alastair Cochran — 1 year 6 months

Independent Non-Executive Directors

Nick Land — 6 years, 4 months

Catherine Lynn — 4 years, 7 months

Hannah Nixon — 2 years, 2 months

Ian Pearson — 8 years, 10 months

Jill Shedden — 4 years, 9 months

David Waboso — 4 years, 5 months

Non-Executive Directors

Guy Lambert — Appointed September 2022

Michael McNicholas — 4 years

● Male ● Female

Board skills matrix

This Board skills matrix highlights the breadth of skills represented on our Board.

		Our Chairman	Our CEO	Our CFO	Our Independent Non-Executive Directors						Our Non-Executive Directors	
All Board Directors have regulated industry exposure and strategic leadership experience		IDM	SEB	AC	HN	NL	CL	IP	JS	DW	MMc	GL
Experience	Utility industry experience or experience of network operations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance/corporate	Economic regulation/public policy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Finance	✓	✓	✓	✓	✓		✓		✓	✓	✓
Customer	Customer Service	✓	✓			✓	✓		✓		✓	
Technology	Technology/digital systems		✓			✓	✓			✓		
Resilience	Capital Projects	✓		✓			✓			✓	✓	✓
	Engineering									✓	✓	
Environment	Environmental/sustainability	✓	✓	✓	✓			✓			✓	
	Climate Change	✓	✓	✓	✓			✓				
Team	Culture change and transformation	✓	✓	✓	✓	✓	✓		✓	✓	✓	
	Remuneration	✓			✓	✓	✓	✓	✓		✓	✓
	Health and safety	✓				✓	✓			✓	✓	✓

Our Executive team

Our Executive team is responsible for the day-to-day running of our business.

As at 30 June 2023, it consisted of Co-CEOs, CFO and eight directors responsible for specific areas or functions of the business..

During 2022/23, we made a number of changes to the Executive team. In October, James Bentley replaced Steve Spencer as Interim Operations Director, Thames Valley and Home Counties as Steve took up the position of PR24 Wholesale Programme Director.

In January, David Bird replaced Warren Buckley as Interim Retail Director.

Caroline Sheridan

Engineering and Asset Director

Joined the Executive: September 2021

Relevant skills and experience

- Formidable level of experience in Asset Management
- Creating long term systematic, sustainable strategies

Caroline has extensive experience in asset management within both the airport and railways industries and joins us from TfL where she originally held the position of Renewals and Enhancements Director before taking over and TfL engineering and asset strategy.

Caroline believes that people are at the heart of change and encourages collaboration by aligning everyone around a clear strategy as well as making the most of the experts in the business, she will be looking to raise the bar on how we better understand our assets.

Cathryn Ross

Strategy and External Affairs Director and Interim Co-Chief Executive Officer

Joined the Executive: June 2021

Relevant skills and experience

- Experienced regulatory and competition economist
- Proven background in advising on economic, regulatory and competition issues across a number of different sectors

Cathryn was most recently Group Regulatory Affairs Director at BT Group, responsible for developing and implementing regulatory strategy. Previously, she was Chief Executive of Ofwat, where she successfully oversaw the delivery of a new strategy, focused on a vision for the sector of trust and confidence in water and wastewater services.

Prior to that, Cathryn was Executive Director of Markets and Economics at the Office of Rail Regulation (now the Office of Rail and Road), and Executive Director of Markets and Economics at Ofwat. She also served with the Competition Commission (now the Competition and Markets Authority) and has worked in economic consultancy.

In January 2020, Cathryn was appointed the inaugural Chair of the Regulatory Horizons Council, an independent committee established by BEIS, and she is also a Non-Executive Director of the Institute of Customer Service.

David Bird

Retail Director

Joined the Executive: January 2023

Relevant skills and experience

- Demonstrable history of transforming business performance and changing culture in a wide range of markets
- Creating long-term sustainable growth through a focus on customers, building new propositions and re-engineering operations through the use of digital technologies

David's early career was spent in a number of different service organisations including Marks & Spencer, BUPA, Vodafone, Homebase and National Express. He then spent over a decade in the retail energy industry where he was Managing Director of E.ON's UK residential business and then CEO of Co-op Energy. More latterly he was Chief Operating Officer at Biffa, the UK's leading waste management company.

He has also held non-executive director roles in the NHS, Department for Education and at the Independent Police Complaints Commission and is currently a Board Advisor to Aston University's Centre for Circular Economy & Advanced Sustainability.

Francis Paonessa

Capital Delivery Director

Joined the Executive: April 2021

Relevant skills and experience

- Strong track record of initiating and executing large and complex projects across a range of sectors
- Broad range of engineering knowledge and experience, particularly in complex system integration and driving value for money

Francis came to Thames Water from the business and strategy consultancy Aczel, where he advised clients on a number of high-profile projects in the defence and infrastructure sectors. Prior to this, he was the Managing Director of Infrastructure Projects at Network Rail, where he was accountable for delivering £25 billion of major renewal and enhancement infrastructure projects over the five-year regulatory period.

Before Network Rail, Francis spent four years at Bombardier, the world's largest designer and manufacturer of rail vehicles, where he held a number of positions including the Managing Director of its UK business. His early career was at Vosper Thornycroft, the military shipbuilder, where he was latterly Technical Director and then Managing Director of the Portsmouth Shipbuilding Facility.

James Bentley

Operations Director, Thames Valley and Home Counties

Joined the Executive: October 2022

Relevant skills and experience

- 30 years' experience In Infrastructure and community services, largely In the water sector

He joined Thames Water in 1992 after completing his PhD in Chemical Engineering at Loughborough University. He spent six years in operational roles in the UK including having responsibility for operations and maintenance of the major water treatment plants in Oxford and London.

He then set up the operational phase of the Izmit Water Supply Project in Turkey and looked after many of Thames Water's businesses in Europe and the Middle East.

In 2004 Jim left Thames Water and moved to New Zealand where he spent three years as CEO of Metrowater Limited, the water and wastewater utility owned by Auckland City Council.

He also spent seven years in consultancy and academia, including Director of the Centre for Infrastructure Research at the University of Auckland.

In 2016, Jim moved to New South Wales, Australia to become Managing Director of Hunter Water Corporation, which provides water, wastewater and storm-water services to communities in Greater Newcastle.

In 2019, Jim was appointed CEO of the New South Wales (NSW) Water Sector on behalf of the Government of NSW. In this role he served the Minister for Water and led on policy and strategic direction for the water sector as well as overseeing regulatory, scientific and technical services in support of better water management outcomes.

Our Executive team continued

Lynne Graham

People Director

Joined the Executive: January 2020

Relevant skills and experience

- Experience in designing and delivering complex cultural and organisational change programmes
- Skilled in leadership development; MSc in Coaching and Behaviour Change

Lynne is accountable for the HR function, covering the entire employee life cycle including talent attraction and selection, reward and benefits, payroll and administration, learning and development, employee relations and organisational development.

She has led major change programmes that have delivered significant value through cost reduction and through productivity improvements by driving an engaged culture.

Prior to Thames Water she has operated at Executive and Main Board level in diverse sectors – Eurostar (rail); British Gas (gas utility); Westbury Street Holdings (hospitality); Yodel (logistics).

Nevil Muncaster

Strategic Resources Director, London

Joined the Executive: September 2021

Relevant skills and experience

- Deep sector expertise
- Experienced leader and asset manager who is passionate about delivering sustainable infrastructure solutions

Nevil joins us with over 30 years' experience in the waste and water sector working with Veolia Water and latterly Yorkshire Water where he was Director of Asset Management and most recently Chief Strategy and Regulation Officer. He was also the Chair of Keyland Developments driving a focus on sustainable housing solutions.

Prior to this, Nevil held senior positions at Veolia Water including managing director of two of its UK water businesses.

Norma Dove-Edwin

Digital Transformation Director

Joined the Executive: May 2022

Relevant skills and experience

- Strategy-focused executive with significant experience in driving global business transformation and change programmes and delivering business value
- Hands-on Commercial Technology leader, with experience in managing scale, ambiguity and risk

Norma has worked in top FTSE multinational companies including BAT, Shell, Unilever, HBOS, QBE Insurance, Labatt, and BP and has led diverse, multicultural teams based all over the world.

Prior to joining Thames Water, Norma served as Chief Information Officer at the Electricity System Operator National Grid and previously as the Group Chief Data and Information Officer at Places for People, a property management, development and regeneration company. At British American Tobacco, she held several senior director roles and was Head of Global Data Services.

Building on her technical background and embracing the core values of integrity, transparency and collaboration, Norma has a deep understanding of the partnership required between the technology function and other functions to focus on outcomes and deliver great customer experiences through unlocking the strategic value of digital and data.

Norma has an MBA from Imperial College, London.

Tony Vasishta

Managing Director, Ventures*

Joined the Executive: June 2021

Relevant skills and experience

- Extensive property and commercial experience, in the UK and internationally across a variety of asset classes
- Proven background leading functions and companies with senior roles at Tesco, Boots, Circle Health, TJX and Woolworths
- Regular contributor to the industry media and speaker at a number of real estate, retail and commercial conferences both in the UK and internationally

Tony joined from Liberty Global where he was the Managing Director Global Real Estate and the CEO of Liberty Property Co. the wholly owned technical real estate vehicle of Liberty Global. Liberty Global is the world's largest international TV and broadband company. With approximately 4,000 properties across Europe and an annual budget of $600 million.

Tony oversaw the real estate, facilities management, fleet and energy functions of the Liberty Global group of companies and led LG's global real estate team. As well as being a founding member and leader of the Property Company, Tony also led the creation of Liberty's EV charging company.

He joined Liberty Global from Starbucks, where he led the real estate, strategy, design and asset management function for the EMEA region based in Amsterdam.

Tony is a master's graduate and attended South Bank University, Oxford University and the Graduate School of Business at Stanford University, California.

*Kemble Ventures Operations Limited has been set up to include a set of standalone associated companies to Thames Water Utilities Limited

Former Executive team members

Warren Buckley stepped down in January 2023

Steve Spencer stepped down in September 2022

Roles and responsibilities

Roles and responsibilities

The Board

The Board is responsible for the long-term success of Thames Water by providing leadership and strategic direction on our culture, values and purpose. It provides governance oversight and ensures effective management of risk. It balances the interests of our shareholders with those of our wide range of other stakeholders including customers, employees, and suppliers and the impact on local communities and the environment.

The Chairman

Ian Marchant creates the conditions for the effective working of the Board. He is responsible for promoting high standards of corporate governance, and setting the agenda and conduct of Board meetings, taking account of the concerns of all Directors and encouraging active engagement. He ensures that Thames Water maintains effective communication with our external shareholders and other key stakeholders. He supports and advises Sarah, our CEO, and he leads the evaluation of the performance of the Board, its Committees, and individual Directors.

The Deputy Chairman/Senior INED

Nick Land, our Deputy Chairman, is available to chair Board and Committee meetings if the Chair is unable to attend, and to answer any shareholder queries that cannot be addressed by the Chairman or Executive Directors. He supports the Chairman in his role and leads the Non-Executive Directors in oversight of the Chairman.

The Independent Non-Executive Directors

Our INEDs are valued members of the Board who bring independent advice and review and challenge the Board on behalf of all stakeholders, including customers. They are independent in character and judgement, with relevant experience, and collectively have strong connections with, and knowledge of, the water industry. They understand the interests of our customers and how these can be respected and protected.

The Investor Directors

Our Investor Directors are Non-Executive Directors who are nominated and appointed by our external shareholders, and are therefore not classified as independent. They provide strong experience and constructively challenge and monitor the performance and delivery of the strategy by the Board.

Board Committees

The Board is supported by six Committees, which focus on specific issues. They report to the Board on matters discussed and make recommendations on matters that require the Board's approval. The terms of reference of the Committees are published on our website.

The Board decides the membership and constitution of each Committee. The Committees may engage independent professional advisers and they can also call upon other group resources to assist them in their duties.

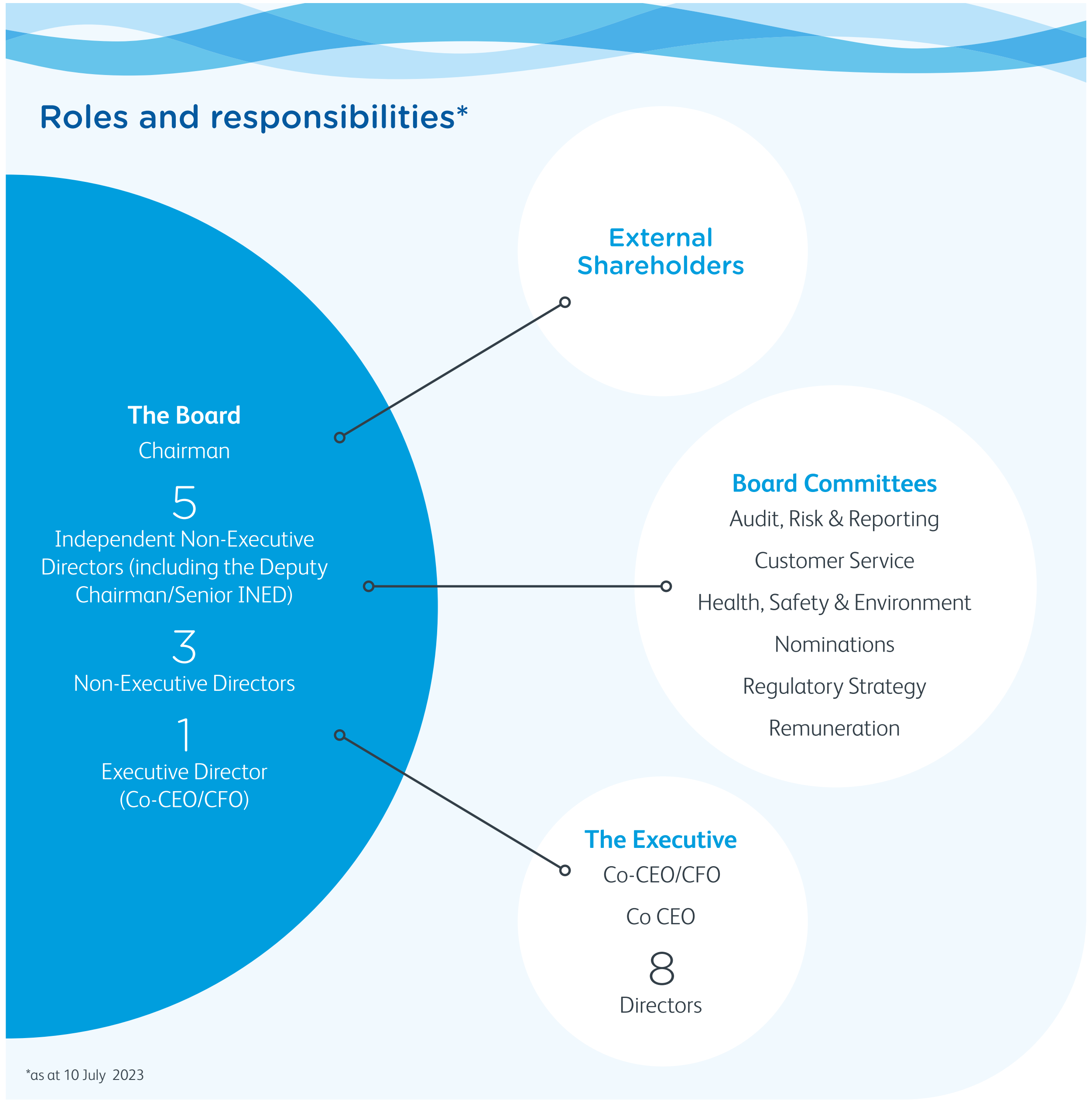
See the Board Committee Reports starting on page 81

The Company Secretary

The Company Secretary acts as secretary to the Board and all the Committees provides advice to the Directors and is responsible for advising the Board on governance matters. The role oversees good information flow to the Board and the Committees, and ensures that the Board operates in accordance with relevant laws and governance principles.

The Executive

The Board delegates the execution of our strategy and day-to-day financial, operational and regulatory decisions to the CEO, supported by the Executive team, through a Schedule of Delegated Authority. The Board receives monthly reports on safety, financial and operational performance throughout the year, so it can satisfy itself that the Executive team are managing the business in line with the strategic objectives and targets set.



Roles and responsibilities continued

The Chief Executive Officer

The CEO develops the business strategy, business plan and budget for approval by the Board. Together with the Executive team, they implement the decisions of the Board and its Committees. They are responsible for ensuring that the highest standards of health and safety and environmental protection are set, and for embedding a culture of customer service throughout the company. They ensure that effective business and financial controls and risk-management processes are in place, and that all relevant laws and regulations are complied with. They also oversee the appointment of senior managers and Executives and succession-planning processes.

The Chief Financial Officer

The CFO is responsible for management and oversight of Thames Water's financial affairs. He develops and recommends the business plan and budget, and ensures that effective business and financial controls and risk-management processes are in place. Together with the rest of the Executive team, they develop the business strategy and implement the decisions of the Board and its Committees. They support in developing strategic relationships with key stakeholders, political leaders and customers.

External Shareholders

Although all strategic decisions come through the Board, some areas are subject to ratification by the external shareholders, such as Board membership, remuneration, material regulatory matters and key areas of strategy, management and financial reporting. The full schedule of matters reserved for external shareholder approval is available on our website.

This additional oversight from our ultimate owners provides an effective system of checks and balances, similar to those that apply to listed public companies, while leaving operational authority and overall responsibility for the business in the hands of our Board. Thames Water's holding company and ultimate shareholders are also bound by undertakings that ensure that they will always support Thames Water in complying with its regulatory obligations. These mean that decisions over matters reserved for external shareholders continue to be made in full consideration of the services provided to, and interests of, customers.

During 2022/23, a number of reserved matters required approval, including:

- Our Remuneration Policy
- Bonus payments for 2021/22
- The annual budget for the financial year 2023/24
- The draft IBP4 Business plan

The shareholders confirmed the Board's recommendations in each of these matters.

Appointment and induction

Independent Non-Executive Directors are appointed for an initial term of three years with the expectation they will continue for at least a second three-year period. Directors are nominated by the Nomination Committee and their appointments subsequently approved by the Board. All Non-Executive Directors are required to have a pre-appointment meeting with Ofwat. This is an opportunity to share insights on the challenges and opportunities facing the sector and ensure there is an understanding of the particular role of the non-executive directors in a water company.

The Chairman and Independent Non-Executive Directors have letters of appointment with the Company which set out their role and duties, the expected time commitment, their fees and the requirement to declare any other interests.

On appointment, all new Directors receive a bespoke induction programme over a number of months tailored to their specific requirements and designed to facilitate and develop their understanding of the business, as well as an understanding of the Company's operations and culture. The programme provides site visits, an overview of our customer service, financial and operational performance, along with an explanation of the regulatory regime and governance framework. It includes meetings with the Chairman, CEO and CFO, as well as the Executive team, external shareholders, the Company Secretary, other members of the senior management team, and external advisers who provide support to the Board or Committees.

Board meetings

The Board held eight formal meetings this year. Board members also attended workshops, deep dives and informal sessions for more in-depth discussions on matters including our operational performance, leakage, asset health, customer metering, budget proposals, and finance and treasury.

To ensure that the Board has good visibility of the key operating decisions of the business, members of the Executive and leadership teams attend Board meetings regularly to update the Directors on performance in specific areas. The Board also holds separate meetings on a regular basis, without the Executive Directors being present, to discuss any issues or concerns. There are also informal opportunities for the Directors to meet and discuss specific areas of the business with individual members of the Executive team and other employees.

Board Members	29 Jun-22	28 Sep-22	29 Sep-22	4 Nov-22	11 Nov-22	30 Nov-22	24 Jan-22	22 Mar-22	Total	Appointment	Resignation
Director											
Ian Marchant	●	●	●	●	●	●	●	●	8/8		
Sarah Bentley	●	●	●	●	●	●	●	●	8/8		June 23
Alastair Cochran	●	●	●	●	●	●	●	●	8/8		
NEDs											
Michael McNicholas	●	●	●	●	●	●	●	●	8/8		
Guy Lambert	○	●	●	●	●	●	●	●	7/7	Sept 22	
John Morea	●	●	○	○	○	○	○	○	2/2		Sept 22
INEDs											
Catherine Lynn	●	●	●	●	●	●	●	●	8/8		
Ian Pearson	●	●	●	●	●	●	●	●	8/8		
Jill Shedden	●	●	●	X	●	●	●	●	7/8		
David Waboso	●	●	●	●	●	●	X	●	7/8		May 23
Hannah Nixon	●	●	●	X	●	●	●	●	7/8		
SINED											
Nick Land	●	●	●	●	X	●	●	●	7/8		

● Meeting attended ○ Not a Board member at date of meeting X Apologies

Roles and responsibilities continued

John Holland-Kaye, Non-Executive Director

John Holland-Kaye joined the Board on 1 April 2023. He will receive a bespoke induction programme over a number of months tailored to specific requirements and designed to facilitate and develop his understanding of the business, as well as an understanding of the Company's operations and culture.

Meet our Board on p70

Inductions in action

Each Director is provided with an induction programme covering the following:

The business

- Briefings on Company history, business background, operational performance and plans, strategy, key performance indicators and targets
- Site visits during the first few months, to allow each Director to experience, first hand, the operations of the business
- Presentations from management on topics such as our strategy and business plan, finance and commercial matters, key operational areas and risk
- One-to-one meetings with members of the Executive team

Culture and values

- Each Director is provided with a briefing on or people and company culture, including health, safety and wellbeing, talent and succession, trade unions and an overview of our remuneration policy

Governance

- Training relevant to their director duties and regulatory obligations as Directors
- Meetings with the Chairman and Chairs of the Board's Committees
- Briefing on the regulatory and governance framework, Company policies and Board procedures
- An overview of our major risks and our internal risk management strategy

Regulators and other stakeholders

- Participation in briefings with the Environment Agency, Defra and Water UK
- Briefing about customer engagement to understand our customers' views including engagement with our Customer Challenge Group and other key stakeholders.

Training and professional development

Several deep dives and technical sessions were held this year to ensure Directors remain up to date with key developments across the business and the wider industry. Further informal sessions were held with specific focus on topics of interest to the Board, including presentations, regular updates and briefings. The Board activities section on page 80 gives more information on topics covered during the year.

These informal sessions also serve as an opportunity for the Board to discuss strategy and risks with local management teams and gain further insight into our business and management capability.

We aim to continually refresh and expand the Board's knowledge and skills to enable Directors to effectively fulfil their roles and contribute to discussions on technical and regulatory matters. All Directors have access to professional development provided by external bodies and our advisers. For example, in March 2023, Eversheds Sutherland provided a live training session on Securitisation and Competition Compliance.

We also expect Board members to complete online training modules in areas such as Ethical Behaviour and Protecting and Securing our Data. Additional voluntary modules include 'Keeping Thames Secure' and 'Vulnerability Thames Water'.

Directors and their other interests

As a matter of good governance, all Directors are required to disclose their other significant commitments to the Board. This ensures that third parties do not influence, compromise or override Directors' independent judgement. In accordance with the Companies Act, all Directors are also required to advise our Company Secretary of any actual or potential conflicts of interest (including those resulting from significant shareholdings) as soon as they arise, so they can be considered by the Board at the next available opportunity.

Any Director with a potential conflict of interest relating to a specific matter that is being considered by the Board or one of its committees must recuse themselves from the relevant meeting while this item is discussed and may not vote on the matter. If the Chairman has such a conflict, he will recuse himself from the meeting and the Deputy Chairman will take the Chair for the discussion.

It is the Board's view that this procedure operated effectively during 2022/23. During the year, no Independent Non-Executive Director declared a material interest in any contract of significance with Thames Water or any of its subsidiary undertakings.

Alastair Cochran does not act for any FTSE company as a Non-Executive Director or Chairman.

You can find information on payments to companies in which our Directors have interests on page 162 of our Annual Performance Report.

Stakeholder engagement

How the Board engages with stakeholders

Our stakeholders are crucial in helping us to deliver our Purpose and our turnaround plan. You can find more information on how the business engages with our stakeholders including customers, employees, regulators, shareholders and other groups on page 36.

As they lead Thames Water and support the Executive Team, it's important that our Board members are involved in driving our stakeholder engagement programme, so they can understand the issues and challenges of each of our key stakeholder groups. Examples of what the Board has been doing are set out here.

NGOs and community groups

Board engagement

- Sarah Bentley met with a number of community groups and NGOs
- The Board visited the River Chess

Key issues raised

- Pollution problems, sewage discharges and river health
- Neighbourhood plans

Outcome

- As CEO, Sarah led a change in Thames Water's engagement and messaging – showing that we're committed to working collaboratively.
- Recognition and appreciation that smarter water catchments are a viable way of working in more catchments in the future. This was subsequently discussed in more detail and supported at the Board strategy day in September. Since then, we have just submitted our plans to the EA/Ofwat about its expansion to half our region.

Policymakers and elected representatives

Board engagement

Over the course of the year, Sarah Bentley engaged in the following activities:

- met with government ministers, including Secretary of State Dr Thérèse Coffey MP, to discuss performance and future plans
- held various one-to-one meetings during the year with MPs to discuss issues in their constituencies, for example with Jeremy Hunt MP
- attended several roundtables with the Labour Party Shadow Cabinet, including Rachel Reeves and Annelise Dodds as part of the Party's manifesto formation process
- met with the Greater London Authority, meeting the Deputy Mayor for Environment and Energy Shirley Rodrigues, and attending the Mayor's London Infrastructure Group
- appeared before the House of Lords Industry and Regulators Committee to give oral evidence as part of their inquiry into the work of Ofwat
- Ian Marchant and Sarah Bentley met with Liberal Democrat Leader Sir Ed Davey, to discuss wider is-sues surrounding river health and our investment plans, as well as constituency issues.

Key issues raised

- Operational and customer service performance
- Water supply network resilience
- River health
- Flooding
- Pollutions

Outcome

- Feedback from policy makers and elected representatives helps us understand whether we are meeting stakeholders' expectations in the communities we serve. It also keeps us close to changes to policy that affect the regulatory environment in which we operate
- Engagement has informed the development of our PR24 Submission
- Thames Water's oral evidence was cited frequently in the Industry and Regulators Committee's final report

Shareholders

Board engagement

- Our shareholders are represented on the Board by two Non-Executive Directors, enabling a regular, active dialogue. One further Non-Executive Director joined the Board on 1 April 2023.
- Sarah Bentley and Alastair Cochran provided quarterly performance updates
- Monthly shareholder liaison meetings with Alastair Cochran to discuss upcoming issues
- All day in-person event in September 2022, attended by Board members and shareholders

Key issues raised

- Turnaround plan, business strategy, vision and objectives
- Financial and operational performance
- Integrated Business Plan
- Pollutions and river health

Outcome

- Having shareholder representatives on the Board enables other Directors to better understand investor views
- Stronger shareholder oversight enables more thorough review, analysis and challenge of strategic plans

Stakeholder engagement continued

Regulators

Board engagement

- Non-Executive Directors attend Ofwat's twice-yearly non-executive events. The Chair of our Remuneration Committee has also engaged proactively with Ofwat on matters pertaining to executive pay.
- Quarterly sessions with Ofwat on transformation progress.
- Our Co-CEOs regularly engaged with all of our regulators including Ofwat, DWI, EA and Defra.

Key issues raised

- Ongoing investigations by Ofwat and the Environment Agency into river health and sewage treatment works
- Financial resilience, operational and environmental performance, customer satisfaction
- Delivery of the company turnaround plan

Outcome

- Increased Board understanding of regulatory challenges and priorities, through constructive dialogue with Ofwat
- Insight into our relative performance against the rest of the industry
- Ofwat was kept informed of key news and developments, consistent with our 'no-surprises' approach to managing our relationships with our regulators

Other investors

Board engagement

- Regular presentations and update calls throughout the year, hosted by former-CEO, Sarah Bentley and Alastair Cochran, including:
- Full year and interim results presentations
- Transaction-related investor meetings

Key issues raised

- Updates on operational and financial performance with a particular emphasis on our business turnaround and the outlook for key financial metrics
- Context on how ESG considerations impact the company and our commitment to being Purpose-led

Outcome

- We keep banks and debt investors informed of key news and developments about the company, which helps us to maintain cost-efficient access to debt capital markets. This included EUR 1.65bn of Green Bonds issued from our Sustainable Financing Framework

Employees

Board engagement

- Ian Pearson, our lead Non-Executive Director for workforce engagement, held engagement forums with staff across the business
- Board members have visited sites, where they have been able to meet employees in person
- Former CEO,Sarah engaged regularly with colleagues through in-person 'Hear For You Live' sessions, joining each directorate's virtual 'All Hands Calls' twice a year, joining all-employee 'Ask the Exec' virtual calls each quarter, sharing videos showing what she was up to every month, writing all-employee 'e-brief' emails, and by meeting colleagues on sites and using her volunteering 'Time to Give' to network with colleagues. She also hosted events such as our Remembrance Service in November 2022.

Key issues raised

- Greater clarity and focus of internal communications, particularly for frontline staff
- Roll out of new workforce management programme
- More support needed to look after frontline employees' mental health
- Upskilling, career development and reward
- Future ways of working
- Negative press about Thames Water and how brand reputation impacts employee morale

Outcome

- Roll out of plan to provide improved, tailored communication to frontline staff
- An explicit 'frontline first' approach to communications, led by the Board, showing recognition, direction, and appreciation
- Employees were kept informed and appraised of progress, and were listened to during a challenging year, particularly in respect of changes in leadership, business model and ways of working.
- More information is included in the note from Ian Pearson, our Workforce Engagement Lead Director, on page 34
- Former CEO, Sarah Bentley worked with employee comms to share more about her proactive media briefings and interviews with key media outlets

Customers

Board engagement

- Qualitative and quantitative customer insight was considered by the Customer Service Committee and reported to the Board
- Ian Marchant and Hannah Nixon attended a CCG meeting in December 2022.
- CCG Chair attendance at Regulatory Strategy Committee and Customer Service Committee to discuss PR24 assurance process and customer engagement.
- Former-CEO, Sarah Bentley engaged with customers directly on LinkedIn with a weekly programme of content. She engaged with comments and discussions, providing an alternative platform for customers to engage directly with us on the issues that matter most to them

Key issues raised

- Updates on our turnaround plan and key service improvement initiatives
- Online customer experience and ease of contacting us
- Customer views on leakage
- Communications during incidents and disruptions
- Pollutions and river health
- Long term water resource management plans

Outcome

- The Board maintains effective oversight of the customer engagement programme and receives and discusses customer feedback. The Board was satisfied that customer views are being listened to and help shape operations and future plans
- Rolled out a plan for more proactive communications during incidents
- Updates to our website to provide clearer communications on leakage
- Sarah's open, direct messaging on LinkedIn with customers and other members of the public was well received

Board activities

Board activities to drive the Turnaround plan

Pillar of the Plan	The Board's Governance Role	Examples of Board activity in 2022/23	Outcome
Fix the basics	• Receive and review regular updates on customer complaints and C-MeX metrics through monthly Board reports and presentations to Board meetings • Particular focus placed on this area by the Board's Customer Service Committee • Review proposals to increase resilience of systems and assets, with a focus on improving performance in key areas such as leakage, supply interruptions and pollution reduction • Review our operational and cost efficiency to drive maximum value for money for our customers and drive efficiency in the water cycle	• Analysis of customer complaints performance • CSC received an update on KPIs around customer service and communications • Oversight of the Wastewater Asset Assurance Programme (WAAP) to provide greater asset resilience • Oversight of the business planning and funding process • Engaged with shareholders on the capital structure review process and development of the revised business plan for the current regulatory period • Focused strategic sessions held: • Deep dive into leakage performance • Deep dive into water network transformation programme • 'Teach in' session on IBP4 in March 2023	• Customer service strategy has led to a reduction in complaints • Board monitored progress in Spills Reduction Strategy, which aims to address the impact and volume of storm overflows • Board review of a baseline delivery to improve resilience as part of the WAAP • Approval of a revised £11.5 billion business plan for the current regulatory period to significantly improve Thames Water's operational performance. This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed in the water company's final determination for 1 April 2020 to 31 March 2025. In accordance with the commitment made by shareholders in June 2022, £500 million of new funding was drawn by Thames Water on 30 March 2023. Our shareholders have agreed to provide a further £750 million of equity contributions across AMP7, subject to certain conditions.
Raise the bar	• Oversee people strategy • Champion diversity and corporate values • The Health, Safety and Environment Committee considers our impact on the environment, as well as the safety of our operations on our sites and in the community	• Oversight of the Executive team's delivery of the 'Living our Values' programme to drive cultural shifts across the business • Pollutions were considered at each meeting of the HS&E Committee • Focused strategic sessions held around capital delivery – insourcing capacity and capability to improve infrastructure, leakage – discussions on current leakage performance and recovery plans, Wastewater Asset Assurance Programme – to achieve and sustain high levels of compliance, sewage discharges – additional resourcing to improve discharge performance and review live EDM monitoring rollout.	• Living our Values: The Board received programme updates and reiterated the importance of rolling out Living our Values to contractors given they make up more than half of the current work force and those colleagues joining Thames Water as part of insourcing projects. • HSE committee continued to review performance against the Pollutions Incident Reduction Plan (PIRP), Asset Management Strategy and Wastewater Asset Assurance Programme
Shape the future	• Approve expenditure and plans for capital projects to increase resilience • Oversee our People and Skills strategies • Monitor sustainability policy and associated policies and monitor progress • Ensure we have the right governance framework in place to monitor the impact of our operations on the environment, and to make a positive impact on the communities around us	• Ian Marchant and Ian Pearson joined the subcommittee for the Water Resources Management Plan, and also provided support on our first Drainage and Wastewater Management Plan • Worked with Executive team to evolve our Vision for 2050 and new business model and align with PR24 • Board approved significant capital investment, during the year included: PTSN replacement, mains replacement and Beckton STW upgrades. • Reviewed plans for alignment with the requirements of the Taskforce for Climate-Related Financial Disclosures, with updates from the Climate Change Working Group via the Health Safety and Environment Committee	• Vision for 2050 refined following Board and shareholder feedback at annual strategy day, also taking into consideration stakeholder feedback • TCFD disclosures included in this report on page 45

Customer Service Committee Report

> The main objectives of the Committee and to provide assurance, governance, support and challenge on delivering better outcomes for customers.

Catherine Lynn
Chair of the Customer Service Committee

At a glance

The Customer Service Committee ("CSC") provides additional oversight on behalf of the board of the activities that relate directly or indirectly to Thames Water customers, including households, businesses and developers. In addition, the CSC ensures that the 'voice of the customer' is being embedded into Thames Water. The CSC is also able to provide subject matter expertise and experience to support the operational delivery to customers across Operations and Retail.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors and one other Non-Executive Director, who was appointed on 1 April 2023. The Chief Executive Officer, the Retail Director, the Operations Director and the Regulation Director attend by invitation as required. Other attendees are invited at the request of the Committee. The Company Secretary acts as secretary to the Committee.

The Committee met three times in this reporting period

The Committee composition will be reviewed during 2023/24 to ensure it is sufficiently independent and has an appropriate representation of Directors' skills.

Committee Members	28 Jun 22	29 Nov 22	21 Mar 23	Total	Appointment
Catherine Lynn	Meeting attended	Meeting attended	Meeting attended	3/3	
Nick Land	Meeting attended	Meeting attended	Meeting attended	3/3	
Jill Shedden	Meeting attended	Meeting attended	Meeting attended	3/3	

Meeting attended | Not a Board member at date of meeting | X Apologies

The role of the Committee

The main objectives of the Committee are to provide assurance, governance, support and challenge on delivering better outcomes for customers and may be delegated by the Board the role of approving the Customer Service Strategy and Customer Policies. The role of the CSC encompasses the following areas but is not limited to them:

- Customer Strategy and Performance
- Reviewing the development of the customer strategy reflecting the challenges faced by the Company now and in the future.
- How we are embedding 'customer obsession' within the company.
- Review and recommend how we can achieve the company's goals for Customers.
- Reviewing the communication strategy, including channels for communication and consultation processes on strategic projects.
- Advising the Board on key issues, proposals for improvements and policy changes.
- Reviewing the current Company position and performance against regulatory commitments, industry comparators and external best practice in other companies.

Committee activities during the year 2022/23

During the year, the Committee received and discussed updates on customer service performance and the delivery of our customer service strategy, including specific updates in relation to:

- C-MeX plan
- Overall customer service including customer service KPIs, complaints trends including root causes, billing performance and retail and operations performance
- Customer Engagement insights on Section 19 Leakage Undertakings
- The development of leadership behaviours to transform customer service culture
- What customers, communities and stakeholders want as part of Price Review 2024 engagement ("PR24")
- PR24 customer engagement
- Review of customer service policies
- Waste and Water Performance
- Review of Committee Terms of Reference.
- Review of committee performance.

Customer Service Committee members visited the customer service centre In January 2023 to engage with colleagues who speak to customers on a daily basis and discuss current challenges and opportunities to improve the service to customers.

The Committee remains focused on looking at ways to improve customer service and engagement with customers and recommends appropriate action to the Board.

Health, Safety and Environment Committee Report

“The Committee is responsible for reviewing and monitoring matters relating to health and safety, the environment, drinking water quality and security.

David Waboso
Former Chair of Health, Safety and Environment Committee
Stepped down from the Board in May 2023 and this report was approved before David stepped down.

John Holland-Kaye is now Chair of the Health, Safety and Environment Committee

At a glance

The Committee is responsible for reviewing and monitoring matters relating to health and safety, the environment, drinking water quality and security.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors and one other Non-Executive Director. The Chief Executive Officer, the Operations Director, the Engineering and Asset Director, and the Health, Safety & Security Officer also usually attend meetings. Other individuals may attend by invitation. The Company Secretary acts as secretary to the Committee.

The Committee met five times in this reporting period

Committee Members	28 Jun 22	10 Oct 21	22 Nov 21	1 Mar 22	21 Mar 23	Total	Resignation
David Waboso	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Meeting attended	5/5	May 23
Nick Land	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Meeting attended	5/5	
Catherine Lynn	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Meeting attended	5/5	
Michael McNicholas	Meeting attended	Apologies	Meeting attended	Meeting attended	Meeting attended	4/5	
John Morea	Meeting attended	Not a Board member at date of meeting	Not a Board member at date of meeting	Not a Board member at date of meeting	Not a Board member at date of meeting	1/1	Sept 22

Meeting attended
Not a Board member at date of meeting
Apologies

Role of the Committee

- The objective of the Committee is the provision of oversight and effective governance of:
- Health, safety and wellbeing of customers and colleagues;
- Drinking water quality and public safety;
- Environmental performance, including pollution incidents;
- The overarching asset management strategy, policies and resulting procedures and processes; and
- The zero carbon and energy strategy.

Committee activities during the year 2022/23

At its formal meetings this reporting year, the Committee has considered and discussed:

- Regular health, safety and wellbeing reports
- Regular environmental and water quality reports
- Health, Safety and Wellbeing Strategy and policy
- Health, Safety and Wellbeing Risks
- Compliance (FTT)
- Net Zero Programme
- Climate Change
- The Pollution Incident Reduction Plan
- Update on discharges of untreated sewage
- Asset Management strategy, plan and standards compliance
- Review of Committee Terms of Reference

The Committee has also undertaken deep dives into specifically identified risk areas including:

- Lee Tunnel to Tideway bulwark movement
- Tideway bulwark risks
- Digester & Biogas Safety

The first asset management ‘task and finish’ group was held on Monday 20th February 2023. The group is supported by Ian Marchant, David Waboso and Michael McNicholas and the Engineering and Asset leadership team set out the approach to asset management and maturity assessment for the Turnaround. Future sessions are planned and will be in the format of deep dives on specific areas. The next session will be on asset health and asset information.

The Committee looks forward to continuing to challenge the business on how it manages health and safety issues and those relating to the environment, including water quality, and as a result improving standards, practices and outcomes, as part of a broader process of change across the Company.

Regulatory Strategy Committee Report

The Committee has primary responsibility for regulatory and compliance matters linked to the corporate strategy and the business plan.

Hannah Nixon
Chair of the Regulatory Strategy Committee

At a glance

The Committee has primary responsibility for regulatory and compliance matters linked to the corporate strategy and the business plan.

Membership and attendance

Including the Chair, the Committee consists of two independent Non-Executive Directors and two other Non-Executive Directors. The meetings are also attended, as required, by the Chief Executive Officer, the Regulation Director and the Chief Financial Officer. Other members of the Executive team, other Thames employees and third-party advisers may be invited to attend meetings by the Committee. The Company Secretary acts as secretary to the Committee.

The Committee met five times in this reporting period.

Guy Lambert, one of our Non-Executive Directors, joined the Committee during the course of the year. The Committee composition will be reviewed during 2023/24 to ensure it is sufficiently independent and retains an appropriate representation of Directors' skills.

Committee Members	28 Jun 22	21 Sept 22	28 Nov 22	26 Jan 23	20 Mar 23	Total	Appointment	Resignation
Hannah Nixon	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Apologies	4/5		
Ian Marchant	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Meeting attended	5/5		
Michael McNicholas	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Meeting attended	5/5		
Ian Pearson	Meeting attended	Meeting attended	Meeting attended	Meeting attended	Meeting attended	5/5		
Guy Lambert	Not a Board member at date of meeting	Not a Board member at date of meeting	Not a Board member at date of meeting	Meeting attended	Meeting attended	2/2	Dec 22	

Meeting attended · Not a Board member at date of meeting · Apologies

Role of the Committee

The objective of the Committee is the provision of oversight and effective governance over:

- The Group's governance, policy and strategy in relation to decisions with regulatory implications
- The Group's regulatory price control submission process

Committee activities during the year 2022/23

The Committee reviewed and discussed, among others, the following matters:

- The Committee's Terms of Reference
- Regular updates on the activities of and engagement with Ofwat, the Environment Agency and the Drinking Water Inspectorate
- Section 19 Leakage Undertakings
- The Company's ongoing engagement with Ofwat
- The proposed response to the Condition P licence change consultation
- Customer Challenge Group
- PR24 Programme and plan development
- Updates on other regulatory developments including compliance with regulatory undertakings and investigations by Ofwat under the Competition Act
- The investigation by Ofwat and the Environment Agency relating to sewage pollutions under the Water Industry Act.
- Managing Regulatory Compliance and reporting risk
- Developing our PR24 long-term delivery strategies
- Annual review of Policies and Standards
- Approach to Direct Procurement for customers

The Committee looks forward to contributing to the development of the Company's longer-term strategy as the new Executive leadership seeks to take the business forward.

Nomination Committee Report

"The Nomination Committee's core responsibility is to manage the appointment process for new Board directors – the exception being the appointment of a new Chairman, which would be carried out by the Board, led by the Senior Independent Director.

Ian Marchant
Chair of the Nomination Committee

At a glance

The Committee has primary responsibility for the composition of the Board and leadership needs of the Company.

Membership and attendance

Membership of the Committee, excluding the Chair, consists of three Independent Non-Executive Directors, Nick Land, Ian Pearson and Jill Shedden and one Non-Executive Director, Michael McNicholas. The Committee is Chaired by Ian Marchant.

The Company Secretary acts as secretary to the Committee, ensuring that all of the information required by the Committee to operate effectively is available. When appropriate the CEO, CFO, People Director and external advisors may attend meetings by invitation.

Jill Shedden, one of our independent Non-Executive Directors, joined the Committee during the course of the year. The Committee composition will be reviewed during 2023/24 to ensure it is sufficiently independent and retains an appropriate representation of Directors' skills.

The Nomination Committee met formally twice during the year, with all meetings held via video conference. The Committee has formal Terms of Reference which can be viewed on the Company's website, www.thameswater.co.uk.

Committee Members	28 Nov 22	20 Mar 23	Total	Appointment
Nick Land	Meeting attended	Meeting attended	2/2	
Ian Marchant	Meeting attended	Meeting attended	2/2	
Michael McNicholas	Meeting attended	Meeting attended	2/2	
Ian Pearson	Meeting attended	Meeting attended	2/2	
Jill Shedden	Not a Board member at date of meeting	Meeting attended	1/1	Jan 23

Meeting attended | Not a Board member at date of meeting | X Apologies

Role of the Committee

The main duties of the Committee are to:

- Review from time to time the structure, size and composition of the Board of the Company and to make recommendations to the Board regarding any changes it considers necessary; and
- Keep under review the leadership needs of the Company and make recommendations regarding the formulation of succession plans for appointments to the Board, to maintain an appropriate balance of skills and experience as well as diversity to ensure that it remains effective and focused on driving forward the strategy of the Company.

The Committee is satisfied that there remains an appropriate combination of Executive Directors and Non-Executive Directors on the Board such that no one individual or group of individuals dominates the Board's decision making.

Activity during the year

The Nomination Committee's core responsibility is to manage the appointment process for new Board directors – the exception being the appointment of a new Chairman which would be carried out by the Board, led by the Senior Independent Director.

During the year, the Committee supported our shareholders with the process to appoint new Non-Executive Director to replace John Morea, who stepped down from the Board in September 2022. The Committee recommended the appointment of Guy Lambert as an investor representative Non-Executive Director of the Company and the Board approved his appointment on 29 September 2022. The Committee intends to continue to assess and review the composition of the Board and its aggregate skills, experience and knowledge and the current and future needs of the Board and the Company with the required skills and experience to ensure the future success of the business.

After after over 4 years of service, David Waboso decided to step down from the board to follow other business interests. Following notification from the Chairman that he wished to step down from the Board after serving over 5 years as Chairman (and a period as Executive Chariman) a search commenced for his successor, who has now been identified as Sir Adrian Montague and will commence his tenure on the Board from 10 July 2023.

Sarah Bentley tendered her resignation from the Board at the end of June 2023 with immediate effect. A search for her replacement has commenced.

In the course of the year the Committee reviewed the size, structure and composition of the Board with respect to the needs of the business, it also reviewed the Board Diversity Policy, the Conflicts of Interest Policy and the independence of the Non-Executive Directors and the Directors Conflicts of Interest Register. In addition, it reviewed the findings of the 2022 Board Evaluation with respect to the composition of the Board and its committees, and the findings of the Committee Evaluation report, together with a review of the Committees Terms of Reference. The Committee approved the 2023/24 Committee forward agenda programme and reviewed and endorsed the Board's training and learning and development plan for 2023/2024, to ensure that members receive the appropriate level of support to fulfil their duties and engage with the wider workforce.

In reviewing the composition of the Committees, the Committee recommended to the Board the appointment of Guy Lambert to the Regulatory Strategy Committee, Michael McNicholas to the Customer Service Committee and Jill Shedden to the Nomination Committee, with effect from 30 November 2022, which recommendations were approved by the Board.

Audit, Risk and Reporting Committee Report

"The Committee's primary responsibility is to provide support to the Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework.

Nick Land
Chair of the Audit, Risk and Reporting Committee

This report gives you, our stakeholders, an overview of the activities and areas of focus for the Audit, Risk and Reporting Committee (the "Committee" or "ARRC") during 2022/23. The Committee's primary responsibility is to provide support to the Board by exercising oversight of the integrity of the Group's financial and regulatory reporting, engaging with the external auditor, and overseeing the Group's control and risk management framework.

During the year the Committee held five formal meetings, in which it:

- Considered and discussed the impacts on the business and risks of the ongoing macro-economic environment (including inflation and increases in cost of living) and its impact on going concern and the long-term viability assessment
- Engaged with the Group's external auditor, PricewaterhouseCoopers LLP ("PwC"), on a regular basis in relation to the status of their audit work and matters arising
- Approved non audit services undertaken by PwC
- Approved and tracked the annual Internal Audit plan and key findings
- Reviewed and challenged significant judgements, both from an accounting and risk perspective
- Formally considered sufficiency of resources to deliver our obligations at each of our scheduled meetings (the Ring Fence Certificate)
- Oversaw improvements to our risk management framework by providing oversight over the Risk Management Improvement Plan ("RMIP") and assessing how the Company has responded to macroeconomic, financeability and cyber security risks.
- Additionally, the Committee received reports on whistleblowing, fraud and anti-bribery. Key cases are brought to the attention of the Committee including any lessons learned from those investigations.

Committee Members	15 Jun 22	27 Jun 22	16 Sep 22	29 Nov 22	21 Mar 23	Total	Resignation
Nick Land[1]	●	●	●	●	●	5/5	
Michael McNicholas	●	●	X	●	●	4/5	
Ian Pearson[1]	●	●	●	●	●	5/5	
David Waboso[1]	●	●	●	●	●	5/5	May 23
Hannah Nixon[1]	●	●	●	●	X	4/5	

● Meeting attended ○ Not a Board member at date of meeting X Apologies

1 Undertakings for the purpose of section 19 of the Water Industry Act 1991.

Looking ahead to 2023/24, these items will remain a focus for the Committee. The Committee will continue to promote clarity and transparency in all our reporting; oversee the further development of the Company's risk management processes; oversee the Company's assurance framework, ensuring processes and controls (covering both financial and non-financial reporting) are appropriate and that published information is accurate, complete and reliable; and monitor going concern and the long-term viability of the Group.

Governance

The Board considers the Committee has the appropriate composition, skills and experience to discharge its responsibilities. Both the Independent Non-Executive Directors and the other Non-Executive Directors on the Committee have the required financial experience and proficiency in accounting to fulfil their duties.

The meetings are regularly attended (by invitation) by the Chairman of the Board, Chief Executive Officer, Chief Financial Officer ("CFO"), Director of Risk, Audit & Assurance, Group Financial Controller and external auditors to ensure all the information required by the Committee for it to operate effectively is available. Other members of Thames Water's senior management team are invited to attend meetings when appropriate.

In conjunction with each meeting, the external auditor, the CFO and the Director of Risk, Audit and Assurance hold private sessions with the Committee without Thames Water management being present. In performing its duties, the Committee has access to the services of the Risk, Audit and Assurance function, the Company Secretary and, if required, external professional advisers.

Separately, the Chairman regularly meets with the external auditor, the CFO, the Director of Risk, Audit and Assurance and the Head of Internal Audit to ensure the impact of material issues and judgements are fully assessed and understood.

The Committee's key responsibilities

The key responsibilities of the Committee relate to the following four areas:

1. **Financial and Regulatory Reporting:** oversight of the financial and regulatory reporting, ensuring integrity, accuracy, completeness, and reporting and regulatory compliance. The Committee reviewed and recommended for approval the 2022/23 Interim Report, Annual Performance Report and Annual Report.
2. **Internal Controls and Risk Management:** assessing the effectiveness of the Company's risk management framework and internal controls. During the year, this included reviewing principal risks and their impact on the business; with close attention to risks relating to the ongoing macroeconomic impacts, climate change and cyber security. The Annual Controls Self-Assessment findings and actions were additionally reviewed by the Committee, as were any whistleblowing, fraud reporting or unethical behaviour reports.
3. **Internal Audit:** assessing the effectiveness of the internal audit function and reviewing reports from the internal audit function and relevant Company policies. During the year, the Committee reviewed and approved the Audit Plan for 2023/24 and considered quarterly factors relevant to the annual approval of the Ring-fencing (Condition P) Certificate.
4. **External Audit:** oversight of the external auditor's independence, objectivity, and effectiveness; including the recommendations to appoint or remove the external auditor, and approval of any non-audit services and the annual external audit plan. The Committee reviews audit findings identified during their work.

Audit, Risk and Reporting Committee Report continued

Financial and Regulatory Reporting:

A fair, balanced, and understandable set of financial statements

The Committee reviewed the Annual Report, and Annual Performance Report, ahead of publication to ensure they were aligned with the Company's position, performance and strategy, and that the narrative sections were consistent with the financial statements and tables. The significant matters identified by the Committee in relation to the 2022/23 financial statements are noted within this report, these include all items raised in the external audit report.

In conclusion, the Committee advised the Board that the 2022/23 Annual Report and the Annual Performance Report provide a fair, balanced and understandable assessment of the Group's position; and that the necessary information is provided for shareholders to assess the Group's prospects, performance, business model and strategy.

Significant judgements and estimates used in the financial statements

This table lists the most significant accounting judgements and estimates considered during the financial period. These matters were considered within our external audit which is consistent with the Independent Auditor's Report.

Accounting area and judgement	The Committee's Role	Conclusion and Impact on Financial Statements
Long-term viability	In accordance with the UK Corporate Governance Code, the Directors are required to undertake a robust assessment of the long-term viability of the Company. The main purpose of performing such an assessment is to ensure that the business is able to withstand various severe but plausible scenarios where operations and financing arrangements are able to continue to deliver critical customer service in the instance such adverse events materialised. The Committee's role is to challenge analysis performed and the disclosures reported in the Long-Term Viability Statement.	The Committee was satisfied with the viability assessment based on review and challenge of: • The assessment period which represents ten-years to March 2033 and aligns to the long-term nature of the regulatory water sector • Sensitivity analysis and stress testing of plausible but severe downside scenarios linked to the company principle risk and uncertainties • Key assumptions underpinning the assessment including the receipt of shareholder funding • Preventative and mitigating actions available to the company in the event of risks materialising • Financial modelling of the impact and headroom to financial covenants under its Whole Business Securitisation ("WBS"), consideration of credit ratings and assessment of liquidity • Disclosure within the Long-term viability statement in the strategic report
Going concern	A going concern assessment is required to understand 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 Committee's role is to challenge analysis performed and the disclosures reported within the financial statements basis preparation.	The Committee was satisfied it is appropriate for the company's Financial Statements to be prepared on a going concern basis. The committee challenged management on severe but plausible downsides and mitigants considered. Financial modelling outputs were noted under these scenarios which showed sufficient liquidity, headroom to covenants and credit metrics.
Revenue recognition and provisions for expected credit losses	The ongoing uncertainty around the future economic outlook has required renewed assessment of the bad debt methodology and provision. The Committee reviewed the methodology, the ageing of debtors used, and the basis driving the cash collection and write-off rates in the year. These assumptions were considered together with the findings from PwC. The committee was informed there were no changes in policies to revenue recognition.	Based on its review, the Committee was comfortable with the level of bad debt provision recognised for household customers. The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.
Environmental litigation provisions and contingent liabilities	Prosecutions in relation to environmental incidents are brought against the Group by the Environment Agency. Provisions recognised are based on both legal guidance of expected outcomes for incidents being prosecuted and based on historical data for incidents which are early on in the legal process. The Group is separately subject to investigations being led by Ofwat and the Environment Agency into compliance with conditions of environmental permits and sewer overflows. The Committee considered the legal guidance provided on these incidents and management's assessment of these being deemed contingent liabilities.	The Committee concluded that the provisioning methodology, estimates and judgements management applied were reasonable. The Committee considered the reasonableness of disclosures made in respect of contingent liabilities. Management were challenged as to whether a provision should be recognised in the financial statements instead of disclosures proposed. The Committee concluded that in these cases provision recognition criteria had not been met and, therefore disclosure as contingent liabilities was the most appropriate approach. See the respective Provisions and Contingent Liabilities notes in the consolidated financial statements.
Provisions and contingent liabilities	The Committee considered other provisions within the accounts relating to potential legal and regulatory matters. The Committee considered the appropriateness of the methodologies used, and the relevant details including the latest information from our legal advisors.	The Committee is satisfied with estimates used by management in calculating provisions. The Committee is satisfied with management's judgement over contingent liabilities and the disclosure included within the accounts. The committee challenged and were satisfied with estimates used by management in calculating provisions. See the respective Provisions and Contingent Liabilities notes in the consolidated financial statements.
Capitalisation criteria	The classification of costs between capital and operating expenditure requires judgement. The Committee sought to understand significant investments and expenditure during the year, any notable year-on-year movements and changes in policy.	The Committee has held regular discussions with management and PwC and deems the classification of expenditure as appropriate. The accounting treatment is included in the Accounting Policies section within the consolidated financial statements.
Valuation of defined benefit obligations	The valuation of the Company's defined benefit obligations is highly sensitive to assumptions used and requires significant judgement and estimation. The Committee considered the valuation exercise undertaken by independent actuaries Hymans Robertson LLP as at 31 March 2023, the assumptions used within this report and the additional risk from the impact of macroeconomic factors on market volatility.	From these reviews and discussions, the Committee was satisfied with the valuation of the Company's defined benefit accounting treatment. See the Retirement Benefit Obligation note in the financial statements for further disclosure.
Valuation of financial derivatives	The Committee reviewed and discussed the methodology adopted in the valuation of various derivative instruments with the Director of Corporate Finance.	The treasury team from PwC, who specialise in this area, have tested the valuations of these derivative instruments as part of their audit. The Committee was content with the methodology applied to value derivatives in the financial statements.
Metered sales accrual	The metered sales accrual reflects the value of services provided to customers during the year but not billed for as of the 31 March 2023. The accrual is calculated by our billing system using historic meter reading data and adjusted using management judgement for our best estimate of water consumption (informed through trends in smart metering data where customer accounts lack recent meter reads).	The Committee concluded that the methodology management applied to calculate the accrual was reasonable.

Audit, Risk and Reporting Committee Report continued

Risk management and internal control

The Committee oversaw significant improvements to the Company's risk management framework, which covered both our assessment of new and existing risks, and the internal control processes. This included oversight over the Risk Management Improvement Plan ("RMIP"), which seeks to better align the sources of risk data within Thames Water and to embed risk management across the business. The Committee reviewed regular updates on the Company's principal risks, further development of the Company's risk appetite statements, updates to the Schedule of Delegated Authority ("SoDA"), and action taken in response to whistle-blowing cases.

There is a continued focus on new and emerging risks within the business and how the Company responds to them in addition to existing risks. In addition, the Committee received updates regarding management of regulatory reporting risks, and requested specific updates be made to the Board regarding cyber security and pollutions (including reputational risks/impacts).

The Company's ability to provide clean and safe drinking water is sensitive to environmental changes. The Company is continually reassessing our climate related risks and how these fit into the overall risk management approach. You can find more information about how the Company is planning to mitigate the risk in our section about our aligning to our Task Force on Climate-Related Financial Disclosures ("TCFD") on page 45, as well as in the risks section on page 52.

The Committee was provided with an update on establishing a common and structured Internal Controls Framework ("ICF"). The ICF defines the key management structures and processes required to be in place to maintain the effectiveness and integrity of our system of internal control. This structured approach will be fully rolled-out over time.

These updates allowed the Committee to make informed reviews of corporate policies, approve the annual internal audit plan, review key findings from the internal audit reports, recommend control and assurance mitigations, and consider sufficiency of resources to deliver our obligations at each of our scheduled meetings (as detailed in our Ring-fencing Certificate, previously referred to as the "F6A statement" or "Sufficiency of Resources Certificate under Condition P").

Internal audit

The Committee monitored the effectiveness of the Company's internal audit function in the context of the Group's overall risk management framework and system of internal control.

In 2022/23 the Committee reviewed and approved the internal audit charter. In accordance with this, the Committee considered and approved the remit and activities of the internal audit function ensuring it had adequate resources and appropriate access to information to enable it to perform its function effectively and was free from management or other restrictions in accordance with the relevant professional standards.

The Committee reviewed and assessed the annual internal audit plan which contains a mix of risk-based audits and legal and regulatory focused assurance activities. The plan is delivered through appropriately skilled and qualified internal resources supported with external resources where more specialised skill sets are required, typically within Information Systems and Technology. The plan is approved by the Committee each year after ensuring that the plan aligns with the company's Principal Risks and Committee's view of risks.

Within the year, any published internal audits which were categorised as high risk triggered a requirement for management to present their action plan to the Committee, providing assurance that control gaps or identified risks will be addressed in a timely manner. The Committee monitors the effectiveness of action closure, including the reviewing the status of any overdue actions.

The Committee will monitor the implementation of the government's audit and corporate governance reform on minimum standards for audit committees during FY24.

The Committee Chairman held private meetings with the internal audit team to ensure third line independence is being maintained.

External audit

The Committee reviewed PwC's terms of engagement and the scope and execution of their audit work. The Committee assessed the independence and objectivity of the external auditor, considering relevant UK professional and regulatory requirements and the relationship with the auditor, including the provision of any non-audit services in accordance with the Group's Non-Audit Services Standard.

2022/23 is the fifth year PwC has been Thames Water's external auditor. PwC was appointed as the Group's auditor after a competitive tender in 2018/19. The Group adopts the same approach to audit tendering as a FTSE 100 company, ensuring the Group's compliance with the current regulation on the statutory audit of public interest entities. Therefore, the Group will ensure the statutory audit is put out to tender by 2028/29 or earlier depending on the Committee's recommendation.

Effectiveness of the external auditor

The Committee also assessed the effectiveness of the external audit during the financial year by considering the resources, continuity, qualifications, and experience of the external audit team. It also assessed the planning and organisation of the external audit including the appropriateness of the auditor's assessment of the key audit risks and its relevant response to these. These risks are detailed in the Independent Auditor's Report included within the consolidated financial statements. Following this year's annual review, and discussions held between the Committee and PwC throughout the audit process, the Committee is satisfied with the professional scepticism of the auditor and that sufficient challenge was demonstrated towards key areas of management judgements and accounting policies. Therefore, PwC was deemed effective in their role as external auditor in the year ended 31 March 2023.

Auditor's independence and objectivity

An external auditor's independence is essential to the provision of an objective opinion on the true and fair view presented by the financial statements. There are safeguards in place to maintain this independence by frequently reviewing non-audit services performed by the external auditor, ensuring employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Group, and rotating the lead engagement partner at least every five years and other key audit partners every seven years. Katharine Finn has been the lead engagement partner for five years and will rotate off the engagement at the end of the 31 March 2023 audit. The Committee has overseen the selection of Sotiris Kroustis as engagement partner for the 31 March 2024 year end audit. The fees for this financial year, as detailed within the consolidated financial statements, are reasonable and allow an effective audit to be conducted. The increase in fees this year is attributable to additional audit work due to an allowance for inflation, scope of audit regulations and business activity.

Non-audit services

The Committee prohibits non-audit services other than in respect of certain services required for regulatory assurances which it would be impractical for another provider to provide. To safeguard the objectivity and independence of PwC, approval from the Committee is required for PwC to provide any of these non-audit services where the engagement fee is over £25,000. This approval ensures the external auditor is not performing any work which could create a conflict of interest or breach an external auditor's independence and objectivity. These services are typically limited to where specific knowledge of the Company or Group is necessary for their provision; for instance, assurance work relating to Ofwat submissions, regulatory accounts, interim reviews and AMP performance commitments. All services are deemed to be permissible in accordance with the FRC's Revised Ethical Standard 2019. Non-audit services were £689,388 in the current period (2021/2022: £832,983). The Committee continued to ensure safeguards were in place relating to non-audit work, including written representations from PwC which confirmed their independence, and was content that the non-audit fees incurred have not resulted in a loss of independence or objectivity.

Directors' Remuneration Report

"Performance in 2022/23 was materially affected by climactic factors and we have also faced unprecedented macro-economic pressures.

Jill Shedden
Chair of the Remuneration Committee

Contents

This report details the activities of the Remuneration Committee for the financial year to 31 March 2023. It sets out the Remuneration Policy and remuneration details for the Executive Directors and Non-Executive Directors of the company

Chair's statement

The Remuneration Committee is acutely conscious that Thames Water is a business in turnaround. For too long the company has failed to deliver for customers, communities and the environment. It is therefore critical that our remuneration arrangements balance the expectations of paying for performance in-line with our customers' expectations, paying for performance improvements against the eight-year turnaround plan which is critical to the future, long-term success of Thames Water, and enabling us to attract and retain the talent the company needs to deliver that plan. We remain committed to facing into that challenge and re-establishing the trust of our customers, communities and stakeholders.

The Committee continues to ensure that there is a clear and demonstrable link between executive remuneration and the delivery of our Business Purpose – to deliver life's essential service, so that our customers, communities and the environment can thrive.

Performance in 2022/23 was materially affected by climatic factors including the joint hottest summer on record, a mild and wet autumn with both temperatures and rainfall above average, and a winter freeze/thaw event which saw a swing in temperature of 20 degrees in 24 hours. These factors exposed the legacy of severe asset deficit and the fragility of our infrastructure which the company recognises it must work hard to address.

In some areas underlying performance has improved but has been impacted by major 'one off' operational events (e.g. a single water supply event in Oxford in October added nearly six mins to the Supply Interruptions performance).

We have also faced unprecedented macro-economic pressures with the increases in energy and chemical and material costs particularly impacting the business.

Overall, the 2022/23 performance year was extremely difficult, resulting in significant ODI penalties. Some key areas of performance worsened from 2021/22 which was disappointing given the efforts of our colleagues. The Committee believes the outcomes of the Annual Management Bonus and 2020-23 Long-Term Incentive Plan are an accurate reflection of the Company's overall performance in the round.

Overview of remuneration outcomes for 2022/23

At the start of the year, we set targets that focused on the following:

- Safe people – a reduction in lost time incidents, progress against our process safety programme and improvement in the employee engagement index.
- Customer service – a reduction in complaints and an increase in the customer satisfaction score.
- Customer and environmental delivery – reduction in supply interruptions, blockages and internal flooding events, as well as progress against our turnaround plan.
- Financial – increasing our cash collections, reducing Opex and delivering on Gross Capex.

The targets for the Annual Management Bonus are linked to our KPIs where progress is tracked each month and reported to the Board. Overall, 2022/23 resulted in under-performance which is reflected in the level of Annual Management Bonus pay-out. Only half of the measures reached a level of performance to trigger a pay-out, and many of those only reached a minimum level.

During the year one of our supply chain employees was fatally injured whilst undertaking a routine preparatory task involving a sewer jetting vehicle. The incident remains subject to investigation by the regulators and the root causes are still to be established, however the decision has been made to reduce the bonus payment under safety to zero.

The performance outcomes against annual bonus targets are on page 93. The Executive Directors made a personal decision to waive receipt of any payment due to them under the Annual Management Bonus.

The performance outcomes against the 2020/2023 Long Term Incentive Plan (LTIP) targets are on page 94. The Executive Directors made a personal decision to waive receipt of any payment due to them under the LTIP.

Directors' Remuneration Report continued

Board Changes

There were no changes to the Executive Directors during 2022/23. Guy Lambert was appointed to the board as a non-executive director on 29 September 2022 and John Morea resigned as a non-executive director on 29 September 2022. Nick Land's appointment to the board was extended for a further year commencing on 1 February 2023. John Holland-Kaye was appointed as a non-executive director on 1 April 2023 and details of his remuneration will be included in the 2023/24 Director's Remuneration Report (DRR).

On 25 April 2023 we also announced that our Chairman, Ian Marchant, would not be extending his tenure on the board past six years and will step down after the annual results have been published.

On 27 June 2023 Sarah Bentley announced her resignation as Chief Executive Officer and Executive Director. Details of Sarah's resignation are not included here given the timing of the announcement but will be included within the 2023/24 DRR.

2023/24 Remuneration

During 2022/23 the Committee undertook a full review of remuneration arrangements to ensure those arrangements remain fit-for-purpose, meet the expectations of our customers and stakeholders, and enable us to attract and retain high calibre individuals with the skills and passion to deliver the ongoing stretching performance improvements our customers, communities and the environment deserve. Delivery of our eight-year turnaround plan is critical to the future success of Thames Water and we have ensured our new framework clearly links remuneration to the delivery of the Company's strategic priorities and business plan.

In designing the new framework, we have engaged an independent advisor to support us and have ensured that the framework meets our five key reward principles:

- Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees
- Remuneration should link to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture
- Remuneration should promote demonstrable links between reward for executive directors and performance for customers and shareholders, as well as performance against the Company's environmental targets
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives.

We will be replacing the current bonus and LTIP with a simpler, single performance-related pay framework with a reduced maximum opportunity. This removes duplication of measures and enables us to better incentivise colleagues to deliver ongoing performance improvements. The new Performance-Related Pay Plan will contain measures for three key categories of: Customer; Environment; Financial Resilience. Targets will be set, and performance measured, over the financial year, and a significant element of any earned award deferred by our Executive Directors, the Executive Team and our senior leadership population, to ensure continued alignment to longer-term performance improvement through a performance multiplier of between 0.75-1.25x linked to our progress against our Turnaround Plan. The Committee exercised their discretion to make transitionary payments to compensate executives for the loss of long-term incentive awards over the last two years. More details about the new Performance-Related Pay Plan can be found on page 97-99.

Remuneration 2022/23 – at a glance

Remuneration policy and structure

Our remuneration policy is designed to attract, retain and motivate our leaders to ensure focus on delivering business priorities within a framework designed to promote the long-term success of the Company.

Remuneration principles

- Remuneration should be aligned with the interests of the Company's key stakeholders, in particular our customers, shareholders, suppliers and employees
- The policy should link remuneration to the Company's strategic priorities, promote its long-term success, and reinforce the Company's culture
- Promote demonstrable links between reward for Executive Directors and performance for customers and shareholders, as well as performance against the Company's environmental targets
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives.

Remuneration policy

Element	Key elements
Base Salary	Reflects the scope and responsibilities of the role, the skills and experience of the individual and market No cap although increases will not normally exceed average increases for the wider workforce
Pension	Payment to the defined contribution pension scheme or cash in lieu of pension Pension contribution for Executive Directors is aligned to workforce norms at 12% of salary
Other Benefits	Competitive range of benefits No maximum limit although set to be in line with market and the rest of workforce
Annual Management Bonus	Based on safe people, customer service, customer and environmental delivery and financial performance over one year Maximum opportunity of 120 per cent of base salary Malus and claw back provisions apply
Long-Term Incentive Plan	Based on achievement of the performance measures set over three years Maximum opportunity of 200 per cent of base salary A withholding period of up to 2 years Malus and claw back provisions apply

Total Remuneration Earned for Executive Directors 2022/23

£'000s

Key performance indicators (KPIs) performance

KPI	Performance
Safety – Reduction in LTIR & Progress Against Process Safety	Below threshold target
Engagement (Employee Index Engagement)	Between threshold and stretch target
Customer Complaints (Reduction)	Between Target and Stretch
CSAT	Below threshold target
Supply Interruptions (SI>3)	Below threshold target
Blockages	Between threshold and stretch target
Flooding	Between threshold and stretch target
Delivery of turnaround plan	Between Target and Stretch
Cash Collection % – Total Directly Billed – Current Year & Prior year	Between threshold and stretch target
Opex (net Opex)	Below threshold target
Gross Opex – Cost Savings	Below threshold target
Gross Capex	Below threshold target

● Between Target and Stretch
● Between threshold and stretch target
● Below threshold target

* For the purposes of this table remuneration does not include payments related to the loss of any inflight awards from previous employment

Remuneration 2022/23 – at a glance continued

Remuneration policy and structure continued

Approach to remuneration for 2023/24

Fixed

Base salary

Individual performance, the external market, and internal and external economic factors

Pension allowance

12% of salary aligned with workforce

Benefits

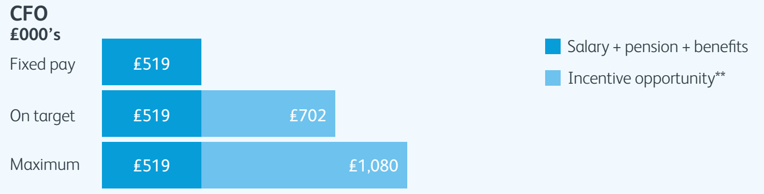
- Car allowance
- Health insurance

Variable

Performance Related Pay Plan

- Customer – 35%
- Environmental – 35%
- Financial Resilience – 30%

Possible outcomes under the Remuneration Policy*

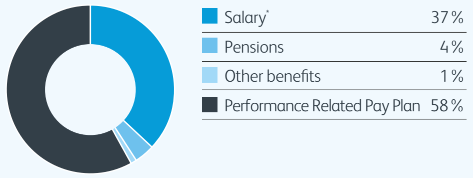


* Fixed pay is the minimum payable, and is made up of base pay for 2023/24, pension allowance and benefits. For incentive opportunity, the maximum performance results in the maximum Of 240% of base pay. On target performance results in 65% of maximum payment.).

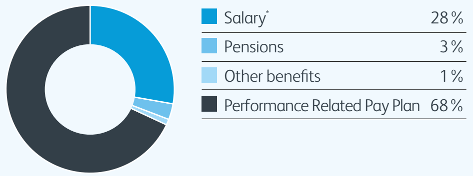
** All Executive incentives at Thames Water are cash awards. As such, the above chart does not include the impact on the potential value of the package over the deferred performance period.

Possible outcomes under the Remuneration Policy for the CEO will be dependent on hiring a new CEO

Elements of CFO remuneration 2023/24 'on target' scenario*



Elements of CFO remuneration 2023/24 maximum scenario*



* Based on a CFO base salary of £450,000

Summary of Remuneration Policy across wider group

The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases and remuneration arrangements for the Executive Directors. For other Executive team members, the Committee reviews and approves all incentive elements.

During the year, the Committee received periodic updates on wider workforce remuneration matters in line with the UK Corporate Governance Code 2018.

Neither Sarah nor Alastair received a salary increase in 2022/23. The Committee also noted the decision not to award salary increases to the Executive Team, although a small number of increases were made across the senior leadership population. In 2022 we undertook a significant benchmarking review of the terms and conditions for our front-line colleagues. This resulted in a number of changes including:

- A 5% base pay increase negotiated with our union partners for front-line colleagues
- Incorporating a number of allowances into base pay
- An equivalent of 2.5% of base pay, invested in increases to our pay ranges to provide competitive pay levels.
- An additional cost of living payment of £500 which was paid in April 2023

The average base pay increase (excluding the £500 cost of living payment) for our front-line colleagues was 7.5%

Annual Report on Remuneration

This section has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) The information has been audited as indicated.

Single total figure of remuneration for Executive and Non-Executive Directors (audited) for 2022/23 and 2021/22

		Salary/Fees £'000		Taxable Benefits £'000		Annual bonus £'000		LTIP £'000		Other £'000		Pension related benefit £'000		Total pay £'000		Total fixed pay £'000		Total variable pay £'000	
		2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Executive Directors:																			
1	Sarah Bentley[1]	**750**	750	**32**	32	**–**	496	**–**	–	**549**	680	**90**	90	**1,421**	2,048	**872**	872	**549**	1,176
2	Alastair Cochran[2]	**450**	256	**15**	9	**–**	298	**–**	–	**150**	–	**54**	31	**669**	594	**519**	296	**150**	298
3	Ian Marchant – Chairman	**325**	325	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**325**	325	**325**	325	**–**	–
Independent Non-Executive Directors:																			
4	Nick Land	**75**	75	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**75**	75	**75**	75	**–**	–
5	Catherine Lynn	**70**	70	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**70**	70	**70**	70	**–**	–
6	Hannah Nixon	**70**	70	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**70**	70	**70**	70	**–**	–
7	Ian Pearson	**70**	70	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**70**	70	**70**	70	**–**	–
8	Jill Shedden	**70**	70	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**70**	70	**70**	70	**–**	–
9	David Waboso	**70**	70	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**70**	70	**70**	70	**–**	–
Non-Executive Directors																			
11	Michael McNicholas	**60**	60	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**60**	60	**60**	60	**–**	–
12	John Morea[3]	**30**	60	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**30**	60	**30**	60	**–**	–
14	Guy Lambert[4]	**30**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**30**	–	**30**	–	**–**	–
	Total	**2,070**	1,876	**47**	41	**–**	794	**–**	–	**699**	680	**144**	121	**2,960**	3,512	**2,261**	2,038	**699**	1,474

1 Sarah Bentley's remuneration for 2021/22 reflects annual salary, travel & car allowance of £30,000, annual pension of 12% of salary, medical benefits and annual bonus. As reported in the previous year's report, Sarah was granted buy-out payments to compensate for unvested awards which were forfeited as a result of her leaving Severn Trent. In September 2021 Sarah received a payment of £502,016 for the loss of unvested awards. As also reported last year, in July 2022 Sarah received a buy-out payment of £178,000, which was linked to Thames Water performance conditions for the period of April 2020 to March 2022. Sarah's remuneration for 2022/23 reflects annual salary, travel & car allowance of £30,000, annual pension of 12% of salary and medical benefits. A payment of £548,780 was made in July 2022 as the final buy-out payment in respect of awards forfeited by Sarah on leaving Severn Trent. This payment was not subject to performance conditions. Sarah made the personal decision to waive any bonus and/or LTIP payments she would have been entitled to under the 2022/23 Annual Management Bonus and 2020/23 Long-Term Incentive Plan.

2 Alastair Cochran's remuneration for 2021/22 reflects annual salary, car allowance of £12,500, annual pension of 12% of salary, medical benefits and annual bonus. It is pro-rated for his start date of 6 September 2021. Alastair Cochran's remuneration for 2022/2023 reflects annual salary, car allowance of £12,500, annual pension of 12% of salary, annual bonus and LTIP. As reported in the previous year's report, a buy-out payment worth £150,000 was paid to Alastair in July 2022. Alastair made the personal decision to waive any bonus and/or LTIP payments he would have been entitled to under the 2022/23 Annual Management Bonus and 2020/23 Long-Term Incentive Plan.

3 John Morea's fee for 2022/23 is pro-rated based on him stepping down on 29 September 2022.

4 Guy Lambert's fee is pro-rated from his appointment date of 29 September 2022.

Annual Report on Remuneration continued

Arrangements for Sarah Bentley

Sarah joined Thames Water on 1 September 2020 as Chief Executive Officer. All pay and benefits have been set in line with the current Remuneration Policy. Sarah's CEO base salary was set at a level that the Committee regards as appropriate for the size and scope of the role. In line with the remuneration policy, Sarah's pension contribution of 12% of salary is aligned to the wider employee population. Sarah also receives other benefits including travel and car allowance, private medical cover.

As disclosed in our previous Annual Report, as part of Sarah's offer of employment, Thames Water committed to make payments to compensate for bonus and in-flight long-term incentive awards which were forfeited when she left Severn Trent. Sarah received £548,780 as a final buy-out payment in July 2022. This is not performance related and is directly correlated to her loss of in-flight share awards. There will be no further payments made to Sarah as compensation for forfeited Severn Trent awards.

Sarah has voluntarily decided to waive any payments that may otherwise have become due under the 2022/23 Annual Management Bonus or 2020/23 LTIP.

Arrangements for Alastair Cochran

Alastair joined Thames Water on 6 September 2021 as Chief Financial Officer. All pay and benefits have been set in line with the current Remuneration Policy. Alastair's CFO base salary was set at a level that the Committee regards as appropriate for the size and scope of the role. In line with the remuneration policy, Alastair's pension contribution of 12% of salary is aligned to the wider employee population. Alastair also receives other benefits including car allowance and private medical cover.

As disclosed in our previous Annual Report, as part of Alastair's offer of employment, Thames Water committed to make payments to compensate for in-flight long-term incentive awards which were forfeited when he left Petrofac. Alastair received a payment of £150,000 in July 2022 which is included in the single figure table. He will receive further payments of £100,000 in July 2023 and 2024 which will be included in the appropriate year's single figure tables.

Alastair has voluntarily decided to waive any payments that may otherwise have become due under the 2022/23 Annual Management Bonus or 2020/23 LTIP.

Additional requirements in respect of the single total remuneration figure table

Base salary (audited)

Base salaries are a fixed sum payable monthly in arrears. For the Executive Directors, these are reviewed every year, taking into account their individual performance, the external market and internal and external economic factors, with any changes taking effect from 1 July each year.

Chief Executive Officer (CEO): Sarah's base salary is £750,000 per annum. No salary increase has been awarded since Sarah joined in September 2020.

Chief Financial Officer (CFO): Alastair's base salary is £450,000 per annum. No salary increase has been awarded since Alastair joined in September 2021.

Benefits

For Sarah, benefits include private medical insurance and travel and car allowance of £30,000 per annum.

For Alastair, benefits include private medical insurance and a car allowance of £12,500 per annum.

Annual Management Bonus (audited)

Not withstanding the personal decisions to waive any entitlement under the AMB made by Sarah Bentley and Alastair Cochran, the Remuneration Committee assessed the outcome of the 2022/23 Annual Management Bonus to be as follows:

Bonus Element	Objective Measure	Element as % of Total Bonus Opportunity		FY22/23 threshold	FY22/23 target	FY22/23 stretch	Outcome
Safe People	Safety (reduction in LTIFR and progress against Process safety)[1]	10%	5%	0.14 90%	0.13 94%	0.12 98%	0%
	Engagement (employee engagement index)[2]		5%	69%	70%	72%	69%
Customer Service	Customer Complaints (reduction)[3]	25%	12.5%	22.5%	25%	30%	27.5%
	CSAT[4]		12.5%	80	81	83	77.82
Customer & Environmental Delivery	Supply Interruptions (SI3)[5]	22.5%	10%	7 min 50 sec (12 min 55 sec)	6 min 50 sec (11 min 55 sec)	5 min 50 sec (10 min 55 sec)	11 min 59 sec (19 min 54 sec)
	Blockages[6]		7.5%	74,000	73,000	70,000	73,780
	Flooding[7]		5%	1,219	1,099	979	1,170
Strategic Programmes	Delivery of Turnaround Plan[8]	10%	10%	70%	80%	100%	94%
Financial	Cash Collection %–total, directly billed, prior & current year[9]	32.5%	10%	76.0%	79.3%	81.5%	77.2%
	Opex (Net Opex)[10]		7.5%	£1,260m	£1,200m	£1,140m	£1,318m
	Gross Opex Cost Savings[11]		7.5%	£170m	£200m	£240m	£101m
	Gross Capex[12]		7.5%	£1,500m	£1,650m	£1,750m	£1,480m

1 The final performance outcome for safety was a LTIFR of 0.17 and achievement of 94% of the process safety plan index. However, the Committee exercised downward discretion against safety to reflect the fatality within our supply chain.
2 Employee Engagement is measured through the annual all-Company survey called Hear4You. The overall employee engagement score was 69% which was flat to 2021/22.
3 The target for 2022/23 was to reduce the number of customer complaints received by 25% from 2021/22.
4 C-SAT is our internal customer satisfaction survey which we are able to track daily. Customers are surveyed through five different channels; social media, webchat, telephone, the website and email. The target was set based on driving improved C-MEX scores (C-MEX is included within the LTIP).
5 Supply interruptions are defined as when properties are without a continuous supply of water. The property shall be considered as without a supply when water is lost from the first cold water tap – taken as being operationally equivalent to ≤3m pressure at the main (adjusted for any difference in ground or property level). We measure our underlying performance, which excludes catastrophic events, and our total performance, which includes all events. A catastrophic event is an incident that is over 150,000 SI3 hours. In assessing the performance for 2022/23 two incidents were excluded: Oxford Road (October 2022) and Belsize Road (December 2022). Together these incidents contributed 7 minutes and 55 seconds.
6 A blockage is an obstruction in a sewer which causes a reportable problem (not caused by hydraulic overload), such as flooding or discharge to a watercourse, unusable sanitation, surcharged sewers, or odour. A lower number of blockages means we have fewer issues with the operation of the sewer network.
7 Internal Flooding is defined as flooding which enters a building or passes below a suspended floor and is the number of incidents per 10,000 sewer connections reported.
8 The delivery of our turnaround plan has been specifically included within the Annual Management Bonus to reflect the significant elements of the plan not included as independent measures. Progress against the Plan is assessed by the board.
9 The methodology for measuring cash collections is a combined percentage across 21/22 and 22/23. This allows for the timing of billing and collection and reflects the impact prior year collections have.
10. Net Opex – Net operating expense is the ongoing cost for running the business (e.g. people costs, power, maintenance, rent and rates etc.) less any overheads recharged to the capital programme
11. Gross Opex savings reflects the ongoing efforts of the organisation to spend our customers' money wisely.
12. Gross CapEx – Gross capital expenditure is the cost of buying or enhancing fixed assets such as networks. This excludes any contributions received towards the capital expenditure (for. E.g. developer services income)
13. Items 10, 11 and 12 are based on management accounting rather than statutory accounting

The numbers in the table above are based on management basis rather than statutory basis.

Managers below the Executive Directors are eligible to participate in the Annual Management Bonus and will receive a payment in-line with the plan rules. Performance at Threshold results in a pay-out of 25% of maximum, performance at Target results in a pay-out at 50% of maximum and Stretch results in a maximum pay-out.

Annual Report on Remuneration continued

Long Term Incentive Plan ("LTIP") (audited)

Not withstanding the personal decisions to waive any entitlement under the LTIP made by Sarah Bentley and Alastair Cochran, the Remuneration Committee assessed the outcome of the 2020/23 Long-Term Incentive Plan to be as follows:

Detail per measure Measure	% of Total LTIP	Threshold	Target	Stretch	Outcome
Return on Regulated Earnings (RORE)[1]	50%	1.70%	1.89%	2.28%	1.76%
C-MEX[2]	12.5%	16th	15th	14th	17th
Leakage (3 yr average Ml/d)[3]	12.5%	580.1	577.1	570.1	602.20
Water Quality Compliance[4]	12.5%	2.92	2.00	1.14	10.96
Pollutions (Cat 1 to 3)	12.5%	259	245	235	331
Incidents & Incidents/10k km[5]		23.7 per 10k km	22.4 per 10k km	21.5 per 10k km	30.37 per 10k km
Total	**100%**				

1 The primary measure of the Company's overall long-term performance is Return on Regulated Equity ("RORE"). This provides an indication of returns (after tax and interest) reflecting both operational and financial performance. Furthermore, this measure includes the impact of the Ofwat outcome delivery incentive (ODI) rewards and penalties directly linking it to our key customer, environmental and operational performance commitments.
2 C-MeX comprises two surveys (i) the customer service survey of residential customers who have recently contacted us (ii) the customer experience survey of random members of the public. Customers are asked how satisfied they are with the service provided and how likely they would be to recommend Thames Water to family or friends. Thames Water ranked 17 of 17.
3 Leakage remains a critical priority in AMP7 with a stated aim to reduce it by over 20% by 2025. Leakage is measured as million of litres of water per day based on a three-year rolling average
4 The assessment of water quality has been based on the Drinking Water Inspectorate (DWI) Compliance Risk Index (CRI) which measures the risk arising from treated water compliance failures. This assesses the nature of the resulting risk (e.g., a health risk or non-health risk), the required response (e.g., is enforcement required or does management action make it unlikely to recur) and the impact of the failure.
5 Reducing pollutions and blockages is a critical priority for AMP7 with a stated aim to reduce them by 30% by 2025. The target has been set to reduce absolute category 1 to 3 pollution events, but also it is expressed per 10,000 km to mirror regulatory reporting and enable simpler comparison with other water companies.

Senior Leaders below the Executive Directors are eligible to participate in the Long-Term Incentive Plan and will receive a payment in-line with the plan rules. Performance at Threshold results in a pay-out of 25% of maximum, performance at Target results in a pay-out at 50% of maximum and Stretch results in a maximum pay-out.

In assessing the final outcome of the LTIP, the Committee believed that the overall outcome was a fair reflection of the Company's performance over the period 2020-23.

No LTIP awards were granted in 2022 pending the review of remuneration arrangements. As a result of the new Performance-Related Pay Plan, the LTIP for the period 2022-25 was not granted and the 2021-24 LTIP was withdrawn. However, under the new PRPP (see page 97-99) transition arrangements have been put in place.

The transition to the new PRPP will be smoothed by providing payments aligned to the previous LTIP structure. Payments equivalent to LTIP being awarded at 50% of maximum will be made, with payment for the 2021-24 period being pro-rated to 1/3rd and the 2022-25 period to 2/3rd. Payments will be made in July 2024 and July 2025. For Executive Directors this results in a payment of 33% of base pay in July 2024 and 66% of base pay in July 2025. The Remuneration Committee reserves the right to reduce or withdraw this payment if it does not believe such payments reflect the overall performance of Thames Water at the time of payment.

Receipt of these transition payments is dependent on continued employment at the date of payment (July 2024 and July 2025) except where an Executive Director has been recognised as a 'good leaver.'

Total pension entitlements (audited)

The Executive Directors are currently eligible to participate in our defined contribution pension scheme, with Thames Water making contributions up to a maximum of 12% of base salary, to align with the wider workforce. No element of Annual Management Bonus or LTIP is pensionable. Executive Directors may choose to receive a cash allowance instead of these pension contributions. There are no additional benefits upon early retirement. Neither of the Executive Directors have an entitlement to a Defined Benefit pension by reason of qualifying service.

For 2022/23, Sarah and Alastair both elected to receive a cash allowance of 12% of base salary.

Executive Directors' service contracts

All Executive Directors have service contracts which may be terminated by Thames Water with 12months' notice (6 months in the case of the CFO) and the individual giving 6 months' notice. The dates of the contracts for the Executive Directors and their notice periods are set out below. There is no maximum or minimum service period for any of the Executive Directors.

	Contract start date	Notice period (by individual/Thames Water)
Sarah Bentley, CEO	1 September 2020	6 months/12 months
Alastair Cochran, CFO	6 September 2021	6 months/6 months

Payment for loss of office (audited)

There were no payments for loss of office made in 2022/23.

Payments to past Directors (audited)

There were no payments to past directors in 2022/23.

Annual Report on Remuneration continued

Percentage change in remuneration of Directors and employees

The table below shows the annual percentage change in remuneration over the last three financial years, for each individual who was a director during 2022/23 and for the average of all other employees Directors who were not a director at any point during 2022/23 have not been included. The percentage changes in their remuneration for prior years (and in which they were a director) are disclosed in relevant previous Annual Reports.

	Percentage change 2019/20 to 2020/21			Percentage change 2020/21 to 2021/22			**Percentage change 2021/22 to 2022/23**		
	Base salary/Fee	Taxable benefits and pensions	Annual Bonus	Base salary/Fee	Taxable benefits and pensions	Annual Bonus	**Base salary/Fee**	**Taxable benefits and pensions**	**Annual Bonus**
Executive Directors									
Sarah Bentley, CEO	n/a	n/a	n/a	71 %	71 %	82 %	**0%**	**(0.3)%**	**(100%)**
Alastair Cochran, CFO	n/a	n/a	n/a	n/a	n/a	n/a	**0%**	**(0.4)%**	**(100%)**
Chairman									
Ian Marchant	(50 %)	0 %	0 %	(29 %)	–	–	**0%**	**0%**	**0%**
Non-Executive Directors									
Nick Land	0 %	n/a	n/a	0 %	n/a	n/a	**0%**	**n/a**	**n/a**
Catherine Lynn	0 %	n/a	n/a	0 %	n/a	n/a	**0%**	**n/a**	**n/a**
Hannah Nixon	n/a	n/a	n/a	365 %	n/a	n/a	**0%**	**n/a**	**n/a**
Ian Pearson	0 %	n/a	n/a	0 %	n/a	n/a	**0%**	**n/a**	**n/a**
Jill Shedden	0 %	n/a	n/a	0 %	n/a	n/a	**0%**	**n/a**	**n/a**
David Waboso	0 %	n/a	n/a	0 %	n/a	n/a	**0%**	**n/a**	**n/a**
Michael McNicholas	0 %	n/a	n/a	0 %	n/a	n/a	**0%**	**n/a**	**n/a**
John Morea	0 %	n/a	n/a	0 %	n/a	n/a	**100%**	**n/a**	**n/a**
Guy Lambert	n/a	n/a	n/a		n/a	n/a	**100%**	**n/a**	**n/a**
Employees	2.6 %	10.0 %	0.3 %	2.8 %	0.7 %	22.5 %	**9.5%**	**(18.1%)**	**(40.4%)**

Notes

Non-Executive Directors are not eligible for benefits or annual bonus.

The employee percentages shown represent the change in average employee pay, benefits and annual bonus. This compares the average employee on 31 March of the relevant financial year with the average employee on 31 March of the preceding financial year.

For annual bonus, this applies to the Annual Management Bonus plan where all managers, are eligible to participate in this plan.

The percentage change in benefits in 2020/21 was due to increased employer contribution rates in respect of the two defined benefit pension schemes following the outcome of the 2019 actuarial valuation and a premium increase in private medical insurance.

The current methodology used for calculating the percentage change in remuneration includes pensionable allowances and pension contributions within taxable benefits.

Ratio of CEO remuneration to workforce

This table shows the pay ratio between the CEO and Thames Water employees. For our employees, remuneration includes all elements such as overtime, long service awards and benefits. The table below provides the ratio between the CEO single figure total remuneration and the median, 25th and 75th percentile total remuneration of all Thames Water's full-time equivalent employees on 31 March 2023.

For 2022/23 the pay ratio calculation shows that in total remuneration terms, the CEO earns 32 times that of the median employee. The Committee will keep the published pay ratio under review.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	Option A	43:1	32:1	24:1
2022	Option A	70:1	53:1	39:1
2021	Option A	34:1	25:1	18:1
2020	Option A	25:1	19:1	14:1
2019	Option A	29:1	21:1	15:1

Notes

We are using Option A as defined in the Companies (Miscellaneous Reporting) Regulations 2018.

Total remuneration reflects all remuneration including salary, benefits, employer pension contributions and variable remuneration. Of the three alternatives available for calculating the ratio, we chose to use Option A as it is considered to be the most accurate way of identifying employees at P25, P50 and P75. Under this approach we calculate total remuneration on a full-time equivalent basis for all of our employees as at 31 March 2023 and rank them accordingly. No adjustments have been made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration.

It is not possible to discern a trend from 2020 onwards as the CEO's pay in recent financial years has included payments made as compensation for the loss of inflight awards from previous employment.

The change in pay ratio between 2022 and 2023 is primarily driven by the CEO not receiving any incentive payments for FY 2023.

Here are the total pay and benefits for the employees at the 25th, 50th and 75th percentiles and the salary component of total pay and benefits for these employees.

Year		Lower Quartile	Median	Upper Quartile
2023	Salary (£)	27,450	34,799	45,750
	Total pay and benefits (£)	33,096	44,929	58,199

Annual Report on Remuneration continued

Workforce Engagement

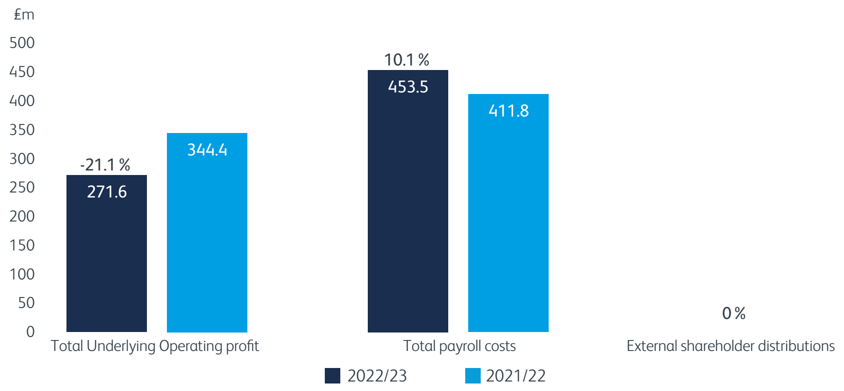
A full update from Ian Pearson, our Designated Non-Executive Director for Workforce Engagement is available on page 34.

We provide employees with a personalised total reward statement each year showing the total value of earnings over the year including salary, employer pension contributions, plus details of the benefits, such as annual leave as well as the wide range of discretionary benefits.

The Remuneration Committee invites the People Director to present proposals for the annual salary review for managers and employees (including the Executive Team) each year. The Committee takes into account remuneration arrangements for the wider employee population when approving the salary increases and incentive payments for the Executive Directors. The Committee also reviews incentives across the company to ensure alignment with purpose, values and culture. In 2022/23, no base pay increases were awarded to the Executive Team although a small number of increases were awarded amongst the senior leadership population. A 5% base salary increase was awarded to the manager population, and non-managerial employees received an average increase of 7.5% plus one-off cost of living payment of £500.

Relative importance of spend on pay

Here is the change in total operating profit, external shareholder distributions and overall spend on pay for 2022/23.



Shareholder dividends are those made to external shareholders of the Kemble Water Holdings Limited group in respect of the relevant financial year. The Directors believe that this is the most relevant measure to use as a comparison. No distributions were made to external shareholders relating to 2022/23. No distributions were made to external shareholders in 2021/22.

Both the 2021/22 and 2022/23 total payroll costs include the buy-out awards for the CEO. The 2022/23 total payroll costs include the buy-out award for the CFO.

We have chosen Total Underlying Operating Profit as the most relevant measure for Thames Water. The details of the 2023 underlying operating profit figure are available in the Financial Statements section of the annual report on page 112.

Ten-year Chief Executive Officer's remuneration

The table below shows the total remuneration earned by the Chief Executive Officer (based on the single total figure of remuneration) in each of the respective last 10 years, along with the percentage of maximum opportunity earned in relation to the Annual Management Bonus and Long-Term Incentive Plan.

	Total remuneration (£'000)	AMB Outcome (% of maximum)	LTIP Outcome (% of maximum)
2022/2023[1]	1,421	n/a	n/a
2021/2022[2]	2,048	55%	n/a
2020/2021[3]	1,229	52%	n/a
2019/2020[4]	196	n/a	n/a
2018/2019[4]	780	n/a	n/a
2017/2018[4]	745	n/a	n/a
2016/2017[4]	740	n/a	n/a
2015/2016	1,015	66%	n/a
2014/2015	2,057	73%	55%
2013/2014	1,294	69%	63%

Note:
1 Sarah Bentley made a personal decision to waive any entitlement to bonus and LTIP payment in 2022/23
2 Sarah Bentley was not eligible for the 2021/22 LTIP
3 There was no LTIP payment due in 2020/21.
4 Steve Robertson only received base salary and benefits in 2016 to 2020

Implementation of our Remuneration policy in 2023/24

The Committee has reviewed current base pay arrangements and agreed that there will be no change to base pay for Executive Directors and Non-Executive Director fees in 2023/24.

The Committee has also been reviewing whether the current variable pay programmes (AMB and LTIP) are fit-for-purpose and able to meet the needs of our colleagues, stakeholders and shareholders. The Committee is acutely conscious of the fact that Thames Water is a business in turnaround and that it is critical that our remuneration arrangements enable the company to attract, retain and motivate the talent it requires to deliver our ambitious turnaround plan. This provides an additional challenge to the Committee, as it needs to balance the expectations of paying for performance in-line with our customers' and regulators expectations, with paying for performance improvements against an eight-year turnaround plan which is critical to the future, long-term success of Thames Water.

The purpose of variable pay is to motivate and incentivise the Executive Directors and other senior colleagues to deliver ongoing performance improvement in-line with the expectations of our customers, stakeholders and shareholders. To do this, the variable pay programme must be perceived by all parties, including our colleagues, to be fair and realistic. Measure selection must be relevant, and the targets set achievable but appropriately stretching, to motivate ongoing, sustained performance improvement in a manner that our colleagues can understand, relate to and clearly see how their actions can influence outcomes. The current AMB and LTIP frameworks were designed prior to the appointment of the current executive team and prior to the creation of the Turnaround Plan, and the Committee concluded from its review that an alternative framework would better suit the requirements of Thames Water going forward.

A new variable remuneration framework, the Performance-Related Pay Plan (PRPP), has been designed to support these principles, as well as the broader context of: ongoing conversations with Ofwat about its expectations for Executive Pay (including its most recent consultation paper); increasing public scrutiny; and the need to retain and motivate high calibre individuals to deliver the Company's stretching turnaround plan to enable sustained performance improvement.

The current AMB and LTIP will be replaced with this single PRPP framework, which combines an opportunity linked to annual performance with a deferred element that remains subject to continued employment and a modifier linked to longer-term performance. All colleagues in bands C-E, plus the Executive Directors, will be eligible to participate in the PRPP on broadly consistent terms.

The main aims of the Performance-Related Pay Plan are to:

- align with our key remuneration principles (as set out in the Directors' Remuneration Policy)
- ensure a clear and demonstrable link between pay and performance
- support retention and motivation
- balance customer, environment and financial resilience KPIs (and against which it is possible to set meaningful and robust targets)
- be neutral to AMP boundaries (a particular issue with the current LTIP)
- align with shareholder value creation over the longer-term.

The measures to be included in the PRPP will recognise the priorities of our customers, stakeholders, shareholders and colleagues and will be categorised as:

- Customer
- Environment
- Financial Resilience.

In setting the measures, the scorecard has been rebalanced to give greater weight to Customer and Environment. Measures relating to Financial Resilience have been reduced.

Targets for each measure will be set to ensure that PRPP appropriately rewards:

- Delivery against the Company's Integrated Business Plan (IBP)
- Delivery against the Company's Turnaround Plan
- Year-on-year performance improvement
- Progress towards Ofwat's performance expectations.

Implementation of our Remuneration policy in 2023/24 continued

The new PRPP scorecard will comprise measures that are stretching and build towards improved ODI performance over time. We will incentivise our senior population to deliver year-on-year improvement in-line with our Turnaround Plan and Integrated Business Plan which is critical to delivering the sustainable performance our customers, the environment and our stakeholders deserve.

A summary of the way the new Performance-Related Pay Plan will work is as follows:

Design Aspect	Proposal	Comments
Base Award		
Maximum Opportunity for Executive Directors	240% of salary	The maximum opportunity for the Executive Directors has been reduced from 320% of base pay to 240% of base pay, demonstrating remuneration restraint throughout the turnaround period.
Target Opportunity	65% of maximum	
Threshold	Removal of Threshold which will be replaced with a progression between 0%-100%	This enables the Company to continue to motivate colleagues to deliver performance improvement when absolute targets are missed due to circumstances outside their control.
Scorecard	Customer (35%) Environment (35%) Financial Resilience (30%)	Captures multiple perspectives of performance aligned with the expectations of customers, stakeholders and shareholders. Scorecard composition (and measure weightings) will be kept under review from cycle to cycle, with the principle that the Customer and Environment measures together comprise at least 70% of the total incentive.
Pay-out Horizon	60% immediately, 40% deferred	This reduces the maximum in-year cash opportunity available under existing arrangements.
Deferred Award		
Deferral Period	Two years	Replicates current LTIP horizon (taking into account the one-year performance period preceding the deferral period).
Treatment	Deferral awards to be placed in an interest- bearing bank account plus a potential multiplier of 0.75x-1.25x the deferred award. Total pay-out to be capped at the scheme maximum for the first cycle of the plan with the cap to be reviewed thereafter	Aligns to longer-term performance improvement as desired by the regulators and shareholders.
Clawback	Two years from the date the payment is awarded	The date of award is 1st April after the end of the performance period (i.e. for 23/24 it is 1st April 2024).
RemCo Discretion	Overarching discretion to adjust the outcome	No change to current arrangements (and aligned with typical market practice).

The measures and targets will be set on an annual basis. In defining the measures, we will ensure they are aligned with the key operational and financial priorities for the Company as contained in its Integrated Business Plan and Turnaround Plan. The measures and targets will recognise the expectations of the regulator for executive reward to reflect performance in line with performance commitments.

Implementation of our Remuneration policy in 2023/24 continued

The measures and targets for the financial year 2023/24 are:

Category	Category Weighting	Measure	Weighting	Target	Stretch
Customer	35%	Customer Complaints (% reduction)[1]	6%	25%	28%
		C-SAT (score)[2]	6%	80	82
		DMA Operability (% of all DMAs)[3]	6%	75%	80%
		Mains replacement (km)[4]	6%	58km	61km
		Sewer Depth Monitors (installation and operability)[5]	6%	5,000 installs with 75% operability	5,000 installs with 78% operability
		Process Safety Plan Index[6]	5%	94%	98%
Environment	35%	Public Health Transformation Plan[7]	7%	85%	95%
		Certified FFT Meter Installation[8]	7%	37	51
		Installation of Storm Overflow Monitors[9]	7%	11	13
		Wastewater Asset Assurance Plan[10]	7%	15	22
		Total Net Energy[11]	7%	1,014Gwh	994Gwh
Financial Resilience	30%	Senior Gearing[12]	7.5%	85%	80%
		Cash Collection (current & prior year)[13]	7.5%	77.2%	78.2%
		Totex (£mn)[14]	7.5%	£3,331m	£3,164m
		Operating cash flow[15]	7.5%	£1,386m	£1,450m

1 The reduction of **customer complaints** remains a key activity and we continue to drive a year-on-year 25% reduction. Reducing customer complaints has a positive impact on our C-MEX outcome. The reduction will be calculated at the end of the performance year.
2. **C-SAT** is our internal customer satisfaction survey which we are able to track daily. Customers are surveyed through five different channels; social media, webchat, telephone, the website and email. C-SAT is a key enabler of improved C-MEX scores.
3. **District Metered Area** (how we group a number of properties) Operability is reported from the leakage management software Netbase and is a quality measure to ensure that accurate leakage figures are calculated. The target reflects the percentage of all DMAs that are deemed operable by the end of the performance year.
4. **Mains Replacement** is the total length of water distribution mains in kilometres. Replacing water mains improves the health of our asset base and aids improved leakage performance.
5. Number of **sewer depth monitor**s installed. Operability is the percentage of sewer depth monitors that are working and transmitting data by the end of the performance year.
6. The **Process Safety Plan Index** directly contributes to the safety of our customers, communities and colleagues. Progress will be monitored and assessed by the Health and Safety Committee. The end of year assessment will be used as the final outcome.
7. The number of measures completed against the **Public Health Transformation Plan** by the end of the performance year. This will drive ongoing water quality.
8. The number of **certified monitors installed** which measure the actual flow being passed forward for treatment by the end of the performance year.
9. The number of monitors installed to record **storm overflow** events and duration by the end of the performance year. 13 is the target for the end of 24/25 so delivering stretch completes the programme a year early.
10. The remediation of sites identified as part of the **Wastewater Asset Assurance Plan** being non-compliant against 4 criteria (FFT, effluent quality, screening, and storm tank sizing) in-line with our commitment to Ofwat which is 75 by the end of the AMP.
11. **Total Net Energy** is defined as the volume of electrical energy imported for Thames Water use.
12. **Senior Gearing** will be defined and measured in-line with our Financial Covenant as reported in the financial statements.
13. The methodology for measuring **cash collections** is a combined percentage across 22/23 and 23/24. This allows for the timing of billing and collection and reflects the impact prior year collections have.
14. **Totex** is net Opex plus Capex as reported in the Company's management accounts.
15. **Operating Cash Flow** is as reported in the Company's statutory accounts.

Assessment of performance will be made at the end of the performance year. The base award (60% of any award due) will be paid at that time with the deferred award (40%) made two years later (subject to continued employment).

Deferred awards will be placed into an interest-bearing bank account to minimise the impact on the real value of these cash-based awards as a result of the requirement for these to be deferred for two years. The deferred award (and only the deferred award) will also be subject to a multiplier at the end of the two-year deferral period, based on progress against the Turnaround Plan.

The Turnaround Plan has been chosen as the basis of the multiplier as it is core to delivering sustained improvements in performance for our customers, environment and shareholders. The Plan has been approved by the board and shareholders and actively shared with key stakeholder groups. It drives all actions in Thames Water. As it is an eight-year plan, its design lends itself to being an appropriate mechanism for measuring the impact on year-on-year performance improvements. Delivering the Turnaround Plan is also directly linked to shareholder alignment as it is through the Turnaround Plan that shareholder value should be created.

A basket of key Turnaround Plan measures will be agreed by the Remuneration Committee at the start of the plan period which will be applied to the deferred award. The principles of Threshold, Target and Stretch will be applied, with below Threshold performance resulting in a potential downward multiplier of up to 0.75x, Target performance resulting in a multiplier of 1.00x and Stretch performance resulting in a potential upward multiplier of up to 1.25x.

The Turnaround Plan measures used in assessing any change to the deferred award will be declared at the end of the first year of the performance period and will therefore be included in the 2023/24 Directors' Remuneration Report. For the avoidance of doubt, no multiplier will be applied to the cash amount awarded in 2023/24.

Assessment of performance against the Turnaround Plan will be independently verified to provide further assurance to the Committee.

The Committee retains absolute discretion to evaluate the formulaic outcome of the multiplier in the context of wider business performance, to ensure that PRPP outcomes reflect shareholder and board assessment of performance 'in the round'.

The transition to the new PRPP will be smoothed by providing payments aligned to the previous LTIP structure. Payments equivalent to LTIP being awarded at 50% of max will be made, with payment for the 2021-24 period being pro-rated to 1/3rd and the 2022-25 period to 2/3rd. Payments will be made in July 2024 and July 2025. For Executive Directors this results in a payment of 33% of base pay in July 2024 and 66% of base pay in July 2025. The Remuneration Committee reserves the right to reduce or withdraw this payment if it does not believe such payments reflect the overall performance of Thames Water at the time of payment.

Receipt of these transition payments is dependent on continued employment at the date of payment (July 2024 and July 2025) except where an Executive Director has been recognised as a 'good leaver.'

Chairman and Non-Executive Directors annual fees

The fees for the Chairman and Non-Executive Directors were benchmarked in March 2022 and no increases were awarded. No increases are to be awarded in 2023/24. The new Chair has been appointed and will start 10 July 2023, his fees will be declared in our 2023/24 report. Here are the Non-Executive Director Fees for each role effective from 1 July 2023:

	Total annual fees 01/07/2023	Total annual fees 01/07/2022	Percentage increase
Chairman	£325,000	£325,000	0%
Independent NED/NED (non-committee member)	£50,000	£50,000	0%
Independent NED/NED (committee member)	£60,000	£60,000	0%
Chair of the Customer Service Committee/Remuneration Committee/Health, Safety & Environment/ Regulatory Strategy Committee/Workforce Engagement Lead Director	£70,000	£70,000	0%
Chair of the Audit, Risk and Reporting Committee	£75,000	£75,000	0%

Remuneration Committee

Consideration of the views of other stakeholders

Thames Water is a private organisation, with external shareholder representation on the Board of Directors and its committees (including the Remuneration Committee). This governance structure ensures that the Committee's decision-making is subject to the direct input of shareholder representatives and can take into account the views of other shareholders as part of the normal course of business. The Committee reviews executive remuneration at Thames Water in the context of developments in the wider remuneration governance landscape, including trends in generally-accepted best practice, the views of the wider investment community and their representative bodies, as well as those of our regulator, Ofwat.

We also engage throughout the year with other stakeholders such as the CCG, non-governmental organisations (NGOs) and community groups, on what's important to them. This input helps form our views when setting performance targets each year.

Members and attendance

The Remuneration Committee (Committee) is chaired by Jill Shedden and consists of a mix of Independent Non-Executive Directors and Non-Executive Directors. The attendance of the members of the Committee during the year is shown below:

Committee Members					
Jill Shedden (I) (Chair)	●	●	●	●	●
Nick Land (I)*	●	●	●	●	●
Ian Marchant	●	●	●	●	●
Michael McNicholas	●	●	●	●	●
Ian Pearson (I)	●	●	●	●	●

● Meeting attended ○ Not a Board member at date of meeting Ⓧ Apologies (I) Independent

* Nick Land extended for a further year, commencing 1st February 2023

The role of the Committee

The role of the Committee is to make recommendations to the board regarding the remuneration strategy and framework to make sure that the Executive Directors and senior management, including the Executive Team, are appropriately rewarded for their contribution to Thames Water's performance. The Committee applies good corporate governance by taking into account regulatory requirements, the UK Corporate Governance Code and any corporate governance principles issued by our regulator, Ofwat.

The Committee is responsible for setting remuneration policy and practices that are designed to support the Company's purpose and its strategy, and to promote the long-term success of Thames Water whilst following the below principles:

- Clarity – remuneration arrangements are transparent and promote effective engagement with stakeholders and Thames Water colleagues
- Simplicity – remuneration structures are uncomplicated with easy to understand rationale and operation
- Risk – reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans are identified and mitigated
- Predictability – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy
- Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of Thames Water is clear and that outcomes do not reward poor performance
- Alignment to culture – incentive schemes drive behaviours consistent with Thames Water's purpose, values and strategy.

The Committee's activities cover a range of subjects including short term incentives, long term incentives, pay and succession planning.

Support to the Committee

To ensure that Thames Water's remuneration policy and practice is in line with best practice, the Committee is supported by an independent, external remuneration advisor. During 2022 the Committee reviewed the performance of its incumbent advisor (Mercers Kepler) and made the decision to appoint a new independent advisor, Ellason LLP. This change was formally made and approved during the Remuneration Committee meeting held in March 2023.

Ellason is an independent consulting firm specialising in the provision of advice in the field of executive remuneration. Ellason is a member of the Remuneration Consultants Group, and a signatory to its Code of Conduct for consultants to remuneration committees of UK companies (please see www.remunerationconsultantsgroup.com for details). Ellason reports directly to the Committee Chair and provides objective and independent analysis, information, and advice on all aspects of executive remuneration and market practice, within the context of the objectives and policy set by the Committee. In FY 2023 this included pay benchmarking and support on the design and implementation of performance-related programmes. A representative from Ellason typically attends Committee meetings. Ellason does not provide any other services to the Company or other board sub-committees, nor does it have any relationships with the Company or its directors beyond those formed in its capacity as appointed advisor to the Committee. The Committee shall keep under review Ellason's involvement and will regularly evaluate its independence, taking into account any other relationships that Ellason has with the Company that may limit its independence. To date, the Committee is satisfied that the advice provided by Ellason is objective and independent.

Ellason's fee structure is competitive and is based on both an hourly and project-based rate. Prior to appointment as the Remuneration Committee advisor, Ellason supported a review of the current incentive plans and the design of a new performance-related pay plan. The total amount paid to Ellason in FY 2023 was £21,525 (excluding VAT). The total amount paid to Mercers Kepler in FY23 was £28,693 (excluding VAT).

The People Director also attends Committee meetings to provide advice and respond to specific questions. Such attendances specifically exclude any matter concerning an individual's own remuneration. The Company Secretary acts as secretary to the Committee.

The Remuneration Committee report was approved by the board on 27 June 2023, and signed on its behalf by:

Jill Shedden
Chair, Remuneration Committee

Appendix Directors' Remuneration Policy

Remuneration Framework

The overarching remuneration framework is designed to offer an appropriate mix of fixed and performance-related pay which, as a total remuneration package, attracts, retains and motivates talented senior leaders to deliver great outcomes for our customers, shareholders and other stakeholders. At the same time, the total remuneration package is designed to offer a balance between incentivising appropriate risk-taking with careful stewardship.

Fixed remuneration

The table below breaks down the policy that applies to Executive Directors (and, in doing so, also applies to other Executive team members).

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Base salary Purpose and link to strategy Attracting and retaining Executive Directors and senior executives of the calibre required to deliver our strategy and turnaround plan. Base salary reflects the scope and responsibilities of the role and the skills and experience of the individual.	Base salaries reflect the scope and responsibilities of the role and the skills and experience of the individual as well as the external market. Base salaries are paid in cash. Base salaries are reviewed annually by the Committee, considering individual performance, the external market and internal and external economic factors. Changes are usually effective from 1 July. Individual adjustments may be applied where the Committee considers this to be necessary due to one or more of the following factors: • where role scope has changed or as part of salary progression (for newly appointed Executive Directors) • where market conditions indicate a level of under-competitiveness in the context of an Executive Director's performance and/or contribution, or • there is considered to be a risk in respect of attracting and retaining Executive Directors.	There is no maximum salary increase. However, annual salary increases will not normally exceed average increases for the wider workforce. **Committee Discretion** Where the Committee exercises its discretion, it may recommend salary levels below the market reference salary at the time of appointment, with the intention of bringing the salary levels in line with the market as the individual gains the relevant experience. In such cases, subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	None
Benefits Purpose and link to strategy Supporting health and wellbeing to enable the Executive Directors to focus on delivering performance for key stakeholders and to provide a competitive package of benefits that is aligned with market practice.	The Company provides a range of market competitive benefits to Executive Directors that is aligned with that offered to our managers more widely, including (but not limited to) a car allowance, private medical insurance, life assurance and where appropriate relocation and housing costs. The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it can support the objective of attracting and retaining executives to deliver our strategy.	Benefits will be provided at a rate commensurate with the market and the level that is offered to employees. The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically in line with benefits of other employees at least every three years.	None
Pension allowance Purpose and link to strategy Attracting and retaining high calibre Executive Directors through the provision of cost effective saving benefits for retirement, aligned to the workforce.	Participation in our defined contribution pension scheme or cash payments in lieu of pension contributions payable in monthly instalments during the year, directly to the individual or into their pension scheme.	For Executive Directors the company contribution to a pension scheme and/or cash allowance will be up to a maximum of 12% of base salary, in line with the level of contribution offered to the wider workforce.	None

Appendix Directors' Remuneration Policy continued

Performance-Related Pay (in addition to "Fixed remuneration" elements above)

The total remuneration package is designed to ensure that a significant portion of the maximum opportunity for any Executive Director is at risk if key performance targets are not met. The design of the remuneration package means that the majority of the total remuneration opportunity is dependent upon performance and delivered over a short- to medium-term horizon.

The aggregate maximum incentive opportunity that shall be eligible to be awarded in any year to an Executive Director from Performance-Related Pay shall not exceed 240% of salary.

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Performance-Related Pay Plan (PRPP) **Purpose and link to strategy** To motivate and incentivise the Executive Directors to achieve the Company's key customer, environmental, operational and financial priorities over time. The PRPP is aligned to both the annual business plan as well as the creation of stakeholder value over the longer-term. It acts as a tool to retain and incentivise the Executive Directors required to deliver the long-term business strategy and the Company's Turnaround Plan.	The PRPP comprises two components. The pay-out of a '**Base Award**' is determined by a scorecard of measures selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. The annual weighting between the various metrics may vary depending on the key priorities of the business. Targets are set to deliver stretching performance for customers and other stakeholders, considering the operating environment and business priorities, as well as customer, shareholder and regulatory expectations. Other than in exceptional circumstances, payments above target (65% of maximum) will require outperformance of the business plan. 40% of any earned Base Award shall be deferred into an interest-bearing bank account for a two-year period ('**Deferred Award**') and remain conditional on continued employment. Deferred Awards shall additionally be subject to a performance multiplier (of between 0.75-1.25x) based on progress against the Turnaround Plan over the deferral period. All payments will be in cash. Clawback provisions apply for a period of two years after any payment is made, in the event of financial misstatement, error in the calculation or gross misconduct.	The maximum annual potential opportunity is 240% of base pay for Executive Directors. Furthermore, the pay-out from any single PRPP cycle (i.e. the base award plus the deferred award once any multiplier has been applied, but before any interest accruing) will not exceed this maximum opportunity for the first cycle. **Committee Discretion** Any payment remains subject to the absolute discretion of the Remuneration Committee. This includes reducing (or forfeiting) any earned Base Award if overall performance is not satisfactory. The Committee will operate the PRPP according to the rules of the plan and its discretions. In exceptional circumstances the Committee retains the discretion to: • Change the performance measures and targets and the weighting attached to them part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and • Make downward or upward adjustments to the formulaic outcome of the PRPP earned from the Base and/or Deferred Awards, if the Committee believes the outcomes are not a fair and accurate reflection of overall business performance.	Base Award measures may include, but shall not be limited to, those relating to customer, the environment, and financial resilience. The multiplier applying to deferred Awards will be based on the Company's progress against its long-term Turnaround Plan over the relevant deferral period.

Clawback and Malus Provisions

Clawback and malus provisions apply to the Executive Directors' performance-related pay arrangements. The Committee has discretion to reclaim or claw back some (or all) of the awards paid out to individuals for up to two years following payment. Circumstances in which the Committee may apply clawback include, but are not limited to, a material misstatement, any error in the calculation of an award or an error in the underlying results that leads to an overpayment arising under of any performance related element, or material misconduct. The application of malus provisions will normally occur prior to a final decision on performance-related pay being made, with the Committee having discretion to reduce any performance-related payment due by an amount it believes reasonable (including reducing any due payment to zero).

Appendix Directors' Remuneration Policy continued

Approach to recruitment remuneration

The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment. The remuneration package offered will be in line with the market and will be no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements, and be subject to the same limits, as those for existing Executive Directors.

Element	Policy and Operation
Base salary	Salaries set by the Committee taking into consideration factors including the current pay for other Executive Directors, the experience, skill and current pay level of the individual and the external market.
Benefits	The Committee will offer a benefits package that is competitive in the external market and in-line with the workforce.
Pension	Maximum contribution in line with our policy.
Performance Related Pay	On-target and maximum opportunities will be set in line with the Company's policy for existing Executive Directors, and in the first year will be prorated to the number of working days worked during the plan year, typically with a minimum threshold of three months service in line with scheme rules.
Buy-out awards for forfeited remuneration	At the discretion of the Committee, additional payments may be made to a new Executive Director, to replace forfeited remuneration opportunities and/or awards when leaving a previous employer. In determining the structure and level of any 'buyout' award, the Committee will take account of relevant factors including any performance conditions attached to forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The Committee will typically seek to make buy-out awards on a comparable basis to those that have been forfeited. In exceptional circumstances, the Committee may grant a buy-out award under a structure not included in the policy but that is consistent with the principles set out above.
Internal Promotion	In the case of an internal appointment, any pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted
Relocation	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation.

Executive Directors' Service Contracts

Element	Policy and Operation
Service contracts	The CEO's service contract may be terminated by Thames Water giving 12 months' notice and the individual giving 6 months' notice. The CFO's service contract may be terminated by Thames Water giving 6 months' notice and the individual giving 6 months' notice. Executive Directors may be required to work during the notice period, may be paid in lieu of notice, or placed on "garden leave" at the discretion of the Company.

Policy on payments for loss of office

The following table sets out the key features of the service contracts and treatment of payments in the event of loss of office for Executive Directors. It also applies (on a consistent basis) to other Executive team members. In addition, the Committee retains the discretion to settle any other amount reasonably due to the Executive Director, for example to meet legal fees incurred by the Executive Director in connection with the termination of employment.

Element	Policy and Operation
Notice periods in Executive Director contracts	12 months from the Company, 6 months from the CEO. 6 months from the Company, 6 months from the CFO. Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice or placed on "garden leave" at the discretion of the Company.
Termination payments	Any payment as compensation for loss of office will be made at the complete discretion of the Board on recommendation from the Committee. If the Company wishes to terminate an Executive Director's contract, other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it is required to give the agreed amount of notice (see above) or make a payment in lieu of base salary only. If the reason for dismissal is redundancy, the Executive Director would be entitled to a statutory redundancy payment.
Performance Related Pay	In accordance with the rules of the Performance Related Pay Plan (PRPP), an Executive Director is eligible to be paid a Base Award and a Deferred Award subject to being employed by the Company on the relevant 'Payment Date'. An individual will normally not be eligible for any payment for the plan year if they leave the employment of the Company or have been dismissed prior to the Payment Date unless for a Good Leaver reason (below). **Good Leaver* Reason** Base Award: performance conditions will be measured at the normal PRPP measurement date. Payment will normally be pro-rated for the period of service during the financial year. Leavers who have left through compulsory redundancy having completed the full plan year remain eligible for a payment even if they are not employed on the Payment Date. Payments are made on normal Payment Date and are based on actual performance. Deferred Award: the Deferred Award will normally be pro-rated for the period of service during the deferral period. Pro-rated Deferred Awards will continue to accrue interest, will normally be released at the normal time, and subject to any applicable multiplier based on performance measured over the full deferral period. **Other reason** If the individual is subject to formal disciplinary or capability procedures then eligibility for a PRPP award (whether a Base Award or release of a Deferred Award), payment and/or release will be postponed pending the conclusion of any such procedure.

* Good leavers are defined (as per the scheme rules) as an individual whose employment is terminated by the Company because of 'special circumstances' such as ill-health, injury or disability, a change of control of the Company, redundancy or whose employment terminates automatically by reason of their death. The Committee also retains an overall discretion to determine that an individual is a good leaver.

Appendix Directors' Remuneration Policy continued

Change of control

The default treatment of performance-related awards upon change of control is set out below.

Element	Operation
Performance Related Pay	Normal policy is to pro-rate any PRPP award (whether a Base Award of Deferred Award) for time and performance to the date of the change of control. Accrued interest to the date of the change of control will be paid, and the multiplier attaching to Deferred Awards tested. Any unpaid Deferred Award will be released at the date of change of control. In circumstances where there is an appropriate business case, the Committee may use discretion to determine that Base and/or Deferred awards shall not be pro-rated for time. Use of any discretion will be explained to stakeholders.

External Directorship Appointments

Executive Directors may accept external appointments with consent. Consideration is given to the appropriateness of the external appointment and whether it may affect an Executive Director's ability to perform their role. The Chairman must approve any external appointments. Fees may be retained by the Executive Director for services relating to external appointments.

Non-Executive Directors' service agreements

The Chairman and Independent Non-Executive Directors have an agreement for service for an initial three-year period which can be terminated by either party with no notice period. Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract and are appointed and terminated without notice by the shareholders of the Company in line with the Shareholder Agreement.

The dates of the service contracts for the Non-Executive Directors are set out below.

Name	Initial Start Date of Contract	End Date of Contract	Actual End Date
Chairman			
Ian Marchant	01/12/2017	30/11/2023	10/07/2023
Independent Non-Executive Directors			
Nick Land	06/02/2017	31/01/2024	
Catherine Lynn	28/11/2018	27/11/2024	
Hannah Nixon	14/01/2021	13/01/2024	
Ian Pearson	01/09/2014	31/08/2023	
Jill Shedden	01/10/2018	30/09/2024	
David Waboso	01/02/2019	31/01/2025	12/05/2023
Non-Executive Directors			
Michael McNicholas	01/07/2019	*	
John Morea	28/01/2019	*	29/09/2022
Guy Lambert	29/09/2022	*	
John Holland-Kaye	01/04/2023	*	

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 March 2023. Thames Water Utilities Limited (the "Company") is incorporated and domiciled in the United Kingdom and a wholly owned subsidiary of Thames Water Utilities Holdings Ltd. Its ultimate parent is Kemble Water Holdings Ltd, a company registered in the United Kingdom and owned by institutional investors. The financial statements are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes disclosures required under the Companies Act 2006 and related provisions.

The nature of the Group's operations and its principal activities are set out in the Strategic Report on 2. The Strategic Report also includes additional details on some of the disclosures listed here. More generally, the Strategic Report includes: our business model; key performance indicators and performance against them; our people strategy and workforce engagement programme; our approach to climate change, the environment, local communities and other sustainability issues; how we engage with stakeholders; an analysis of our principal risks and uncertainties and our approach to managing risk; a financial review and long-term viability statement; and a statement setting out how the Directors have complied with the requirements of Section 172 of the Companies Act 2006. The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of these risks and their management or mitigation can be found on 52.

The Company is required under its licence to conduct its business as if it were a public limited company, and as a result the Annual Report and Sustainability Report has been drafted, where possible, to the standards and requirements of a Company with shares listed on the London Stock Exchange. The Directors have provided an extended Strategic Report and a full Corporate Governance Report, which includes comprehensive Remuneration Committee and Audit, Risk and Reporting Committee reports. Some of the information required to be disclosed in the Directors' Report can be found in those other sections, which are incorporated into this report by reference and where highlighted.

Directors

Details about the current Directors of the Company, including their dates of appointment and their biographical details, including other Directorships they hold, can be found on pages 70. Details of any significant other interests and potential conflicts are provided on page 77. Details of the Directors' remuneration, service contracts and any interests in the shares of the Company are included within the Remuneration Committee report on pages 88.

The following Board changes took place during the year and up to the date of signing the financial statements:

- John Morea stepped down as Non-Executive Director on 29 September 2022
- Guy Lambert was appointed as Non-Executive Director on 29 September 2022
- John Holland-Kaye was appointed as Non-Executive Director on 1 April 2023
- David Waboso stepped down as Independent Non-Executive Director on 12 May 2023
- Sarah Bentley stepped down as Chief Executive Officer on 27 June 2023
- Ian Marchant announced he would be stepping down as Chairman on 10 July 2023

The Company may, by ordinary resolution, appoint any person who is willing to act as a Director, and may by ordinary resolution remove any Director from office. All Directors will be subject to annual re-election at the Company's AGM in July. The appointment and removal of Directors, as a matter reserved to our ultimate shareholders, requires the approval of the Kemble Water Holdings Ltd Board.

Directors' indemnities

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

Share capital

As at 30 June 2023, the Company's issued share capital was 29,050,000 ordinary shares of £1 each amounting to £29,050,000, all with equal voting rights and all owned by Thames Water Utilities Holdings Ltd. There were no movements in the Company's share capital during the year. Under the Company's Articles of Association, subject to the provisions of the Companies Act, the Directors have the authority to allot any unissued shares. Subject to the provisions of the Act, the Company may enter into any contract for the purchase of all or any of its own shares. Further details of the Company's share capital can be found on page 157, while details of the Company's ultimate shareholders can be found on page 69.

Dividend policy for the appointed business

TWUL's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

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

- Payment of a proposed dividend should not impair short term liquidity or compliance with the Company's covenants;
- Payment of a proposed dividend should not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital;
- An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders;
- An An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders;
- An assessment is made of the long-term financial resilience of the Company.

During the year, we distributed £45 million (31 March 2022: £37 million) to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent company solely to service debt obligations and group related costs of other companies within the wider Kemble Water Group.

Regulatory considerations for the appointed business

Any dividends that are declared or paid will be adjusted both upwards and downwards relative to the Ofwat's 4% dividend yield guidance reflecting the company's performance in meeting its commitments and obligations to customers and other stakeholders.

If a gross dividend is declared above Ofwat's 4% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

The Board has noted that Ofwat modified the dividend policy licence condition, with effect from 17 May 2023, such that Condition P of our instrument of appointment requires that an Appointee shall declare or pay dividends only in accordance with a dividend policy which has been approved by the Board of the Appointee and which complies with the following principles:

- that dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business, taking account of current and future investment needs and financial resilience over the longer term;
- that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations;
- that dividends declared or paid reward efficiency and the effective management of risks to the Appointed Business.

Ofwat's dividend disclosure requirements are reflected in the regulatory accounting guidelines (RAG 3 – Guidelines for the format and disclosures for the annual performance report), which are updated from time to time. RAG 3 requires companies to provide sufficient

Directors' report continued

explanation within the annual performance report such that a reader will understand the process undertaken by the Board in determining the appropriate level of dividend and the basis of their decisions.

It should be noted that Ofwat's updated dividend policy guidance came into effect after the Board made its decision relating to 2022/23 dividend payments and after such payments had been made. However, the Board believe that the Thames Water dividend policy already, in the round, has regard to Ofwat's requirements – albeit the Board will be reviewing the Thames Water dividend policy during the course of 2023/34 to ensure alignment.

2022/23 dividend payments

Our shareholders take seriously their commitments and obligations to customers and other stakeholders (including the environment, communities, employees and pension members) as a supplier of essential services. They also recognise the need to turnaround performance and the long-term nature of the Executive's plan to deliver this objective.

Our external shareholders did not receive a dividend in the 2022/23 financial year, the sixth consecutive year, underlining their commitment to re-investing cash flow into delivering improved performance for customers. Notwithstanding this, TWUL's overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

The Board made an assessment, having regard to our updated dividend policy as to whether it was appropriate to make a dividend distribution to shareholders in 2022/23. The table below sets out the key factors, with commentary that the Board considered when making this assessment.

Dividend policy consideration	Conclusions
Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants.	Based on our going concern assessment outlined in our Annual Report, we believe Thames Water has the ability pay a dividend whilst allowing the business to maintain sufficient liquidity and compliance with our covenants. This assessment took into account the £500 million of proceeds which shareholders committed to provide in March 2023 to enable Thames Water to deliver its business plan. This funding was received on 30 March 2023. However, in light of continued high levels of capital investment and high forecast levels of gearing, the Board concluded to not pay any dividends towards a dividend to our external shareholders, whilst paying a £45.2 million dividend in March 2023 to service the debt obligations of one of our holding companies, Kemble Water Finance Limited ("KWF"), and group related costs.
Payment of a proposed dividend should not impair the longer-term ability to finance the Company's business, including access to both debt and equity capital.	The payment of dividends to service the debt obligations of one of our holding companies, KWF, plays a key role in maintaining access to funds either via equity capital provided by shareholders and / or from raising incremental debt at KWF which is underpinned by lender and credit rating agency confidence. Consequently, there is a risk that not paying a dividend could negatively impact planned refinancing activity, the Group's credit rating outlook and the capacity to raise incremental equity capital that is factored into TWUL's business plan to invest in the business, pay down debt and manage gearing covenant headroom. Consequently, the Board concluded that it was both responsible and reasonable to approve a payment of dividends to service such debt obligations of KWF, and group related costs. To help maintain long term financial resilience, the Board concluded not to pay dividends for any external distributions to shareholders throughout the year – the sixth consecutive year. These decisions considered the Group's current capital structure and was consistent with its legal and regulatory obligations to ensure that TWUL is a financially resilient business with ready access to debt and equity capital.
An assessment is made to determine if the payment of a dividend reflects the Company's performance against the final determination for AMP7 and its commitments to customers and other stakeholders.	The Board assessed overall company performance in the round. In considering the company's performance against the final determination for AMP7 (and the Company's own business plan) the Board noted that overall performance in 2022/23 was short of expectations. Overall operational performance in 2022/23 was significantly affected by the extreme drought in the summer of 2022 and a major freeze thaw event in December 2022. In addition, performance was undermined by a relatively small but significant number of large operational events which highlighted the underlying fragility of some of our assets and the need for investment to better manage the impact of climate change and population growth. The Board particularly noted that: • Customer service remains poor, despite a c.28% reduction in complaints the Company remains in 17th place (of 17) in C-Mex in FY23. Performance was impacted by extreme weather • The company missed key regulatory targets including those relating to leakage, supply interruptions, water quality, main repairs, internal sewer flooding and pollutions. • The company met targets relating to unplanned outages, sewer collapses and priority services. The Board further noted that environmental performance has deteriorated – reflecting challenging operational conditions due to adverse weather (including the summer drought and winter freeze-thaw events) – and CSO discharges are under public, regulatory and stakeholder scrutiny. Overall the company delivered 26 of its 52 performance commitments and will therefore receive a net ODI penalty of £82.3 million this financial year (excluding C-Mex and D-Mex). In light of the points above the Board therefore concluded to restrict dividends for external distributions to shareholders whilst maintaining some internal distributions having concluded that such internal distributions were in the overall interests of TWUL. Overall yield was 1.2%, significantly below the 4% Ofwat yield guidance reflecting the disappointing operational and financial performance.
An assessment is made of the impact that payment of the dividend may have on its commitments and obligations to customers and other stakeholders as a supplier of essential services, which includes customer commitments, environmental commitments, community commitments, employees and pension members.	The Board also considered the impact of dividend payments in the 2022/23 financial year on our 8-year turnaround plan, the revised business plan, and our commitments and obligations to customers and other stakeholders. These plans have been designed to significantly improve Thames Water's operational performance, deliver on its regulatory obligations, improve river heath, increase resilience and deliver better outcomes for its customers, communities and the environment. Limiting internal distributions in 2022/23 to £45.2 million, a yield materially below Ofwat's guidance of 4%, was considered unlikely to have a material impact on our commitments and obligations to customers and other stakeholders as a supplier of essential services. Furthermore, the Board did not expect this dividend to have a material impact on employees and pension members. The Board noted that in the year ended 31 March 2021, an exceptional £69.7 million payment was made to the pension scheme relating to the deficit repayment plan during that year, which covered the remaining deficient payments agreed with the pension trustees for AMP7.

Directors' report continued

Dividend policy consideration	Conclusions
An assessment of the long-term financial resilience of the Company.	Based on our long term viability statement, outlined in our Annual Report, we believe Thames Water has the ability pay a dividend and this would not be expected to impair our long term viability. The Board considered its credit ratings and ratings outlook, forecast compliance with debt covenants and long term liquidity forecasts. At the time of the dividend assessment, the Board noted that Moody's had assigned a Corporate Family Rating ("CFR") of Baa2 with stable outlook and S&P had assigned a BBB rating with stable outlook to Class A debt. It also noted increasing high levels of capital investment planned for the rest of the current AMP7 regulatory price control period. To support delivery of our new business plan and increasing levels of investment, £500 million of funds were provided by shareholders in March 2023. The Executive team is working with shareholders on plans to provide a further £750 million of funding for the remainder of the current regulatory period, which will be subject to certain conditions, to drive Thames Water's turnaround over the remainder of the current regulatory period and establish a solid foundation for Thames Water's long term growth. The Executive team will continue to reflect the ongoing turnaround in its next business plan for the five-year regulatory period starting in 2025. A focus of that business plan will be to maximise the likelihood that Thames Water receives a PR24 regulatory determination that supports the turnaround. As part of this, Thames Water shareholders acknowledge that further shareholder support may be required to improve financial resilience. Considering the factors, the Board concluded to restrict dividends such that external shareholders did not receive a dividend, whilst enabling dividends for the servicing of debt obligations of KWF, and group related costs. Such dividends are not expected to impact on the Appointee's ability to deliver its turnaround plan and finance its functions.

Having regard to all the factors outlined above, the Board concluded that it was not appropriate to declare dividends to enable any external dividend to shareholders for 2022/23, the sixth year in succession.

In March 2023, £45.2 million of dividends were made to service the debt obligations of KWF, and group related costs The total interest paid by KWF in 2022/23 was £70.5 million, £42.4 million was funded by the dividend payment after taking into account £2.8 million retained at Thames Water Limited for group related costs, with the remainder paid from cash reserves within KWF.

The Board concluded that it was both reasonable and responsible to approve the payment of the dividends, which represent a yield of 1.2%, (materially below Ofwat's guidance) having regard to the Group's revised dividend policy, current capital structure, and was consistent with its legal and regulatory obligations to ensure that Thames Water Utilities Limited is a financially resilient business with ready access to debt and equity capital.

Political donations

The Company has an agreed policy to not make any political donations. No political donations were made during the year (2022/23: £nil).

Charitable donations

Charitable donations of £3.2 million were made by the Company during the year (2022: £3.0 million).

Material financial instruments

Financial risk management and information on financial instruments is covered in note 19 of the financial statements.

Significant post-year end events

Post balance sheet events are disclosed in note 27 of the financial statements.

Future developments

The development of the business is set out in the Strategic Report.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business. The development and application of new techniques and technology is an important part of the Company's activities. The Company is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management.
In addition, we carry out research and development in-house, including solutions to improve the resilience of our water supplies, developing insight into the deterioration of critical assets, novel approaches to tackle leakage and pollutions from our water and wastewater networks respectively, and wastewater treatment processes to allow us to meet increasingly stringent regulatory requirements. We have identified a number of opportunities to scale our research and development activities with the support of funding from Ofwat's innovation competitions.
Expenditure on research and development totalled £12.9 million for the year (2021/22: £11.7 million). Included within research and development is £9.1 million (2021/22 £6.9 million) collected from customers as a contribution to Ofwat's innovation fund, which was established to help build up the water industry's innovation capacity.

Intellectual property

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

Branches

The Company does not have any branches outside of the UK.

Recruitment, employment and training of disabled people

We currently hold level 1 disability confident commitment status. This is the first step in our journey to securing level 2 which we aim to achieve in 2024. We have reviewed our recruitment processes and created new questions in our application process to ensure we are asking the right questions to identify candidates who may require adjustments. We have created guidance for hiring managers on guaranteed interviews which forms part of our inclusive hiring commitments to support wider under represented groups access careers within Thames Water. We are working closely with our resourcing partners to ensure the right practices are followed and they provide support to hiring managers.

We continue to raise awareness, educate, improve accessibility and nurture a culture of inclusion. This has included adaptation to deliver training virtually, using auto captions, voice overs and alternative formats. We have also ensured our access to work standards make the process more seamless for candidates and employees.

Finally as part of our wider skills commitments, to create a workforce inclusive of the communities we serve, we have signed the Ambitious About Autism covenant, making a number of commitments such as improving accessibility in the workplace, offer experiences of the workplace to autistic people in our communities, raise awareness of autism within the workplace and encourage meaningful conversations, enhance recruitment practices as an inclusive employer of choice, offer inclusive paid workplace opportunities for autistic people, share our experiences and encourage others to get involved including our supply chain.

Directors' report continued

Employee engagement

Around 80% of our employees took part in our annual survey which reported an overall engagement score of 69% (2021/22: 69%). This demonstrates that our employees are willing to express how they are feeling about working at Thames Water – both the good aspects and what we can do to improve.

Despite a significant amount of change throughout the business, engagement remained the same. Colleagues are more committed than ever to our purpose and values, with more of them also feeling a stronger sense of belonging and continue to believe their safety and wellbeing is valued. We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year.

Ian Pearson continues to act as designated Non-Executive Director for Workforce Engagement, to take accountability for ensuring that workforce issues are appropriately considered by the Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities. This year, Ian visited an operational site every month, plus holding virtual sessions, providing employees with informal opportunities to meet with and be listened to by Board members. You can read more information on our workforce engagement programme on 35.

Our Executive team reviews feedback from a variety of sources including our 'Hear for you' survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as internal Yammer communications and local feedback channels. Further details on our overall people strategy can be found in the Strategic Report on page 27

Relationships with suppliers, customers and other business partners

For further information about our broader stakeholder engagement programme, please see page 36. The Company's Section 172 Statement on page 38, and the Board engagement table on page 78 contain details of how Directors specifically have taken into account and engaged with the needs of suppliers, customers and business partners.

Going concern

The consolidated financial statements for the year ended 31 March 2023, set out on pages 121 to 163, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

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

In June 2022, to support Thames Water in the delivery of its updated business plan, Shareholders provided a commitment letter where they agreed to contribute, or cause to be contributed, an aggregate £500 million of funding, available to be drawn in full by the Group in March 2023. This funding was received on 30 March 2023. There has been a continual and constructive engagement with Shareholders on further support in AMP7 to enable Thames Water to deliver its business plan. Consequently, on 10 July 2023 shareholders provided a letter setting out further support totalling £750 million during the remainder of AMP7. This support is subject to specific conditions including Investment Committee approval by each Shareholder and, consequently, it has not been considered in the liquidity assessment for the going concern review. For the purposes of assessing covenant compliance, the Board has sufficient confidence that it is the intention of the Shareholders to provide the additional funding and it is a reasonable expectation to include the indicated level of support in the financial years ending 31 March 2024 and 31 March 2025 for the purposes of calculating forecast covenant metrics.

The Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 31 March 2023, such liquidity consisted of £1.8 billion of cash and cash equivalents, access to £3.0 billion of committed credit facilities of which £2.6 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances).

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

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

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

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

The Directors have also considered the consequences of a Trigger Event, a feature of the Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing committed facilities. A Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the Group's ability to trade. A cash lockup prevents distributions to protect the interests of creditors and customers.

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

Directors' report continued

Operational greenhouse gas emissions and energy management

Thames Water calculates their Greenhouse Gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually and is reflective of carbon reporting and emissions guidance from the Department of Environment, Food and Rural Affairs (Defra). Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO_2e").

The CAW calculations follow the Greenhouse Gas (GHG) Protocol's Carbon Reporting Standard. Under the GHG Protocol there are two distinct methods to account for Scope 2 emissions. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

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

As Thames Water sources renewable electricity accredited with renewable 'Guarantees of Origin' through a contract with our supplier, Thames Water uses a market-based accounting approach to report their Scope 2 emissions. The market-based approach has been used to determine Thames Water's operational plans and strategies for carbon management and performance reporting on our journey to meet Net Zero. For transparency, we have also disclosed the location-based data within this report for comparison.

Key trends

Our net operational emissions increased from 269.8 ktCO_2e in 2021-22 by 52.1 ktCO_2e to 321.9 ktCO_2e in 2022-23. In 2022-23 we have reported additional scope 3 emissions of 64.3 ktCO_2e from chemicals, waste to land, and energy & fuels Well to Tank (WTT). These emissions which were previously excluded from the Greenhouse Gas emissions reporting methodology.

- When using a like for like methodology our net operational emissions decreased by 12 ktCO_2e to 257.6 ktCO_2e in 2022-23.

As a result of the new reporting methodology, our gross operational emissions also increased from 277.3 ktCO_2e in 2021-22 by 51.6 ktCO_2e to 328.8 ktCO_2e in 2022-23.

- When using a like for like methodology our gross operational emissions decreased from 277.3 ktCO_2e in 2021-22 by 12.7 ktCO_2e to 264.5 ktCO_2e in 2022-23, a 4.6% reduction.

We have achieved numerous successes through a combination of actions including:

- We reduced our total energy consumption by 28 GWh, from 1,606 GWh to 1,578 GWh.
- And of that our total electricity consumption reduced by 8 GWh from 1,250 GWh to 1,242 GWh.
- We generated 285.5 GWh of renewable electricity at our operational sites (including renewable export).
- We used 267 GWh ourselves, covering 21.5% of our electricity needs from self-generated renewable electricity.

We have made the operational decision to prioritise biogas usage in the boilers instead of the CHPs – to a) reduce the cost and use of fossil fuels and b) to recover more heat from the boilers e.g.: in the case of THP systems; as well as prioritising biogas to be used for biomethane production.

- As a result, our renewable electricity generation from sludge reduced by 35.5 GWh to 284 GWh;
- However, our renewable heat generation increased by 32 GWh to 211 GWh.
- We have commissioned our first biomethane plant and have produced 28.8 GWh renewable gas
- Together with our other renewables – Wind and Solar Photovoltaics (PV), we have produced 353.8 GWh renewable energy.
- We reduced our direct emissions from burning fossil fuels a further 41%, from 28.3 ktCO_2e to 16.6 ktCO_2e. This included:
  - 8.8 ktCO_2e reduction from natural gas used on our sites for pumping and treatment, and
  - 3 ktCO_2e reduction in diesel consumption.
- Process and fugitive emissions decreased by 1.2 ktCO_2e in 2022-23 to 190.3 ktCO_2e.
  - We have produced 4% less sludge compared to 2021-22, and
  - Produced 4% less biogas from it.

(note– reporting methodology has also changed to removed emissions associated with Water treatment waste to lagoon due to not enough scientific evidence – 4ktCO_2e)

Energy

Supported by our ISO50001-certified Energy Management System, we have delivered energy efficiency improvements across both Water and Wastewater business units.

The extended drought period in 2022-23 meant increased water demand and more energy intensive treatment to source and treat our water. The wet winter experienced in 2022/23 contributed to a reduction inefficiency in our wastewater systems.

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

Water:	526 kWh/Ml	up 0.8%
Wastewater:	223 kWh/Ml	up 1.6%

Our carbon target

We have made a commitment to reduce our net carbon emissions from our operations to zero by 2030 and to then become net negative by 2040. We have already reduced our Scope 1-3 net emissions by 62 % compared to our 1990 baseline level. That is a 517 ktCO_2e absolute reduction.

We continue to work towards our target of being a net negative carbon business. Some of the key aims as part of this target include maximizing the energy and resource recovery from our sewage sludge, the electrification of our fleet of vehicles and the increased efficiency of our assets.

In 2022-23, the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat – our emissions intensity ratio, increased as a result of change in calculation methodology:

1. Market based	
Water:	40.2 kgCO_2e per Ml
Wastewater:	182.2 kgCO_2e per Ml

2. Location-based	
Water: 1	169.8 kgCO_2e per Ml
Wastewater:	241.8 kgCO_2e per Ml

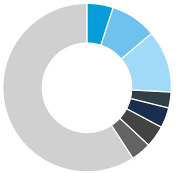
Directors’ report continued

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

- Scope 1 (Direct emissions)
- Scope 2 (Indirect energy use emissions)
- Scope 3 (Emissions from purchased goods and services, business travel and energy and fuel WTT); and
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

	Market-based		London-based	
	2023 $kTCO_2e$	2022 $kTCO_2e$	2023 $kTCO_2e$	2022 $kTCO_2e$
Scope 1	**220.3**	231.6	**220.3**	231.6
Direct emissions from burning of fossil fuels	**16.6**	28.3	**16.6**	28.3
Process and fugitive emission	**190.4**	191.6	**190.4**	191.6
Transport: Company owned or leased vehicles	**13.3**	11.7	**13.3**	11.7
Scope 2	**0.0047**	–	**173.6**	185.7
Purchased electricity	**0.0047**	–	**173.6**	185.7
Scope 3	**108.6**	45.7	**150.1**	45.5
Business travel for company business	**1.0**	1.0	**1.0**	1.0
Outsourced activities	**27.4**	28.3	**27.4**	28.1
Purchased electricity – WTT and T&D	**19.7**	16.4	**61.2**	16.4
Purchased fuels – WTT and T&D	**11.5**	N/A	**11.5**	N/A
Chemicals	**10.3**	N/A	**10.3**	N/A
Disposal of waste	**38.7**	N/A	**38.7**	N/A
Gross	**328.9**	277.3	**544.0**	462.8
Net-offs	**(7.0)**	(7.5)	**(7.8)**	(5.0)
Net	**321.9**	269.8	**536.2**	457.8

2022/23 emissions



Corporate governance

The Company follows the requirements of the UK Corporate Governance Code and the Ofwat Board Leadership, Transparency and Governance Principles, as outlined in the Corporate Governance Report, from page 62. Details of the Company’s internal control and risk management systems can be found in the Strategic Report on page 52 and in the Audit, Risk and Reporting Committee report on page 85.

AGM

The Company’s Annual General Meeting will be held on 31 July 2023.

Statement of Directors’ responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report 2022/23 and the financial statements in accordance with applicable law and regulation. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

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

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

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' report continued

Directors' confirmations

The Directors consider that the Annual Report and accounts 2022/23, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

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

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Group and loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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

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

Disclosure of information to the auditors

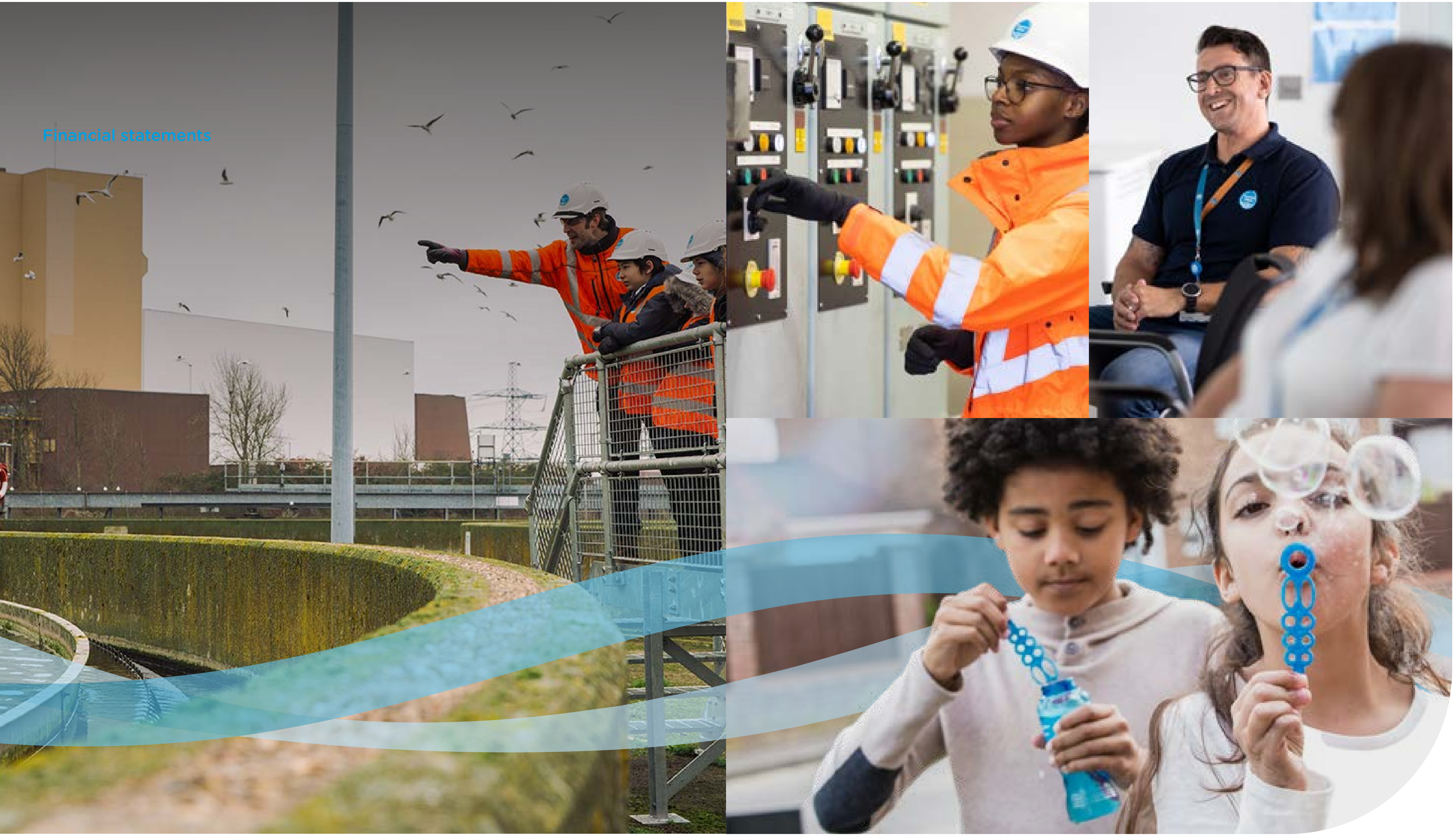
In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

Alastair Cochran
Chief Financial Officer
Thames Water Utilities Limited
Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB

Financial statements



Financial statements

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

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water Utilities Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 and of the group's and company's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Thames Water Annual Report 2022/23 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2023; the consolidated and company income statements, the consolidated and company statements of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting Committee.

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 3 of the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. The group consists of two legal entities, Thames Water Utilities Limited and Thames Water Utilities Finance Plc, which are both reporting units. Both of the group's reporting components were subject to full scope audits for group consolidation purposes.

Key audit matters

- Valuation of provision for expected credit losses for trade receivables (household customers) (group and parent)
- Valuation of metered sales accrual (group and parent)
- Classification of costs between capital and operating expenditure (group and parent)
- Valuation of financial derivatives (group and parent)
- Valuation of retirement benefit obligation (group and parent)
- Valuation and completeness of provisions for environmental matters (group and parent)
- Going concern (group and parent)

Materiality

- Overall group materiality: £30,000,000 (2022: £30,000,000) based on 0.13% of total assets.
- Overall company materiality: £28,500,000 (2022: £28,500,000) based on 0.12% of total assets.
- Performance materiality: £22,500,000 (2022: £22,500,000) (group) and £21,375,000 (2022: £21,375,000) (company).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Valuation and completeness of provisions for environmental matters and going concern are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

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

Key audit matter	How our audit addressed the key audit matter
Valuation of provision for expected credit losses for trade receivables (household customers) (group and parent) The recoverability of customer debts is always a key issue for water companies as the calculation involves significant judgement and estimation. The provision for expected credit losses on trade receivables amounted to £157.2m (2022: £150.5m). Management primarily uses historical performance to determine the future collectability of trade receivables. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. Their model takes the closing household debtors balance and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains will be uncollectable, which forms the expected credit loss debt provision. The provision includes an additional overlay in the current year, consistent with prior year, to reflect the impact of macroeconomic factors, such as the cost of living crisis. This involves a high degree of estimation uncertainty. Management have also considered plausible downside scenarios in assessing the impact of macroeconomic factors on the receivable balance. Refer to page 86 of the Audit, Risk and Reporting Committee report and note 15 of the financial statements.	We obtained an understanding of the trade receivables provisioning process and assessed the design and implementation of related financial controls. We evaluated the model used to calculate the core provision and confirmed its consistency with prior years, specifically that the primary inputs relate to the previous year's cash collection by ageing category applied to the ageing category as at 31 March 2023, with an overlay added to address the potential future credit loss related to factors over and above past performance. In the current year, this primarily related to the cost of living crisis. We consider the construct of the model appropriate and in line with the requirements of IFRS 9. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We re-performed the calculations used in the model, to ensure the accuracy of these calculations. We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to validate the aging classifications used in the model. We assessed management's considerations in respect of macroeconomic factors such as the cost of living crisis, and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of macroeconomic factors on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed our own sensitivity analysis on the downside scenarios considered by management, which included a greater impact on future cash collection driven by the impact of the cost of living crisis. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on the outcome of management's assessment. We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for expected credit losses and the impact of macroeconomic factors had on trade receivables. Overall we consider that the provision and disclosure for expected credit losses as at 31 March 2023 is reasonable.

Key audit matter	How our audit addressed the key audit matter
Valuation of metered sales accrual (group and parent) The metered sales accrual (MSA) for household customers amounted to £178.2m (2022: £183.8m) and represents the sales accrual for customers who have not been billed for their usage up until 31 March 2023. The valuation of the accrual depends on the volume of water and wastewater consumed between the date of the last bill and the year end, applied to the tariff rates effective for that period. The estimated water consumption for measured customers is primarily based on historical consumption data. The billing system calculates the accrual using the latest meter read data available in the billing system. Management also apply a manual adjustment to the system generated accrual to adjust the accrual for system limitations, for example lack of a recent meter read. Management consider factors such as consumption data from Smart meters, and also historic consumption levels along with considering macroeconomic drivers such as COVID-19 driven changes in consumption patterns in forming the final MSA. The manual adjustment requires increased levels of judgement from management in determining the most appropriate consumption rate to be used in their calculation. Incorrect estimates of water consumption could lead to a misstatement of revenue recognised for the year. The key audit matter is focussed on the judgments made by management in estimating consumption and the resulting manual adjustments which generate the MSA estimate. Refer to page 86 of the Audit, Risk and Reporting Committee report and note 15 of the financial statements.	We obtained an understanding of the metered sales accrual process and assessed the design and implementation of related financial controls. We obtained and understood management's calculation for determining the level of adjustment applied to reflect actual consumption from customers in the year. We have reperformed management's calculation and tested its mathematical accuracy. We have performed a retrospective review of bills raised during 2022/23 related to the 2021/22 MSA balance to assess management's forecasting accuracy. We consider management's forecasting to be materially accurate. We have performed substantive analytical procedures comparing the increase in the number of metered properties, consumption and tariff changes to the increase in the overall MSA balance including the overlay adjustment. This did not result in a materially different amount to that recognised by management. We assessed and validated the average daily consumption (ADC) inputs being used by management and whether these were appropriate in the context of all available data points such as smart meter consumption data and actual meter read information of non smart meters. By using the billing listings we formed a range of reasonable adjustment values based on the alternative data points, and confirmed the management ADC rate fell within this range. We have validated the meter read values within the billing listings we used by agreeing a sample of reads back to the corresponding invoice. From our procedures performed, we concluded that the management's estimates in relation to the MSA as at 31 March 2023 is reasonable.

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

Key audit matter	How our audit addressed the key audit matter
Classification of costs between capital and operating expenditure (group and parent) Additions to Assets under construction (AUC) and Assets In Development (AID) during the year amounted to £1,729.7m (2022: £1,316.1m) which includes £241.0m (2022: £226.7m) of own works capitalised and £215.2m (2022: £115.3m) of borrowing costs incurred with the remainder being external costs. There is a high degree of judgement applied when allocating costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Refer to page 86 of the Audit, Risk and Reporting Committee report and note 10 of the financial statements.	We obtained an understanding and assessed the design and implementation of financial controls relating to the classification of costs between capital and operating expenditure. We have tested the controls regarding the assessment by management of whether a project is either operating or capital in nature. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements. We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately. We tested the borrowing costs calculation and the appropriateness of qualifying projects involved. Our procedures over own works capitalised included: We tested the control process over assessing the level of spend incurred by each cost centre that should be capitalised. We obtained management's assessments of what spend by cost centre should be capitalised and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias. We performed sample testing at a cost centre level and challenged management as to the nature of these costs and whether they meet the capitalisation criteria. Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2023 and the assumptions used in calculating relevant own costs to be capitalised to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial derivatives (group and parent) The group derivative position as at 31 March 2023 was an asset of £449.1m (2022: £192.1m) and a liability of £1,991.8m (2022: £2,341.7m). The net derivative fair value as at 31 March 2023 was a liability of £1,542.7m (2022: £2,149.6m). The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities. Refer to page 86 of the Audit, Risk and Reporting Committee report and note 19 of the financial statements.	We obtained an understanding of the derivatives 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 audit procedures have been performed to confirm existence and terms. Engaging with our valuations team who have performed independent testing of the pre and post-credit risk adjusted valuations for the full derivative population. Performing procedures to assess the validity of assumptions and calculations management have made in performing the credit risk component of fair value. Performing an analysis of the directional movement in the pre-credit risk adjusted derivative position relative to movements in inflation, exchange rates and interest rates. Testing management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation methodology and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.
Valuation of retirement benefit obligation (group and parent) Total scheme liabilities as at 31 March 2023 were £1,859.6m (2021: £2,584.1m). The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates and mortality expectations) could have a material impact on the calculation of the liability. The pension liability and disclosures are also an area of interest to key stakeholders. Refer to page 86 of the Audit, Risk and Reporting Committee report and note 23 of the financial statements.	We obtained an understanding of the pensions process and assessed the design and implementation of related financial controls. We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used (e.g. discount rates, inflation rates and mortality expectations) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; and considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end. The latest approved triennial valuation took place as at 31 March 2019 and this has been used in the calculation of the defined benefit obligation, with the company's actuary taking information from the schemes actuary at this date in the form of underlying cashflows and key scheme statistics. The actuary has allowed for the estimated impact of higher than expected inflation over the period since this date and has allowed for information contained with preliminary triennial valuation as at 31 March 2022. In order to get comfortable with this approach and conclude that the accounting liabilities are reasonable, we have performed an independent roll forward from the valuation results to the accounting results and were able to agree to within materiality levels. Overall, we concur that the methodology and assumptions used by management at 31 March 2023 are reasonable.

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

Key audit matter	How our audit addressed the key audit matter
Valuation and completeness of provisions for environmental matters (group and parent) The Group has provisions of £78.7m (2022: £53.6m) relating to environmental matters. These primarily relate to matters arising from TWUL's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The determination of the completeness and valuation of environmental provisions is subjective, requiring significant judgement and a high degree of estimation uncertainty. For each matter, management must assess whether there is a present obligation as a result of a past event, the probability that an outflow of economic resources will be required and whether a reliable estimate can be made. This assessment determines the accounting treatment as either a provision, contingent liability or neither. Where a provision is recognised, management consider all available information in order to estimate the provision, including estimates provided by external legal advisors, historic experience and previous settlements. Refer to page 86 of the Audit, Risk and Reporting Committee report and note 21 of the financial statements.	We obtained an understanding of the provisioning process for environmental matters and assessed the design and implementation of related financial controls. Our work over the completeness and valuation of environmental liabilities included the following: We confirmed that the Group's external legal counsel have sufficient expertise, are appropriately qualified and are independent of the Group. In addition, we have held discussions with management's external experts covering significant environmental matters. We obtained estimates of potential penalties directly from the Group's external legal advisors and confirmed that these were used as the basis of the provisions recorded by management. Where relevant, we assessed the consistency of the estimates year on year and understood the reasons for any significant changes. We assessed management's methodology for estimating a provision for matters not yet prosecuted by the Environmental Agency ('EA'). We recalculated the historical prosecution rate and compared the estimated average fine level to actual previous fines issued by the EA for similar matters. The methodology used was applied consistently year-on-year and we consider it to remain appropriate. In respect of the Ofwat and EA investigations set out in note 25 of the financial statements, we reviewed the latest advice from the Group's external legal advisors and held discussions with them and management to further understand the matters. The evidence obtained supported the inclusion of these matters as contingent liabilities. Overall, we consider that the provision and disclosure of environmental matters as at 31 March 2023 to be reasonable.

Key audit matter	How our audit addressed the key audit matter
Going concern (group and parent) The Directors have formed a judgement, at the time of approving the Consolidated and Company financial statements, that there is a reasonable expectation that the Group and Company (hereinafter, the 'Group') have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval. For this reason, the Directors continue to adopt the going concern basis in preparing these financial statements. In making an assessment as to whether the going concern principle should be adopted, the Directors considered the Group's liquidity requirements and compliance with its licence conditions and loan covenants based upon its plans, as approved by the Board in June 2023. In addition, the Directors modelled a severe but plausible downside scenario under which the Group had sufficient liquidity headroom for a period in excess of 12 months from the report issue date and remained in compliance with both its key covenants (Gearing and PMICR) and concluded that, there are no material uncertainties around the Group's ability to continue as a going concern. In making this assertion the Directors also considered: • The Wholesale Business Securitisation (WBS) structure which provides a stable platform for the Group to finance its activities in the debt capital markets and insulates the Group and the ring-fenced parent company Thames Water Utilities Holdings Limited (TWUHL) from uncertainties or risks outside the ring-fenced group; and • Support of Shareholders who intend to provide additional funding of £750m during the remainder of the Asset Management Plan (AMP) which is subject to certain conditions (the funding from this support is not included in management's liquidity forecasts as at 31 March 2023). In light of the increasing public attention and regulatory scrutiny on the entire water sector through the year, including that of the Thames Water Group, our audit effort included a significant amount of resources dedicated to auditing the Directors' going concern assessment of the Group and is therefore a Key Audit Matter. Refer to page 108 of the Directors' report and the accounting policies section of the consolidated financial statements.	For our audit response and conclusions in respect of going concern, see the 'Conclusions relating to going concern' section below.

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

How we tailored the audit scope

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

Both legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes. Thames Water Utilities Limited due to holding the significant proportion of the group's total assets and all its trade and Thames Water Utilities Finance Plc due to holding a significant amount of the group's external debt. All audit procedures were led by the Group audit team located in the United Kingdom.

The impact of climate risk on our audit

In planning our audit we have considered the impact that the Group has on the environment through its operations and the impact the environment, including the current and potential future impact of climate change, has on the Group's business and its financial statements. Consistent with being one of the United Kingdom's largest suppliers of water and wastewater services, planning for, reacting to and assessing the impact of current and future changes in environmental factors, for example the volume and intensity of rainfall and periods of drought, is an inherent part of the Group's day to day activities. The Group has set out its Climate Change targets with the goal of achieving net zero by 2030. The majority of the Group's carbon emissions are incurred in the treatment of water and wastewater during the normal course of its operations, and the Group continues to develop its assessment of climate change. Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to the potential to exploit the by-products of the sewage treatment process, operational and supply chain decarbonisation and emerging regulatory requirements such as carbon taxes. Further information is provided on pages 45 to 51. While the Group has set out its Climate Positive targets and Science Based targets, the Group continues to assess and develop the consequences of this in terms of capital expenditure, the useful economic lives of current in use assets (and those currently under construction), the cost base and impacts on cash flows. The Group considered the net zero 2030 targets in the preparation of the financial statements, including in the evaluation of critical accounting estimates and judgements. The Group concluded that based on the current plans in place to achieve the 2030 net zero target this commitment did not have a material effect on the consolidated financial statements, as described on page 134 as at 31 March 2023.

As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks on the Group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets. We considered the group's climate change risk assessment and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We determined that no heightened audit risk arose in the year in respect of climate change. We have read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 45 to 51 and considered consistency with the financial statements and our audit knowledge.

Materiality

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

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

	Financial statements – group	Financial statements – company
Overall materiality	£30,000,000 (2022: £30,000,000).	£28,500,000 (2022: £28,500,000).
How we determined it	0.13% of total assets	0.12% of total assets
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group (see company rationale), accordingly group materiality is also based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.13% of total group assets was deemed to be most appropriate.	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Thames Water Utilities Limited is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we assess that aligned to the key focus of the Group on the maintenance and investment in the infrastructure it owns and operates, that the asset base is the appropriate benchmark. For PIE entities a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks and therefore using the lower percentage of 0.12% of total company assets was deemed to be most appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £25.5 million to £28.5 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £22,500,000 (2022: £22,500,000) for the group financial statements and £21,375,000 (2022: £21,375,000) 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 that we would report to them misstatements identified during our audit above £3.0 million (group audit) (2022: £3.0 million) and £2.85m (company audit) (2022: £2.85 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

Conclusions relating to going concern

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

- Testing the mathematical integrity of the cash flow forecasts and the models supporting the forecasts used by management to support their going concern assumption and reconciling these to Board approved budgets.
- Understanding the key assumptions management have applied in developing their base case and severe but plausible downside scenarios where it was assessed there was sufficient headroom to "trigger" and "event of default" thresholds. These can be split as those that are more judgemental in nature and those that are less judgemental. For those less judgemental assumptions such as revenue growth, we verified this to published tariffs for FY24 in compliance with Ofwat's guidance. For those more judgemental assumptions such as power costs which is a largely non-discretional cost subject to volatility, we understood the basis on which management had made these assumptions. We challenged various aspects of management's base case and downside scenarios, including how management have created their severe but plausible downside case as a combination of various individual scenarios. We concluded that the base case was reasonable and the downside case appropriately severe but plausible .
- Performing a comparison of budget versus actual for the year ended 31 March 2023 and understanding where variances had arisen. Through this testing we obtained reasonable assurance over management's ability to forecast accurately.
- Developing our own assessment of forecast FY24 operating cashflows, by taking the FY23 operating cashflow and including forecast positive cashflow movements we considered to be less judgemental (e.g. revenue growth). We then considered the level of additional spend that would need to be incurred in excess of the FY23 actuals for a breach to occur on the PMICR covenant assuming no mitigating actions from management. From this assessment we concluded that it was unlikely that expenditure could be at a level to lead to a covenant breach.
- Verifying liquidity forecasts to the Board approved budget and testing that contractual debt principal and interest payments had been appropriately included within the forecasts. We considered the headroom of expected cash outflows in the going concern period against available liquidity, identifying a reasonable level of headroom to allow for unexpected spend.
- Obtaining and understanding the terms of the Group's financing and credit facilities, the Whole Business Securitisation, and in particular the financial covenants that the Group must adhere to. We have verified the existence of the facilities in place on which management has based its liquidity forecast for a period of in excess of 12 months from the date of the approval of the 31 March 2023 financial statements (the going concern period).
- Obtaining covenant compliance certificates, confirming that all the key covenants that impact the continued access to finance have been considered over the relevant time periods and verifying the mathematical accuracy, and testing inputs back to either the year end financial numbers or for forecasted information to the Board approved budget.
- Obtaining the latest credit ratings for the TWUL group and verifying that the group maintained an investment grade rating through the year and up to the date of this report and therefore taking reasonable assurance that the Group should still be able to access capital markets as required.
- Performing enquiries and reviewing correspondences with Regulators and various stakeholders to corroborate management's position and assess if there is any contradictory information in light of increasing media attention and regulatory scrutiny.
- Assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section of the Annual Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit, Risk and Reporting Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations, Listing Rules and Pension legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK corporation tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year or those that would directly impact operating cashflows to create additional headroom for covenant compliance, specifically journals to increase revenue, decrease the bad debt provision and reclassify costs from the income statement to property, plant and equipment. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and enquiries of management, the internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments, including challenging management in relation to how they have considered climate risk in such critical estimates. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where available along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Performing unpredictable procedures by sampling non-standard payments, the set up of new suppliers, vendor detail changes, testing of dormant and non period-end bank accounts, and posting of journal entries from unexpected users.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Reporting Committee, we were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2019 to 31 March 2023.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
10 July 2023

Consolidated income statement

For the year ended 31 March

	Note	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
Revenue	2	2,180.7	84.5	2,265.2	2,092.0	84.9	2,176.9
Operating expenses excluding impairment losses on financial and contract assets	3	(1,994.4)	–	(1,994.4)	(1,833.2)	–	(1,833.2)
Impairment losses on financial and contract assets	3,15	(22.3)	(0.1)	(22.4)	(10.1)	(0.1)	(10.2)
Total operating expenses		(2,016.7)	(0.1)	(2,016.8)	(1,843.3)	(0.1)	(1,843.4)
Other operating income	2	107.6	–	107.6	95.7	–	95.7
Operating profit		271.6	84.4	356.0	344.4	84.8	429.2
Finance income	5	223.7	–	223.7	128.8	–	128.8
Finance expense	5	(700.2)	–	(700.2)	(513.3)	–	(513.3)
Net gains/(losses) on financial instruments	6	122.3	–	122.3	(895.5)	–	(895.5)
Profit/(loss) on ordinary activities before taxation		(82.6)	84.4	1.8	(935.6)	84.8	(850.8)
Tax (charge)/credit on profit/(loss) on ordinary activities	7	(49.7)	17.8	(31.9)	(106.4)	(16.1)	(122.5)
(Loss)/profit for the year		(132.3)	102.2	(30.1)	(1,042.0)	68.7	(973.3)

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

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
(Loss)/profit for the year		(132.3)	102.2	(30.1)	(1,042.0)	68.7	(973.3)
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial gain/(loss) on pension schemes	23	69.4	–	69.4	(22.9)	–	(22.9)
Deferred tax (charge)/credit on net actuarial gain/(loss)	20	(16.8)	–	(16.8)	11.8	–	11.8
Impact of tax rate change in prior year in respect of net actuarial losses	20	–	–	–	31.1	–	31.1
May be reclassified to the income statement:							
Cash flow hedge transferred to income statement	19	21.1	–	21.1	31.1	–	31.1
Deferred tax charge on cash flow hedge including impact of tax rate change in prior year	20	(4.0)	–	(4.0)	(4.6)	–	(4.6)
Other comprehensive income for the year		69.7	–	69.7	46.5	–	46.5
Total comprehensive income/(expense) for the year		(62.6)	102.2	39.6	(995.5)	68.7	(926.8)

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

Consolidated statement of financial position

As at

	Note	31 March 2023 Underlying £m	31 March 2023 BTL £m	31 March 2023 Total £m	31 March 2022 Underlying £m	31 March 2022 BTL £m	31 March 2022 Total £m
Non-current assets							
Intangible assets	9	263.3	–	263.3	284.8	–	284.8
Property, plant and equipment	10	18,017.4	–	18,017.4	16,949.8	–	16,949.8
Investment property	11	2.0	–	2.0	50.0	–	50.0
Right-of-use assets	12	39.8	–	39.8	45.8	–	45.8
Derivative financial assets	19	417.2	–	417.2	169.2	–	169.2
Intercompany loans receivable	13	1,249.1	–	1,249.1	1,693.4	–	1,693.4
Prepayments	15	–	377.9	377.9	–	308.8	308.8
Insurance and other receivables	15	64.6	–	64.6	45.6	–	45.6
Pension asset	23	6.0	–	6.0	12.0	–	12.0
		20,059.4	377.9	20,437.3	19,250.6	308.8	19,559.4
Current assets							
Inventories	14	20.9	–	20.9	13.0	–	13.0
Intercompany loans receivable	13	0.2	–	0.2	8.4	–	8.4
Contract assets	15	253.6	5.2	258.8	251.0	8.5	259.5
Trade receivables	15	315.9	16.8	332.7	301.9	14.0	315.9
Prepayments	15	48.8	–	48.8	36.9	–	36.9
Other receivables and amounts owed by group undertakings	15	134.4	(16.6)	117.8	36.4	1.0	37.4
Derivative financial assets	19	31.9	–	31.9	22.9	–	22.9
Cash and cash equivalents	16	1,829.3	7.0	1,836.3	419.8	5.2	425.0
		2,635.0	12.4	2,647.4	1,090.3	28.7	1,119.0
Current liabilities							
Contract liabilities	17	(130.1)	–	(130.1)	(125.1)	(2.0)	(127.1)
Trade and other payables	17	(821.2)	–	(821.2)	(649.2)	(49.2)	(698.4)
Borrowings	18	(2,280.5)	–	(2,280.5)	(749.2)	–	(749.2)
Lease liabilities	12	(7.3)	–	(7.3)	(6.2)	–	(6.2)
Derivative financial liabilities	19	(67.1)	–	(67.1)	(103.0)	–	(103.0)
Provisions for liabilities and charges	21	(35.0)	–	(35.0)	–	–	–
		(3,341.2)	–	(3,341.2)	(1,632.7)	(51.2)	(1,683.9)
Net current (liabilities)/assets		(706.2)	12.4	(693.8)	(542.4)	(22.5)	(564.9)

	Note	31 March 2023 Underlying £m	31 March 2023 BTL £m	31 March 2023 Total £m	31 March 2022 Underlying £m	31 March 2022 BTL £m	31 March 2022 Total £m
Non-current liabilities							
Contract liabilities	17	(921.7)	–	(921.7)	(831.8)	–	(831.8)
Borrowings	18	(13,457.4)	–	(13,457.4)	(12,547.5)	–	(12,547.5)
Lease liabilities	12	(49.7)	–	(49.7)	(57.1)	–	(57.1)
Derivative financial liabilities	19	(1,924.7)	–	(1,924.7)	(2,238.7)	–	(2,238.7)
Deferred tax	20	(1,190.2)	–	(1,190.2)	(1,046.4)	–	(1,046.4)
Provisions for liabilities and charges	21	(192.7)	–	(192.7)	(185.0)	–	(185.0)
Pension deficit	23	(182.0)	–	(182.0)	(257.3)	–	(257.3)
		(17,918.4)	–	(17,918.4)	(17,163.8)	–	(17,163.8)
Net assets		1,434.8	390.3	1,825.1	1,544.4	286.3	1,830.7
Equity							
Called up share capital	22	29.0	–	29.0	29.0	–	29.0
Share premium	22	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	22	(16.1)	–	(16.1)	(33.2)	–	(33.2)
Revaluation reserve	22	795.5	–	795.5	820.1	–	820.1
Retained earnings	22	526.4	390.3	916.7	628.5	286.3	914.8
Total equity		1,434.8	390.3	1,825.1	1,544.4	286.3	1,830.7

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and we have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

The consolidated financial statements (which include the accompanying accounting policies and notes) for the Company, registered in England & Wales company number 02366661, were approved by the Board of Directors on 10 July 2023 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended

	Note	Called up share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
1 April 2021		29.0	100.0	(59.7)	903.1	1,822.2	**2,794.6**
Loss for the year		–	–	–	–	(973.3)	**(973.3)**
Cash flow hedge transferred to income statement	19	–	–	31.1	–	–	**31.1**
Deferred tax charge on cash flow hedge including impact of tax rate change	20	–	–	(4.6)	–	–	**(4.6)**
Net actuarial loss on pension scheme	23	–	–	–	–	(22.9)	**(22.9)**
Deferred tax credit on net actuarial loss	20	–	–	–	–	11.8	**11.8**
Impact of tax rate change in current year in respect of net actuarial loss	20	–	–	–	–	31.1	**31.1**
Total comprehensive (expense)/income		–	–	26.5	–	(953.3)	**(926.8)**
Transfer of depreciation[1]		–	–	–	(21.5)	21.5	**–**
Deferred tax on depreciation transfer[1]		–	–	–	(61.5)	61.5	**–**
Dividends paid	8	–	–	–	–	(37.1)	**(37.1)**
31 March 2022		29.0	100.0	(33.2)	820.1	914.8	**1,830.7**
Loss for the year		–	–	–	–	(30.1)	**(30.1)**
Cash flow hedge transferred to income statement	19	–	–	21.1	–	–	**21.1**
Deferred tax charge on cash flow hedge	20	–	–	(4.0)	–	–	**(4.0)**
Net actuarial gain on pension scheme	23	–	–	–	–	69.4	**69.4**
Deferred tax charge on net actuarial gain	20	–	–	–	–	(16.8)	**(16.8)**
Total comprehensive income		–	–	17.1	–	22.5	**39.6**
Transfer of depreciation[1]		–	–	–	(32.8)	32.8	**–**
Deferred tax on depreciation transfer[1]		–	–	–	8.2	(8.2)	**–**
Dividends paid	8	–	–	–	–	(45.2)	**(45.2)**
31 March 2023		29.0	100.0	(16.1)	795.5	916.7	**1,825.1**

1 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax (including the impact of the tax rate change) on the fair value uplift on assets.

Consolidated statement of cash flows

For the year ended 31 March

		2023			2022		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Net cash generated by operating activities[1]	28	**1,114.4**	**1.8**	**1,116.2**	1,191.4	1.6	1,193.0
Investing activities:							
Purchase of property, plant and equipment		**(1,554.8)**	**–**	**(1,554.8)**	(1,271.7)	–	(1,271.7)
Purchase of intangible assets		**(43.6)**	**–**	**(43.6)**	(72.3)	–	(72.3)
(Costs)/proceeds from sale of property, plant and equipment		**(7.0)**	**–**	**(7.0)**	1.3	–	1.3
Interest received		**229.6**	**–**	**229.6**	113.2	–	113.2
Repayment of loans by parent company		**444.3**	**–**	**444.3**	–	–	–
Net cash used in investing activities		**(931.5)**	**–**	**(931.5)**	(1,229.5)	–	(1,229.5)
Financing activities:							
New loans raised[2]		**5,070.8**	**–**	**5,070.8**	3,585.4	–	3,585.4
Repayment of borrowings[3]		**(3,221.4)**	**–**	**(3,221.4)**	(3,321.5)	–	(3,321.5)
Repayment of lease principal		**(10.0)**	**–**	**(10.0)**	(9.9)	–	(9.9)
Proceeds from derivative settlement[4]		**48.1**	**–**	**48.1**	20.6	–	20.6
Payment for derivative settlement[5]		**(412.6)**	**–**	**(412.6)**	–	–	–
Interest paid		**(186.8)**	**–**	**(186.8)**	(271.5)	–	(271.5)
Net fees (paid)/received		**(16.3)**	**–**	**(16.3)**	1.0	–	1.0
Dividends paid		**(45.2)**	**–**	**(45.2)**	(37.1)	–	(37.1)
Net cash generated by/(used in) financing activities		**1,226.6**	**–**	**1,226.6**	(33.0)	–	(33.0)
Net increase/(decrease) in cash and cash equivalents		**1,409.5**	**1.8**	**1,411.3**	(71.1)	1.6	(69.5)
Net cash and cash equivalents at beginning of period		**419.8**	**5.2**	**425.0**	490.9	3.6	494.5
Net cash and cash equivalents at end of period		**1,829.3**	**7.0**	**1,836.3**	419.8	5.2	425.0

1 Net cash generated by operating activities for the year ended 31 March 2023 includes £nil (31 March 2022: £nil) payments that are considered to be exceptional. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which related to upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2023 would be £1,091.5 million, which would have included a cash payment of £24.7 million.
2 New loans raised of £5,070.8 million (2022: £3,585.4 million) includes £2,616.3 million (2022: £2,430.0 million) of drawdowns relating to revolving credit facilities including £1,875.0 million Class A and £741.3 million Class B (2022: £1,770.0 million Class A and £660.0 million Class B). The remaining amount includes £1,436.9 million (net of fees) bonds issuances and £1,017.6 million (net of fees) relating to loans raised (2022: £958.0 million (net of fees) from bond issuances and £197.4 million (net of fees) relating to loans raised).
3 Repayment of borrowings of £3,221.4 million (2022: £3,321.5 million) includes £2,616.3 million (2022: £2,273.5 million) of repayments relating to revolving credit facilities including £1,875.0 million Class A and £741.3 million Class B (2022: £1,770.0 million Class A and £503.5 million Class B). The remaining amount includes £188.8 million loan repayments and £416.3 million bond repayments (2022: £527.0 million loan repayments and £521.0 million bond repayments).
4 Proceeds from derivative settlement of £48.1 million includes £18.9 million (2022: £nil) relating to accretion received on index-linked swaps and £29.2 million (2022: £20.6 million) relating to settlement of cross currency swaps.
5 Payment for derivative settlement of £412.6 million includes £408.4 million (2022: £nil) relating to accretion paydown on index-linked swaps and £4.2 million (2022: £nil) relating to settlement of cross currency swaps.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow amounts are amounts in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

Accounting policies

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

General information

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

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

As at 31 March 2023, the Group includes the Company and Thames Water Utilities Finance Plc ("TWUF") as its sole subsidiary.

Statement of compliance with International Financial Reporting Standards

These consolidated and Company only 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 consolidated and Company only financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

Going concern

The consolidated financial statements for the year ended 31 March 2023, set out on pages 121 to 163, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

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

In June 2022, to support Thames Water in the delivery of its updated business plan, Shareholders provided a commitment letter where they agreed to contribute, or cause to be contributed, an aggregate £500 million of funding, available to be drawn in full by the Group in March 2023. This funding was received on 30 March 2023. There has been a continual and constructive engagement with Shareholders on further support in AMP7 to enable Thames Water to deliver its business plan. Consequently, on 10 July 2023 shareholders provided a letter setting out further support totalling £750 million during the remainder of AMP7. This support is subject to specific conditions including Investment Committee approval by each Shareholder and, consequently, it has not been considered in the liquidity assessment for the going concern review. For the purposes of assessing covenant compliance, the Board has sufficient confidence that it is the intention of the Shareholders to provide the additional funding and it is a reasonable expectation to include the indicated level of support in the financial years ending 31 March 2024 and 31 March 2025 for the purposes of calculating forecast covenant metrics.

The Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 31 March 2023, such liquidity consisted of £1.8 billion of cash and cash equivalents, access to £3.0 billion of committed credit facilities of which £2.6 billion was undrawn, and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances).

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

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

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

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

The Directors have also considered the consequences of a Trigger Event, a feature of the Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing committed facilities. A Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the Group's ability to trade. A cash lockup prevents distributions to protect the interests of creditors and customers.

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

Basis of consolidation

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

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

Bazalgette Tunnel Limited ("BTL") arrangement

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

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the 'pay when paid' principle.

Accounting policies continued

Accounting standards require the Group to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable. This non-appointed revenue, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, a prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to the Company once construction is complete, against which this prepayment will be utilised.

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

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

Revenue recognition

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

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

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

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

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

Revenue includes amounts that the Company billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the previous BTL arrangement section.

Refer to page 133 for significant accounting estimates and judgements concerning revenue recognition.

Other operating income

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

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

Contributions received for infrastructure charges (which meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure) are initially held within contract liabilities (deferred income). The Company considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Company to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Company recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the consolidated income statement.

Contract assets

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

Accounting policies continued

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

Net gains/(losses) on financial instruments

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

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

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/(losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 130 for more details.

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome.

Intangible assets

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

	Years
Software	5-10

Assets in development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Under the International Financial Reporting Interpretations Committee (IFRIC) legislation, the treatment of Software-as-a-service (SaaS) solutions customisation and configuration arrangements should be expensed unless they meet the criteria for being recognised as a separate asset under IAS 38. Whilst this is not a separate legislative instrument, the Agenda Decision is considered mandatory when complying with IFRS. Customisation costs are analysed through review of purchase order information, documentation held and discussion with Digital technical experts to ensure the correct amount is capitalised.

Accounting policies continued

Property, plant and equipment

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

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

Within Land and Buildings are assets acquired in relation to the Thames Tideway Tunnel project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed in line with the agreement with Ofwat.

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

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

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

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

Investment property

Investment property comprises of one building originally purchased in relation to the Thames Tideway Tunnel project to perform necessary works relating to the construction and integration of the tunnel into our network; however, the floor space in this building is being offered to external parties under short term leases and, therefore, the property meets the definition of Investment Property. Investment Property is accounted for under the cost method of IAS 40. The property is expected to have a residual value either equal or above that of the acquisition cost, therefore no depreciation is charged.

BTL arrangement

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at the sum of BTL prepayment and the present value of the future minimum contract payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

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

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

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

Investment in subsidiary undertaking

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company Income Statement only. An impairment review is performed on an annual basis.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

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

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

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

Accounting policies continued

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable where those assets may be subject to significant increase in credit risk for example due to the impact of cost of living increases. The Group's assessment for calculating expected credit losses is explained below. In addition, Management has considered the impact of cost of living increases, and has created a provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case.

(i) Directly billed

A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on actual performance in the year and age of debt. The amount that remains is expected to not be collected and therefore needs to be covered by a bad debt provision. Debt that is older than 5 years is fully provided for. The model considers the impact on provisions for billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors; for instance, debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses. Refer to page 133 for explanations of judgement applied.

Directly Billed Write Off Policy

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

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

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- Where the value of the debt makes it uneconomic to pursue – all debts of less than £5 are written off;
- Where the age of the debt exceeds the statute of limitations – all debts of greater than 6 years old are written off, taking into account usual business rules;
- Where county court proceedings and attempts to recover the debt by debt collection agencies (multiple in some cases) have proved unsuccessful including where the customer does not have any assets or has insufficient assets on which to levy execution; and
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

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

(ii) Water Only Companies

A provision is also made against debts held by Water Only Companies ("WOCs") who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we use an average of two data points when calculating the provisions – WOC Statutory Accounts and TW directly billed ("DB") provision rates–taking a single data point is not appropriate as collection rates, write-off and provisioning policies, differ from company to company. Where provision rates have been provided by the WOCs this has been used as it accurately reflects the provision required to cover future write-offs. In addition, Management has considered the impact of cost of living increases, and has created a provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case.

We consider current performance and any information available to create the provision we then make management judgements in respect of future credit losses, in accordance with the requirements of IFRS 9.

(iii) BTL

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

(iv) Non-Household

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

Intercompany loans receivable

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

For loans repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. The Group has considered the recoverability of the intercompany receivables as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany receivables, the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

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

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

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

Accounting policies continued

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

Cash and cash equivalents

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

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

Interest bearing borrowings including those issued to other group companies

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

An exchange or modification of interest-bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred recognised as part of the gain or loss on the extinguishment. In the case of exchange or modification of interest-bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV").

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use.

Defined benefit schemes

The Group operates two, independently administered, defined benefit pension schemes, both of which are closed to new employees. One of these schemes, Thames Water Pension Scheme ("TWPS"), was closed to future accrual as of 31 March 2021. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

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

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

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

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

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

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

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

Defined contribution schemes

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

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

Long-term incentive plans ("LTIP") and bonus

LTIP

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company's performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Company's performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

LTIP 2021/24 is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan. 50% of the targets are focused on the delivery of an overarching "Integrated Performance Assessment" measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customers, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollutions. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

LTIP 2020/23 (2022: 2019/2022) is a three-year LTIP scheme with a performance period from 1 April 2020 to 31 March 2023 (2022: 1 April 2019 to 31 March 2022). The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan and 80% of the targets are focused on delivery of key customer outcomes including the delivery of leakage and environmental targets. This management incentive was accrued during the period based on management's assessment of performance against the targets set. This management incentive was accrued during the period based on management's assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

Accounting policies continued

Bonus

Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set and approved by the Remuneration Committee.

Provisions for liabilities and charges

Provisions are recognised when:

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

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

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material. Provisions booked and released in the period are recognised through operating expenses.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2020 to 31 March 2025 is known as AMP7, and the prior period 1 April 2015 to 31 March 2020 was known as AMP6.

The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

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

The majority of our AMP7 performance commitments ("PCs") have financial ODIs and are subject to either an in-period or an end-of-AMP revenue adjustment. For PCs with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For PCs with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 19.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

The group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. At the inception of each designated hedge relationship the Group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The economic relationship between the hedged item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The Group uses the hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

There are currently no active hedge accounting relationships.

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments. The amounts recognised on the cash flow hedge reserve are recycled to the income statement as phased release over the relevant hedging period and where the related debt has been issued and has not matured. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments

Embedded derivatives

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

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

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

As at 31 March 2023, no embedded derivatives were recognised (31 March 2022: none).

Offsetting financial instruments

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

Power prices forward contracts

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

Accounting policies continued

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 19. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee and the amount can be reliably measured.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency and the functional currency of the Company, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Leases

Recognition of leases

As a lessee

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

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

Right-of-use asset

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

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

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

Lease liability

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

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

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

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

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

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2%.

Short-term leases and leases of low-value assets

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

As a lessor

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

IBOR reform

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

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

Refer to the IBOR reform section included in Note 19 Fair value of financial instruments on page 155 for details of all of the financial instruments that the Group holds at 31 March 2023 which contain references to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark.

Future standards and amendments

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

Accounting policies continued

IFRS 17 'Insurance Contracts' impact assessment

IFRS 17 'Insurance Contracts', which replaces IFRS 4 'Insurance Contracts', establishes new principles for the recognition, measurement, presentation, and disclosure of insurance and reinsurance contracts and is mandatory for annual reporting periods beginning on or after 1 January 2023. The Group will adopt IFRS 17 as at 1 April 2023 and apply the new rules retrospectively.

Management has conducted an assessment of the impact of IFRS 17 and is expecting the following impact:

Financial guarantee contracts

The Group is party to a number of financial guarantee contracts for the purposes of its principal activities that are currently not accounted for in the statement of financial position due to the likelihood of a payment in respect of the guarantee not being probable.

These arrangements include the whole business securitisation, where TWUHL guarantees obligations of TWUF and TWUL; and TWUF and TWUL guarantee the obligations of each other.

Financial guarantee contracts are currently treated as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

On transition to IFRS 17, the Group expect to make the election to apply the requirements in IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments' to these financial guarantee contracts.

These requirements include recognising the financial guarantees at fair value on initial application in the company standalone accounts, and then assessing the fair value (less amortisation recognised) against IFRS 9 expected credit losses at each reporting period.

The fair value on initial application is not currently reasonably estimable and management plans to make further progress on identifying the impact of IFRS 17 during the period to initial application.

IAS 12 Income Taxes

Amendments have been proposed by the IASB under IAS 12 to clarify the deferred tax accounting for leases and decommissioning obligations, with effect from 1 April 2023. We have considered the implications of this and have concluded that no changes will be required to amounts recognised on adoption

Exceptional items

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

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

The Directors consider that any individual gain or loss on disposal of greater than £30.0 million would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances. These will be explained in the notes of the accounts on a case-by-case basis where relevant.

Exceptional items recognised in the consolidated and Company only financial statements in the prior year related to transformation expenditure incurred from restructuring the business. These costs significantly changed how the Company operated and therefore are considered to be exceptional in nature and outside the ordinary course of business. The Group had additionally made a pension deficit repair payment of £69.7 million covering the financial periods from 2021/22 to 2024/25. This was treated as an exceptional cash flow in the period ended 31 March 2021 since this deficit repayment over the remaining AMP period is unusual by scale and of such significance that it would be beneficial to users of the financial statements to be disclosed separately in order to ensure our reporting cash flow movement reflects our ordinary business.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Company, and to enhance the comparability of information between reporting periods. EBIT was an APM in the prior year and has been removed in the current year as it does not provide additional useful information to users of the accounts.

Capital expenditure ("capex")

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

Net debt

Net debt is presented in note 19 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the whole business securitisation covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised IFRS 9 transition costs, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 19.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt. Refer to page 131 for more information.

Regulatory Capital Value ("RCV")

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

Gearing

Gearing is the percentage of the Company's covenant net debt to RCV and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Accounting policies continued

Credit rating

The Company must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement.

As required by some of our financial covenants, we disclose our underlying performance separately.

Bazalgette Tunnel Limited ("BTL")

BTL is the financial performance of the Group from the arrangement with BTL. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance. Refer to page 127 for more information on the BTL arrangement.

EBITDA

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") is a key performance metric used by management. EBITDA has been reconciled to statutory profit before tax in note 1 Segmental Analysis.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2023 are contained in the sections below:

Revenue recognition

Accounting judgement – revenue recognition

Water and wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in underlying revenue for the current year of £68.3 million (2022: £57.1 million), with a corresponding decrease in receivables as shown in note 15.

Connections, requisitions and diversions

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

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and the Group will have a present right to payment for work performed to date.

The charges are standalone and are not reflective of the ongoing obligation to supply the occupants of the newly connected properties. Supply to the occupants is charged on a standalone basis. This supports the decision not to defer connections/requisitions charges beyond completion of the service to the developer.

Infrastructure charges

Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Accounting judgement and estimation – provision for expected credit losses

The directly billed model uses historical performance to determine the collectability of the debtors in the future. The level of uncollectable debt is determined based on performance in the year with the assumption that performance will repeat in future years. The model takes the closing household debtors and then deducts the amount that will be collected or cancelled based on historical performance. The amount that remains is estimated that it will not be collected and will form the bad debt provision. Using the 2022/23 performance ensures the most up to date information is used in determining the level of provision required. An adjustment was made in the model to remove any performance that will not repeat in the future. The judgement this year remains focused on the cost of living crisis.

Management has considered the future impact of increases in the cost of living on customers' ability to pay their water and wastewater bills and has increased the provision by £5.0 million across directly billed customers and WOCs from what the underlying historical performance model would suggest. No adjustment has been made for non-household customers as management have assessed future cash flows and the risk of non-payment was not considered to be material.

Management believes that on balance, FY23 collection performance reflects the majority of the anticipated cost of living impact with economic indicators giving a more positive outlook at year end. However, some risks remain to the assumption that cash collection rates seen over the past 12 months will be sustainable throughout the remainder of the cost of living crisis, including the potential impact of inflation-driven interest rate increases on homeowners, council tax, and level of business investment in the UK. Management therefore considers it appropriate to make an additional top up provision of £5m in recognition of the risks.This top up would represent a deterioration of future collection rates, being the proportion of collected cash from the opening debt and billing in the year, from 77.2% to 75.0%.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2023 was £157.2 million (2022: £150.5 million). The increase was due to an increase in the Directly Billed, WOCs and rebilled revenue provisions, primarily as a result of the impact of high inflation on real worker wages.

Accounting policies continued

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers, which is based on cash collection performance in the year to determine the level of the provision required. For WOCs, the provision applied average of the information from their statutory accounts in relation to the level of bad debt provision held for billed and unbilled debtors and the provision rate applied to Directly billed customers. A decrease or increase of 1.9% to the rates is deemed a plausible sensitivity to apply given that the a decline in cash collections at this rate would represent the lowest collections observed within a reasonable timescale. The sensitivity analysis is summarised below:

Directly Billed

Scenario	£m	Outcome
Directly Billed cash collection rates increase by 1.9%	(4.5)	Reduction in charge
Directly Billed cash collection rates reduce by 1.9%	4.5	Increase in charge

WOCs

Scenario	£m	Outcome
Reduction in WOC collection rates by 1.9%	(1.9)	Reduction in charge
Increase in WOC collection rates by 1.9%	1.9	Increase in charge

Property, plant and equipment and intangible assets

Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2023 were £1,724.9 million (2022: £1,281.7 million). Intangibles additions for the year ended 31 March 2023 were £44.8 million (2022: £72.3 million). Both figures include own works capitalised and capitalised borrowing costs.

Own works capitalised for the year ended 31 March 2023 of £289.0 million (2022: £226.7 million) includes employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangible assets for the year ended 31 March 2023 were £215.2 million (2022: £115.3 million).

Accounting estimate – depreciation and amortisation

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

An assessment of the impact of climate change on accounting estimates was performed. This included assessment of the delivery plan to reach net zero carbon emissions by 2030. Initiatives include use of electric vehicles (and related infrastructure), producing renewable energy (biomethane) from wastewater for injection into the grid and use in powering our assets, generation of solar power and improved energy efficiency in operational processes. Procurement and construction of these investments will happen in future reporting periods and will replace assets which have reached the end of their useful lives. No impairment charges or changes in UELs were identified.

The total depreciation charge for the year ended 31 March 2023 was £637.3 million (2022: £623.7 million) and the total amortisation charge for the year was £65.9 million (2022: £55.6 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Property, plant and equipment and intangible assets (continued)

Scenario	£m	Outcome for the year ended 31 March 2023
5 year increase in average remaining useful life	(85.7)	Decrease in total depreciation and amortisation charge in the year
5 year decrease in average remaining useful life	114.0	Increase in total depreciation and amortisation charge in the year

Provisions for other liabilities and charges

Accounting judgement – recognition of environmental and legal provisions

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

Environmental and legal provisions, which are detailed in note 21, total £78.7 million as at the year ended 31 March 2023 (2022: £53.6 million).

Accounting estimate – valuation of provisions

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

Provisions for liabilities and charges as at 31 March 2023 totalled £227.7 million (2022: £185.0 million). There is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided or disclosed as a contingent liability.

Retirement benefit obligations

Accounting estimate – actuarial assumptions

The Group operates two defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2019, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2019, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. Under UK regulations, the Group has 15 months to complete the triennial valuation from the valuation date of 31 March 2022. The next review will be completed and signed off after the financial statements have been published. The pension liability and net cost recognised under IAS 19 Employee Benefits are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

Accounting policies continued

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and together represent a key source of estimation uncertainty. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- inflation.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the two schemes as at 31 March 2023 was £176.0 million (2022: £245.3 million), which includes a pension deficit of £182.0 million (2022: £257.3 million) for the TWPS scheme, offset by a pension surplus of £6.0 million (2022: £12.0 million) for the TWMIPS scheme. Refer to note 23 for more information on the key assumptions and sensitivities of the pension schemes.

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

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

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

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

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed

Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index-linked swaps are measured using discounted cash flows of all of the transactions within each netting set. The future cash flows are estimated based on observable forward interest rates and inflation rates and future fair values are estimated under a wide range of market scenarios and discounted at a rate that reflects the credit risk of the Group and counterparties. In cases where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level 2. The net total of derivative financial assets and liabilities as at 31 March 2023 was a liability of £1,542.7 million (2022 a liability of: £2,149.6 million). Refer to note 19 on page 152 for more information on the key assumptions and sensitivities of the financial instruments.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change in the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During 2019/20, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. 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 balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2023, £31.3 million (2022: £33.3 million) remained capitalised and £2.0 million had been recognised in the income statement (2022: £2.0 million). See note 19 to the consolidated financial statements "Financial Instruments" for more information.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement – principal vs. agent

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

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

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

Notes to the consolidated financial statements

1. Segmental analysis

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

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

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

From 1 April 2017, our customer profile changed following the sale of our non-household retail business to Castle Water Limited. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer. There is now a far smaller number of non-household customers, being retailers rather than the end user and we have one customer (Castle Water Limited) that accounts for more than 10% of our total revenue.

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

Segmental performance

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

Year ended 31 March	2023 £m	2022 £m
Management revenue	2,248.6	2,148.8
Net operating expenses before depreciation and amortisation	(1,319.4)	(1,203.3)
Other operating income	5.2	18.5
Management EBITDA[1]	**934.4**	964.0
IFRS 16 adjustment[2]	(4.1)	10.2
Statutory recognition of other operating income[3]	73.1	55.7
Statutory reclassification of pension costs[4]	(1.8)	9.9
Household BTL revenue[5]	69.7	71.2
Non-household BTL revenue[5]	15.2	14.0
Other statutory adjustments[6]	(0.3)	(0.8)
EBITDA post statutory adjustments	**1,086.2**	1,124.2
Depreciation of property, plant and equipment	(637.3)	(623.7)
Depreciation of right-of-use assets	(8.8)	(5.7)
Amortisation of intangible assets	(65.9)	(55.6)
Impairment of property, plant and equipment	(18.2)	(10.0)
Total statutory operating profit before finance income/expenses	**356.0**	429.2
Finance income	223.7	128.8
Finance expense	(700.2)	(513.3)
Net gains/(losses) on financial instruments	122.3	(895.5)
Total statutory profit/(loss) before tax	**1.8**	(850.8)

1 Management EBITDA has been updated for the prior period, this reflects other operating income as an adjustment to Management EBITDA see footnote 3.
2 Within management numbers a financial liability is not recognised for the term of the lease and no right of use asset is recognised. The expense is recognised proportionally over the lease term rather than interest and depreciation.
3 Other operating income includes requisitions and diversion charges, service connection charges, amortisation of deferred income recognised on adoption of assets at nil cost and the release from deferred income of infrastructure charges. Elements of other income are included for statutory purposes but are offset against capital expenditure for management purposes.
4 Contributions made into the defined benefit pension schemes are recognised on an accruals basis. To ensure the accounting is in line with IAS 19, any accruals made for contributions are reversed and are recognised on a cash basis for statutory purposes.
5 The portion of BTL revenue related to our household and non-household customers.
6 These amounts relate to insurance, provisions and other statutory only adjustments not included in management numbers.

Revenue – Management to statutory reconciliation

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

Year ended 31 March	2023 £m	2022 £m
Management revenue	2,248.6	2,148.8
Household BTL revenue	69.7	71.2
Non-household BTL revenue	15.2	14.0
Statutory reclassification of bad debt from operational expenditure[1]	(68.3)	(57.1)
Total statutory revenue	**2,265.2**	2,176.9

1 This relates to amounts billed that are not probable of being recovered and therefore excluded from IFRS 15 revenue. In the current year, £67.7 million relates to management revenue (2022: £56.7 million) and £0.6 million relates to BTL revenue (2022: £0.4 million).

Notes to the consolidated financial statements continued

2. Revenue

Year ended 31 March	Note	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
Gross revenue		2,248.4	85.1	2,333.5	2,149.1	84.9	2,234.0
Charge for bad and doubtful debts	15	(67.7)	(0.6)	(68.3)	(57.1)	–	(57.1)
Total		2,180.7	84.5	2,265.2	2,092.0	84.9	2,176.9

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. The Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected it is paid over to BTL under the 'pay when paid' principle. The revenue on this arrangement has been disclosed separately to the Group's underlying performance in the table above, which is consistent with our financial covenants. The primary reason for the increase in BTL revenue is driven by the phasing of construction works.

We have presented a further disaggregation of our revenue below:

Gross revenue for the year ended 31 March	2023 £m	2022 £m
Household market		
Water services	767.7	754.1
Wastewater services	903.3	870.7
Retail services	129.9	135.9
Total gross revenue from household market	1,800.9	1,760.7
Non-household market		
Water services	208.3	177.7
Wastewater services	193.3	165.3
Retail services	1.3	1.3
Total gross revenue from non-household market	402.9	344.3
Gross revenue from principal services[1]	2,203.8	2,105.0
Other appointed revenue[2]	22.3	20.9
Total appointed revenue	2,226.1	2,125.9
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)[3]	22.3	23.3
Total gross underlying revenue	2,248.4	2,149.2
Amounts billed for the Thames Tideway Tunnel	85.1	84.9
Total gross revenue	2,333.5	2,234.1

All revenue is derived from activities based in the UK.

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

Other operating income

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Year ended 31 March	2023 £m	2022 £m
Power income[1]	17.8	15.4
Requisitions and diversions charges	48.4	28.0
Service connections charges	17.4	18.4
Amortisation of deferred income recognised on adoption of assets at nil cost	4.8	4.1
Release from deferred income – infrastructure charges	5.5	5.3
Rental income	7.3	8.6
(Loss)/gain on sale of property, plant and equipment	(3.0)	1.4
Other income[2]	9.4	14.5
Total	107.6	95.7

1 Power income comprises income from the sale of internally generated electricity.
2 Other income includes £7.0 million relating to excess payments received from customers in the past and recognised during the current year (31 March 2022: £5.5 million).

2.1 Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

As at 31 March	Note	2023 £m	2022 £m
Contract assets			
Current			
Accrued revenue for services provided to metered customers		178.2	183.8
Accrued income for other activities[1]		80.6	75.7
Total current contract assets	15	258.8	259.5
Total contract assets		258.8	259.5
Contract liabilities			
Non-current			
Deferred revenue from infrastructure charges		546.2	529.2
Deferred revenue from other activities[2]		375.5	302.6
Total non-current contract liabilities	17	921.7	831.8
Current			
Advance payments received		73.0	73.9
Deferred revenue from infrastructure charges		5.7	5.5
Deferred revenue from other activities[2]		51.4	47.7
Total current contract liabilities	17	130.1	127.1
Total contract liabilities		1,051.8	958.9

1 Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 127).
2 Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Notes to the consolidated financial statements continued

2.2 Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities. No amounts were recognised in the current financial year that relate to performance obligations satisfied, or partially satisfied, in previous periods.

Year ended 31 March	Note	2023 £m	2022 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:			
Advance payments received		73.9	75.4
Deferred revenue from infrastructure charges		5.5	5.3
Deferred revenue from other activities		47.7	43.3
Total	17	127.1	124.0

2.3 Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

Year ended 31 March	2023 £m	2022 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Service connections	9.3	8.9
Requisitions and diversions	153.5	165.4
Infrastructure charges	551.6	534.6
Other	4.8	5.2
Total	719.2	714.1

The Group considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Company considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total unamortised amount which will be recognised as income as the assets continue to depreciate.

For water and wastewater services, the Group has a right to consideration from customers to an amount that corresponds directly with the value to the customer of the entity's performance completed to date, being the provision of such services. As such revenue is recognised to the amount the Group has a right to invoice. Therefore, as allowed by the practical expedient set out in IFRS 15, these revenues are not included in the table above.

3. Operating expenses

	2023			2022		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Wages and salaries	373.8	–	373.8	344.0	–	344.0
Social security costs	39.9	–	39.9	35.1	–	35.1
Pension costs – defined benefit schemes	3.1	–	3.1	4.0	–	4.0
Pension costs – defined contribution schemes	28.7	–	28.7	27.1	–	27.1
Apprenticeship levy	8.0	–	8.0	1.6	–	1.6
Total employee costs	453.5	–	453.5	411.8	–	411.8
Power	228.9	–	228.9	175.7	–	175.7
Raw materials and consumables	80.6	–	80.6	54.6	–	54.6
Rates	118.1	–	118.1	87.8	–	87.8
Research and development expenditure	12.9	–	12.9	11.7	–	11.7
Insurance	62.8	–	62.8	50.8	–	50.8
Legal and professional fees	21.0	–	21.0	20.8	–	20.8
Other operating costs[1]	527.4	–	527.4	551.7	–	551.7
Own works capitalised[2]	(241.0)	–	(241.0)	(226.7)	–	(226.7)
Net operating expenses before depreciation and amortisation	1,264.2	–	1,264.2	1,138.2	–	1,138.2
Depreciation of property, plant and equipment	637.3	–	637.3	623.7	–	623.7
Depreciation of right-of-use assets	8.8	–	8.8	5.7	–	5.7
Amortisation of intangible assets	65.9	–	65.9	55.6	–	55.6
Impairment of property, plant and equipment	18.2	–	18.2	10.0	–	10.0
Operating expenses excluding impairment losses on financial and contract assets	1,994.4	–	1,994.4	1,833.2	–	1,833.2
Impairment losses on financial and contract assets	22.3	0.1	22.4	10.1	0.1	10.2
Total operating expenses	2,016.7	0.1	2,016.8	1,843.3	0.1	1,843.4

1 Other operating costs primarily relate to costs for contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditure under IAS 16: Property, plant and equipment.
2 £48m of impairment of investment property has been capitalised within property, plant and equipment, see note 11

Notes to the consolidated financial statements continued

3. Operating expenses continued

Auditors' remuneration

Amounts payable to the Group's auditors are shown below in respect of the following services to the Group:

	2023 £'000	2022 £'000
Fees payable to the Group's auditors:		
Fees payable for the audit of the Group and Company financial statements	**1,441.0**	1,494.3
Fees payable for the audit of the subsidiary financial statements	**102.7**	96.0
Fees payable to the Group's auditors for other services:		
Audit related assurance services	**204.7**	710.9
Other assurance services	**6.7**	122.1
Total aggregate remuneration	**1,755.1**	2,423.3

Fees payable for the audit of the Group's financial statements in the current financial year exclude £12,000 (2022: £12,000) for out-of-pocket expenses incurred for delivery of the audit.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements for Ofwat.

4. Employees and Directors

Employees

All Company employees are based in the United Kingdom. No employees are employed by the Company's subsidiary Thames Water Utilities Finance plc.

The monthly average number of persons employed on a permanent basis by the Company (including Executive Directors) during the year, analysed by category, was as follows:

	2023 Number	2022 Number
Operations	**3,936**	3,638
Retail	**1,474**	1,534
Support services	**1,236**	1,307
Digital, strategy and transformation	**313**	395
Delivery office	**283**	208
Total persons employed by the Company	**7,242**	7,082

Directors emoluments

The Directors' emoluments were as follows:

	2023 £'000	2022 £'000
Salary and fees	**2,070.0**	2,169.0
Pension and pension allowances	**144.0**	174.0
Bonus	**–**	793.0
Payment on loss of office	**–**	111.0
Other benefits	**746.0**	728.0
Total aggregate emoluments	**2,960.0**	3,975.0

Included in the table above, is £2.2 million (2022: £2.2 million) for salaries to the Executive Directors for their services to the Company. In addition, the Executive Directors received total remuneration of £0.2 million (2022: £0.7 million) for their services to parent companies within the Kemble Water Holdings Group, these costs are borne by the Company and are not recharged to other group companies.

In the current and preceding financial years no amounts were accruing to any Directors under the Company's defined benefit scheme in respect of services to the Company. The Company contributed cash of £144,000 (2022: £174,487) as a pension supplement for two Directors (2022: three Directors). In the current and preceding years the Company made no contributions into the Company's defined contribution pension scheme in relation to the Directors.

Other benefits includes long-term incentive plan, taxable benefits, medical benefits, car allowances, relocation costs, salary adjustments and other incentive payments.

The bonus for 31 March 2023 is officially waived and has not been deferred nor accrued for.

Amounts disclosed in respect of the long-term incentive plan ("LTIP") are those where all performance and service conditions have been met. Detailed disclosures of items of remuneration, including those accruing under LTIPs can be found within the Remuneration Committee Report on pages 88 – 104. Refer to note 29 for disclosure on Key management personnel.

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Company during the year were £1,279,000 (2022: £1,536,000). In addition, emoluments of £142,000 (2022: £512,000) were paid to the highest paid Director for services to other companies within the Kemble Water Holdings Group.

Notes to the consolidated financial statements continued

5. Finance income and expense

During the year ended 31 March 2023, the Group recognised finance income of £223.7 million (2022: £128.8 million) relating mainly to interest income on swaps, intercompany loans receivable and bank deposits.

Finance income

Year ended 31 March	2023 £m	2022 £m
Interest income on bank deposits	13.4	0.2
Interest income on intercompany loans receivable	47.5	8.3
Interest income on swaps	161.9	108.7
Other finance income on swaps[1]	–	11.2
Trading interest income	0.9	0.4
Total finance income	**223.7**	**128.8**

1 In the prior year, £11.2 million other finance income on swaps was recognised relating to fees received on the novation or restructure of index-linked swaps.

Finance expense

The Group also recognised finance expenses of £700.2 million (2022: £513.3 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and other finance fees.

Year ended 31 March	Note	2023 £m	2022 £m
Interest in relation to bank and other loans:			
Interest expense		(443.8)	(388.3)
RPI accretion on loans		(460.9)	(229.6)
Interest in relation to intercompany borrowings:			
Interest expense		(0.1)	–
Interest in relation to defined benefit obligation:			
Net interest expense on defined benefit obligation	23	(6.7)	(4.7)
Interest in relation to leases:			
Leases	12	(1.4)	(3.2)
Interest in relation to non-household business:			
Trading interest expense		(0.1)	–
Fees:			
Other finance fees		(2.4)	(2.8)
Gross finance expense		**(915.4)**	**(628.6)**
Capitalised borrowing costs		215.2	115.3
Total finance expense		**(700.2)**	**(513.3)**

6. Net gains/(losses) on financial instruments

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

Year ended 31 March	2023 £m	2022 £m
Net exchange losses on foreign currency borrowings	(102.1)	(42.3)
Net gains/(losses) arising on swaps where hedge accounting is not applied[1]	245.5	(822.1)
Losses on cash flow hedge transferred from equity[2]	(21.1)	(31.1)
Total	**122.3**	**(895.5)**

1 In the current period the net gains arising on swaps where hedge accounting is not applied primarily reflects higher interest rate expectations and a depreciation of GBP against USD and EUR. The amount includes the fair value of £717.4 million (2022: £317.7 million) accreted on index linked swaps during the year. In March 2023, £296.9 million was paid to early settle £309.5 million accretion on index-linked swaps. The difference of £12.6 million reflecting the discount for early repayment.

2 Refer to note 19 Financial Instruments on page 154 for more information on the losses on cash flow hedge transferred from equity.

7. Tax charge/(credit) on profit/(loss) on ordinary activities

	2023			2022		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Current tax:						
Amounts (receivable)/payable in respect of group relief	(96.1)	–	(96.1)	(3.5)	16.1	12.6
Adjustments in respect of prior periods	22.8	(17.8)	5.0	(1.7)	–	(1.7)
Current tax subtotal	**(73.3)**	**(17.8)**	**(91.1)**	(5.2)	16.1	10.9
Deferred tax:						
Origination and reversal of timing differences	93.6	–	93.6	(168.9)	–	(168.9)
Effect of tax rate change	35.2	–	35.2	278.7	–	278.7
Adjustments in respect of prior periods	(5.8)	–	(5.8)	1.8	–	1.8
Deferred tax subtotal	**123.0**	**–**	**123.0**	111.6	–	111.6
Tax charge/(credit) on profit/(loss) on ordinary activities	**49.7**	**(17.8)**	**31.9**	106.4	16.1	122.5

Notes to the consolidated financial statements continued

7. Tax charge/(credit) on profit/(loss) on ordinary activities continued

The tax charge for the year ended 31 March 2023 is higher (2022: higher charge) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023				2022			
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	**Effective tax rate %**	Underlying £m	BTL £m	Total £m	Effective tax rate %
Profit/(loss) on ordinary activities before taxation	**(82.6)**	**84.4**	**1.8**		(935.6)	84.8	(850.8)	
Corporation tax at 19% (2022: 19%) on profit/(loss) on ordinary activities before taxation	**(15.7)**	**16.0**	**0.3**	**19.0%**	(177.7)	16.1	(161.6)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.7**	**–**	**4.7**		4.5	–	4.5	
Disallowable expenditure[1]	**5.1**	**–**	**5.1**		8.3	–	8.3	
Non-taxable income[2]	**(7.6)**	**–**	**(7.6)**		(5.4)	–	(5.4)	
Property disposals	**0.2**	**–**	**0.2**		–	–	–	
Impact of "super-deduction" allowance on capital expenditure[3]	**(5.2)**	**–**	**(5.2)**		(2.3)	–	(2.3)	
Impact of tax losses not paid for at standard rate[4]	**16.0**	**(16.0)**	**–**		–	–	–	
Other	**–**	**–**	**–**		0.2	–	0.2	
Tax (credit)/charge as adjusted for recurring items	**(2.5)**	**–**	**(2.5)**	**(138.9%)**	(172.4)	16.1	(156.3)	18.4%
Non-recurring items:								
Effect of tax rate change[5]	**35.2**	**–**	**35.2**		278.7	–	278.7	
Adjustments in respect of prior periods – current tax[4]	**22.8**	**(17.8)**	**5.0**		(1.7)	–	(1.7)	
Adjustments in respect of prior periods – deferred tax	**(5.8)**	**–**	**(5.8)**		1.8	–	1.8	
Total tax charge	**49.7**	**(17.8)**	**31.9**	**1,772.2%**	106.4	16.1	122.5	(14.4%)

The effective tax rate ("ETR") on the profit before tax in the current year, as adjusted for recurring tax items, is (138.9%). This ETR would be expected to be lower than the standard rate of corporation tax for the year of 19.0%, because the impact of both the capital allowances super deduction and non-taxable income exceeds the impact of disallowable costs, however the ETR is skewed due to the low profit before tax amount in the year. As for the ETR, as adjusted for both recurring and non-recurring tax items, the change in corporation tax rate had an exponential impact on the current year ETR of 1,772.2%, again due to the low profit before tax amount.

The Group is not currently in a cash tax paying position with HMRC (although it does pay or receive amounts for group relief), primarily due to capital allowances on capital expenditure, tax deductions for borrowing costs and group relief which has arisen on interest expenses in holding companies. This year, the Group has a tax loss, most of which will be sold as group relief to group companies at the standard rate of corporation tax of 19%, resulting in the net current tax credit shown below, while some is carried forward for use against future taxable profits. The differences between profit/(loss) on ordinary activities before taxation at the standard corporation tax rate and the current tax (credit)/charge for the year are set out below.

	2023			2022		
Year ended 31 March	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Profit/(loss) on ordinary activities before taxation	**(82.6)**	**84.4**	**1.8**	(935.6)	84.8	(850.8)
Corporation tax at 19% (2022: 19%) on profit/(loss) on ordinary activities before taxation	**(15.7)**	**16.0**	**0.3**	(177.7)	16.1	(161.6)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.7**	**–**	**4.7**	4.5	–	4.5
Disallowable expenditure	**5.1**	**–**	**5.1**	8.3	–	8.3
Non-taxable income	**(7.6)**	**–**	**(7.6)**	(5.4)	–	(5.4)
Property disposals	**0.2**	**–**	**0.2**	–	–	–
Impact of tax losses not paid for at standard rate[4]	**16.0**	**(16.0)**	**–**	–	–	–
Capital allowances, including impact of "super deductions", for the year lower than depreciation[6]	**82.2**	**–**	**82.2**	81.6	–	81.6
Capitalised borrowing costs allowable for tax[7]	**(40.8)**	**–**	**(40.8)**	(21.9)	–	(21.9)
Gains/losses on financial derivatives[8]	**(159.3)**	**–**	**(159.3)**	110.9	–	110.9
Pension cost charge in excess of/(lower than) pension contributions	**–**	**–**	**–**	0.6	–	0.6
Other short-term timing differences	**(5.0)**	**–**	**(5.0)**	(4.4)	–	(4.4)
Tax losses carried forward[9]	**24.1**	**–**	**24.1**	–	–	–
Adjustments in respect of prior periods – current tax[4]	**22.8**	**(17.8)**	**5.0**	(1.7)	–	(1.7)
Current tax (credit)/charge for the year	**(73.3)**	**(17.8)**	**(91.1)**	(5.2)	16.1	10.9

1 Disallowable expenditure primarily relates to fines included in operating expenses.
2 Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.
3 The UK government introduced an accelerated capital allowance called a "super-deduction" which is available on some of the Group's capital expenditure up to 31 March 2023. The allowance includes an additional 30% allowance in excess of expenditure on qualifying plant and machinery which results in a tax credit in the income statement. A super-deduction allowance was also available on some of the Group's capital expenditure in the prior period, and this is therefore shown as a recurring item.
4 Tax losses arising in the underlying business are used to cover taxable profits of BTL. No payment is made for this as all amounts arise within the Company. The prior year adjustment reversed some tax charges booked in prior years for BTL and associated tax credits booked for losses used from the underlying business.
5 The tax rate change enacted in the prior year was reflected in the prior year, including deferred tax using the estimated tax rate at which timing differences were expected to unwind. In the event, some timing differences have unwound earlier or later than expected, giving rise to an additional tax rate change impact in the current year.
6 In the current year, capital allowances claimed were lower than depreciation in order to minimise tax losses arising in the year (see footnote 9). In the prior year, capital allowances claimed were lower than depreciation because of a reduction in taxable profits caused by accounting losses in that year.
7 Capitalised borrowing costs are eligible for a full tax deduction in the year.
8 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.
9 This year, the Group has a tax loss, most of which will be sold as group relief to group companies at the standard rate of corporation tax of 19%, resulting in a current tax credit. Some tax losses are being carried forward for use against future taxable profits; this reduces the current tax credit recognised in the year at 19%, and instead a deferred tax asset has been recognised at 25% on the losses carried forward (see Note 20).

Notes to the consolidated financial statements continued

7. Tax charge/(credit) on profit/(loss) on ordinary activities continued

Uncertain tax positions

At 31 March 2023 the total value of uncertain tax positions was £nil (2022: £nil).

Tax (charged)/credited directly to other comprehensive income

The deferred tax (charged)/credited directly to other comprehensive income during the year is as follows:

Year ended 31 March	2023 £m	2022 £m
Deferred tax (charge)/credit on net actuarial gain/(loss) in the year	(16.8)	11.8
Impact of tax rate change in prior year in respect of net actuarial losses	–	31.1
	(16.8)	42.9
Deferred tax charge on cash flow hedges in the year	(4.0)	(5.9)
Impact of tax rate change in prior year in respect of cash flow hedges	–	1.3
	(4.0)	(4.6)
Total tax (charged)/credited directly to other comprehensive income	(20.8)	38.3

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income.

8. Dividends

During the year ended 31 March 2023, the Company paid total dividends of £45.2 million (2022: £37.1 million) to its immediate parent Thames Water Utilities Holdings Limited. The dividend was used to fund interest obligations and activities of other companies within the Kemble Water Holdings Group and was subsequently distributed as follows:

Year ended 31 March	2023 £m	2022 £m
Distribution to external shareholders:		
External dividend distributions	–	–
	–	–
Other distributions:		
Kemble Water Finance Limited debt service costs	42.4	35.1
Distribution to Thames Water Limited	2.8	2.0
	45.2	37.1
Total	45.2	37.1

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2022: £nil).

Distributions to Kemble Water Finance Limited ("KWF") were paid to TWUHL and then distributed to KWF. These enable the group to continue to meet its debt service obligations for external debt and external debt of a subsidiary of KWF, Thames Water (Kemble) Finance Plc, which have been lent on to KWF via intercompany loans note. Dividends paid to Thames Water Limited were used to fund activities of that company.

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

Further information on dividend payments can be found in Our Financial Review on page 43.

9. Intangible assets

	Software £m	Assets in development £m	Total £m
Cost:			
At 1 April 2021	405.6	45.7	451.3
Additions	–	72.3	72.3
Transfers between categories	78.5	(78.5)	–
Disposals	(12.6)	–	(12.6)
At 31 March 2022	471.5	39.5	511.0
Additions	–	44.8	44.8
Transfers between categories	68.0	(68.0)	–
Disposals	(1.2)	–	(1.2)
At 31 March 2023	538.3	16.3	554.6
Accumulated amortisation:			
At 1 April 2021	(175.0)	–	(175.0)
Amortisation charge	(55.6)	–	(55.6)
Disposals	4.4	–	4.4
At 31 March 2022	(226.2)	–	(226.2)
Amortisation charge	(65.9)	–	(65.9)
Disposals	0.8	–	0.8
At 31 March 2023	(291.3)	–	(291.3)
Net book value:			
At 31 March 2023	247.0	16.3	263.3
At 31 March 2022	245.3	39.5	284.8

The amount of borrowing costs capitalised as intangible assets is £nil (31 March 2022: £0.5 million). The effective rate of borrowing costs for the financial year ended 31 March 2023 was 10.5% (for the financial year ended 31 March 2022: 6.6%).

The gross carrying amount of intangible assets that was fully amortised at 31 March 2023 amounted to £124.0 million (31 March 2022: £114.5 million).

Notes to the consolidated financial statements continued

10. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network Assets £m	Assets under construction £m	Total £m
Cost:					
At 1 April 2021	3,735.1	8,355.6	8,399.8	2,718.7	23,209.2
Additions	–	0.6	37.3	1,243.8	1,281.7
Transfers between categories	236.0	641.0	647.4	(1,524.4)	–
Disposals	(1.5)	(145.6)	(22.8)	–	(169.9)
At 31 March 2022	3,969.6	8,851.6	9,061.7	2,438.1	24,321.0
Additions	–	0.3	39.7	1,684.9	1,724.9
Transfers between categories	152.2	760.6	694.5	(1,607.3)	–
Disposals	–	(2.3)	(0.5)	–	(2.8)
At 31 March 2023	4,121.8	9,610.2	9,795.4	2,515.7	26,043.1
Accumulated depreciation and impairment:					
At 1 April 2021	(1,098.2)	(4,905.3)	(903.4)	–	(6,906.9)
Depreciation charge	(72.0)	(404.0)	(147.7)	–	(623.7)
Impairment loss	–	–	–	(10.0)	(10.0)
Disposals	1.5	144.2	23.7	–	169.4
At 31 March 2022	(1,168.7)	(5,165.1)	(1,027.4)	(10.0)	(7,371.2)
Depreciation charge	(74.5)	(411.0)	(151.8)	–	(637.3)
Impairment loss	–	(7.2)	–	(11.0)	(18.2)
Disposals	–	1.0	–	–	1.0
At 31 March 2023	(1,243.2)	(5,582.3)	(1,179.2)	(21.0)	(8,025.7)
Net book value:					
At 31 March 2023	2,878.6	4,027.9	8,616.2	2,494.7	18,017.4
At 31 March 2022	2,800.9	3,686.5	8,034.3	2,428.1	16,949.8

£215.2 million of borrowing costs were capitalised in the period (2022: £114.8 million). The effective annual capitalisation rate for borrowing costs was 10.5% (for the financial year ended 31 March 2022: 6.6%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2023 amounted to £2.9 billion (31 March 2022: £2.7 billion).

During the year the group disposed of no (31 March 2022: £169.9 million) property, plant and equipment assets which relate to assets with a £nil Net Book Value.

Included within Transfer between categories in the year are capitalised costs classified to Land and Buildings (£7.5 million), Plant & Equipment (£13.9 million) and Network Assets (£48.9 million) asset categories, with a total balance of £70.3 million, which should have been commissioned in the prior year. The related depreciation charge to these assets, amounting to £2.3 million, are also presented in the current year of these financial statements.

11. Investment property

	Total £m
Cost:	
At 1 April 2021	50.0
At 31 March 2022	50.0
At 31 March 2023	50.0
Accumulated depreciation and impairment:	
At 1 April 2021	–
At 31 March 2022	–
Impairment of investment property	(48.0)
At 31 March 2023	(48.0)
Net book value at 31 March 2022	50.0
Net book value at 31 March 2023	2.0

Investment Property is held at cost. In line with IAS 36 Impairment of Assets, an asset must not be carried in the financial statements at more than its net realisable value (the higher of value in use or sale value net of sales cost). As a result of an independent property valuation an impairment of £48.0 million has been recognised. The property was acquired to facilitate the building of interfaces to the Thames Tideway Tunnel, therefore the impairment charge has been disclosed as a cost within assets under construction within the property plant and equipment note.

12. Leases

(i) Amounts recognised in the statement of financial position

Right-of-use assets

As at	31 March 2023 £m	31 March 2022 £m
Land and buildings	39.8	45.8
Total	39.8	45.8

Additions to right-of-use assets during the year ended 31 March 2023 were £1.0 million as a result of new leases in the period and £2.4 million which arose as a result of lease modifications in the period (31 March 2022: £10.0 million additions).

Lease liabilities

As at	31 March 2023 £m	31 March 2022 £m
Current	(7.3)	(6.2)
Non-current	(49.7)	(57.1)
Total	(57.0)	(63.3)

Notes to the consolidated financial statements continued

12. Leases continued

(ii) Amounts recognised in the income statement

For the year ended	31 March 2023 £m	31 March 2022 £m
Depreciation charge of right-of-use assets	8.8	5.7
Interest expense included in finance costs	1.4	3.2
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	18.7	9.0
Total	28.9	17.9

The total cash outflow for leases during the year ended 31 March 2023 was £10.0 million (31 March 2022: £9.9 million).

The total leases repayments expected over the next year are £7.3 million (31 March 2022: £6.1 million), over the next 1-5 years are £19.0 million (31 March 2022: £20.7 million) and over more than 5 years are £30.7 million (31 March 2022: £36.5 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

13. Intercompany loans receivable

Intercompany loans receivable are amounts owing outside of this consolidation group and relate to intercompany amounts within the wider Kemble Water Holdings Limited Group. The carrying amounts of the Group's intercompany loans receivable are considered to be approximate to their fair values. The fair values and carrying values of the Group's intercompany loans receivable are set out in the tables below.

	2023		2022	
As at 31 March	Book value £m	Fair value £m	Book value £m	Fair value £m
Amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	1,249.1	1,249.1	1,693.4	1,693.4
Interest receivable on amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	0.2	0.2	8.4	8.4
Total	1,249.3	1,249.3	1,701.8	1,701.8
Disclosed within non-current assets	1,249.1	1,249.1	1,693.4	1,693.4
Disclosed within current assets	0.2	0.2	8.4	8.4

The above intercompany loans receivable is unsecured. These balances have not been included within the Group's net debt and covenant calculations.

The intercompany loan receivables from Thames Water Utilities Holdings Limited ("TWUHL") are repayable on demand. Amounts owed by group undertakings have been disclosed in non-current assets as Directors do not expect to seek or require repayment for at least the next 12 months. Interest on the loans are charged at SONIA plus 0.63% margin (2022: LIBOR plus 0.35% margin). Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany loans receivable and the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

During 2023, the Group earned £47.5 million of interest income related to the intercompany loans (2022: £8.3 million). £0.2 million of interest remained outstanding from TWUHL at 31 March 2023 (2022: £8.4 million).

In March 2023, £500.0 million was invested by shareholders into the business (refer to page 44 for more information). The £500.0 million investment was cascaded from KWH to the Group via intermediate holding companies. The Group received the £500.0 million through repayment of £55.7 million interest and £444.3 million principal on intercompany loans with TWUHL.

14. Inventories

As at 31 March	2023 £m	2022 £m
Raw materials and consumables	20.9	13.0
Total	20.9	13.0

15. Trade and other receivables

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments	–	377.9	377.9	–	308.8	308.8
Insurance claims receivable	33.9	–	33.9	35.4	–	35.4
Other receivables	30.7	–	30.7	10.2	–	10.2
	64.6	377.9	442.5	45.6	308.8	354.4
Current:						
Gross trade receivables	468.9	21.0	489.9	448.7	17.7	466.4
Less expected credit losses provision	(153.0)	(4.2)	(157.2)	(146.8)	(3.7)	(150.5)
Net trade receivables	315.9	16.8	332.7	301.9	14.0	315.9
Amounts owed by group undertakings	3.1	–	3.1	0.5	–	0.5
Group relief receivable	82.3	(16.6)	65.7	–	–	–
Prepayments	48.8	–	48.8	36.9	–	36.9
Other receivables	49.0	–	49.0	35.9	1.0	36.9
	499.1	0.2	499.3	375.2	15.0	390.2
Current:						
Contract assets	253.6	5.2	258.8	251.0	8.5	259.5
	752.7	5.4	758.1	626.2	23.5	649.7
Total	817.3	383.3	1,200.6	671.8	332.3	1,004.1

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertainties of macroeconomic factors including the rise in costs of living.

Non-current prepayments at 31 March 2023 relate to £377.9 million (2022: £308.8 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. The prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to the Company once construction is complete, against which this prepayment will be utilised. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

Contract assets at 31 March 2023 includes £178.2 million (2022: £183.8 million) of services provided to metered customers. Included within this amount is a provision of £8.0 million for bad debt (31 March 2022: £4.6 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

Notes to the consolidated financial statements continued

15. Trade and other receivables continued

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2023 £m	2022 £m
At 1 April	(150.5)	(146.3)
Charge for bad and doubtful debts – charged against revenue[1]	(65.5)	(67.4)
Charge for bad and doubtful debts – included within operating expenses	(22.4)	(10.2)
Amounts written off (utilised)	81.2	73.4
Total at 31 March	**(157.2)**	**(150.5)**

1 Included within this is a £2.8 million decrease (2022: £10.3 million increase) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The decrease (2022: increase) of the provision in the current financial year is credited (2022: debited) to gross revenue. The remaining amount relates to the £68.3 million (2022: £57.1 million) charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	329.3	311.3
1 – 2 years	83.9	87.0
2 – 3 years	41.5	34.1
More than 3 years	35.2	34.0
Total	**489.9**	**466.4**

The ageing of gross BTL receivables is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	15.1	12.8
1 – 2 years	4.0	3.6
2 – 3 years	1.9	1.3
Total	**21.0**	**17.7**

BTL receivables relates to the value of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	83.9	84.4
1 – 2 years	26.4	25.3
2 – 3 years	17.1	12.1
More than 3 years	29.8	28.7
Total	**157.2**	**150.5**

Ageing of impaired BTL receivables is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	2.8	2.6
1 – 2 years	0.9	0.8
2 – 3 years	0.5	0.3
Total	**4.2**	**3.7**

16. Cash and cash equivalents

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	5.1	–	5.1	13.5	–	13.5
Money market funds & short-term investments	1,824.2	7.0	1,831.2	406.3	5.2	411.5
Total	**1,829.3**	**7.0**	**1,836.3**	**419.8**	**5.2**	**425.0**

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

Notes to the consolidated financial statements continued

17. Trade and other payables

As at 31 March	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
Non-current:						
Contract liabilities	**921.7**	**–**	**921.7**	831.8	–	831.8
Current:						
Trade payables – operating	**301.7**	**–**	**301.7**	248.4	–	248.4
Other taxation and social security	**10.3**	**–**	**10.3**	8.9	–	8.9
Group relief payable	**–**	**–**	**–**	(10.6)	36.2	25.6
Accruals	**406.5**	**–**	**406.5**	325.6	–	325.6
Amounts owed to Bazalgette Tunnel Limited	**–**	**–**	**–**	–	13.0	13.0
Other payables	**102.7**	**–**	**102.7**	76.9	–	76.9
	821.2	**–**	**821.2**	649.2	49.2	698.4
Current:						
Contract liabilities	**130.1**	**–**	**130.1**	125.1	2.0	127.1
	951.3	**–**	**951.3**	774.3	51.2	825.5
Total	**1,873.0**	**–**	**1,873.0**	1,606.1	51.2	1,657.3

Current contract liabilities at 31 March 2023 includes £73.0 million (2022: £74.0 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2023 includes £546.2 million (2022: £534.6 million) of deferred infrastructure charges and £375.5 million of deferred income for nil cost "adopted" assets (2022: £290.4 million).

Other payables at 31 March 2023 includes £74.0 million (2022: £45.9 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value as outlined in the "Comparison of fair value of financial instruments with their carrying amounts" section of Note 19 Financial Instruments.

18. Borrowings

As at 31 March	2023 £m	2022 £m
Secured bank loans and private placements	**4,427.9**	3,441.1
Bonds	**11,121.8**	9,691.0
Amounts owed to group undertakings	**5.5**	5.5
	15,555.2	13,137.6
Interest payable on borrowings	**182.7**	159.1
Total	**15,737.9**	13,296.7
Disclosed within non-current liabilities	**13,457.4**	12,547.5
Disclosed within current liabilities	**2,280.5**	749.2
Total	**15,737.9**	13,296.7

Secured bank loans, private placements and bonds are in an arrangement whereby each Obligor (representing each of the companies within the whole business Securitisation Group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, the Company, and its wholly owned subsidiary Thames Water Utilities Finance plc ("TWUF"), have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Notes to the consolidated financial statements continued

18. Borrowings continued

Breakdown of secured bank loans and private placements

As at 31 March	2023 £m	2022 £m
THAMES WATER UTILITIES LIMITED		
£215.0m 0.460% index-linked loan due 2023 (a), (h)	**316.1**	278.7
£100.0m 0.790% index-linked loan due 2025 (a), (e), (h)	**139.9**	123.4
£125.0m 0.598% index-linked loan due 2026 (a), (e), (h)	**174.0**	153.4
£215.0m 0.380% index-linked loan due 2032 (a), (b), (h)	**198.7**	192.8
£100.0m 3.261% index-linked loan due 2043 (a), (d), (h)	**165.2**	145.6
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	**70.0**	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	**50.0**	50.0
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.7**	38.7
£20.0m Class B floating rate loan due 2026 (a), (j)	**20.0**	20.0
£50.0m Class B floating rate loan due 2025 (a), (j)	**49.9**	–
£100.0m Class B floating rate loan due 2028 (a), (j)	**99.2**	–
£150.0m Class B floating rate loan due 2029 (a), (j)	**148.6**	–
$55.0m 3.380% private placement due 2023 (a), (f)	**–**	41.8
$285.0m 3.570% private placement due 2025 (a), (f)	**230.4**	216.5
£216.0m 2.450% private placement due 2028 (a)	**215.6**	215.6
£210.0m 2.550% private placement due 2030 (a)	**209.5**	209.4
£40.0m 2.620% private placement due 2033 (a)	**39.9**	39.9
$95.0m 4.890% private placement due 2029 (a), (f)	**76.6**	–
£18.0m 4.800% private placement due 2029 (a)	**18.0**	–
$256.0m 5.010% private placement due 2032 (a), (f)	**206.5**	–
$81.0m 5.300% private placement due 2037 (a), (f)	**65.3**	–
£150.0m 4.940% private placement due 2037 (a)	**149.6**	–
£90.0m 5.120% private placement due 2042 (a)	**89.7**	–
£50.0m floating rate loan due 2022 (a), (k)	**–**	50.0
£150.0m floating rate loan due 2024 (a), (j)	**149.9**	149.8
£125.0m floating rate loan due 2024 (a), (j), (k)	**124.9**	124.7
£63.1m floating rate loan due 2027 (a), (j), (l)	**–**	62.9
£51.2m floating rate loan due 2029 (a), (j), (l)	**51.0**	62.9
£63.1m floating rate loan due 2031 (a), (j)	**62.9**	62.9
£100.0m floating rate loan due 2029 (a), (j)	**99.6**	–

As at 31 March	2023 £m	2022 £m
THAMES WATER UTILITIES FINANCE PLC		
$200.0m 4.020% private placement due 2024 (f)	**161.8**	152.1
$106.0m 4.070% private placement due 2026 (a), (f)	**85.7**	80.5
$250.0m 4.220% private placement due 2027 (f)	**202.3**	190.1
$131.0m 4.270% private placement due 2029 (a), (f)	**105.8**	99.3
€50.0m 2.100% private placement due 2030 (a), (f)	**43.8**	42.1
£200.0m Class B floating rate loan due 2026 (a), (j)	**198.1**	197.3
£220.7m Class B floating rate loan due 2022 (c), (j)	**–**	220.7
£75.0m Class B floating rate loan due 2022 (i), (j)	**–**	75.0
£75.0m Class B floating rate loan due 2022 (j)	**–**	75.0
£220.7m Class B floating rate loan due 2023 (c), (g), (j)	**220.7**	–
£75.0m Class B floating rate loan due 2023 (g), (i), (j)	**75.0**	–
£75.0m Class B floating rate loan due 2023 (g), (j)	**75.0**	–
Total secured bank loans and private placements	**4,427.9**	3,441.1

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

(a) These loans and private placements are shown net of issuance costs.

(b) This debt amortises in equal tranches from 2017 onwards.

(c) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both Standard and Poor's and Moody's and the Group's GRESB Score.

(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.

(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.

(f) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.

(g) In March 2023, the £370.7 million Class B revolving credit facilities were drawn in full. In April 2023, these Class B drawdowns were fully repaid.

(h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

(i) The interest margin of this loan is based on a ratings grid and varies depending on the senior debt credit rating of the Company as assigned by both Standard and Poor's and Moody's.

(j) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).

(k) These loans contain a circular economy adjustment that reduces the interest rate if certain key performance indicators are met.

(l) In April 2022, the Group early repaid the £63.1 million floating rate loan that was due to mature in 2027 and made a part-prepayment of £11.9 million of the £63.1 million (now £51.2 million) floating rate loan that matures in 2029.

Notes to the consolidated financial statements continued

18. Borrowings continued

Breakdown of bonds

As at 31 March	2023 £m	2022 £m
THAMES WATER UTILITIES FINANCE PLC		
£330.0m 6.750% fixed rate due 2028 (b)	328.3	328.1
£200.0m 6.500% fixed rate due 2032 (b), (c)	198.3	198.2
£600.0m 5.125% fixed rate due 2037 (b), (c)	596.9	596.8
£300.0m 1.680% index-linked due 2053 (b), (d)	530.7	472.4
£300.0m 1.681% index-linked due 2055 (b), (d)	530.7	472.4
€113.0m 2.300% CPI index-linked bond due 2022 (a), (c)	–	109.2
£300.0m 5.750% Class B Fixed rate bond due 2030 (b), (e)	–	299.2
£300.0m 4.375% fixed rate bond due 2034 (b)	296.5	296.3
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	121.8	125.2
£50.0m 3.853% index-linked bond due 2040 (f)	76.8	72.8
£500.0m 5.500% fixed rate bond due 2041 (b)	490.9	490.6
£50.0m 1.980% index-linked bond due 2042 (b), (d)	86.6	76.2
£55.0m 2.091% index-linked bond due 2042 (b), (d)	92.7	81.7
£40.0m 1.974% index-linked bond due 2045 (b), (d)	51.8	47.2
£300.0m 4.625% fixed rate bond due 2046 (b)	293.8	293.6
£100.0m 1.846% index-linked bond due 2047 (b), (d)	173.0	152.4
£200.0m 1.819% index-linked bond due 2049 (b), (d)	345.5	304.3
£200.0m 1.771% index-linked bond due 2057 (b), (d)	345.1	303.7
£350.0m 1.760% index-linked due 2062 (b), (d)	603.4	531.0
£500.0m 4.000% fixed rate due 2025 (b)	498.4	497.7
£40.0m 0.750% index-linked loan due 2034 (b), (d)	55.5	48.9
£45.0m 0.721% index-linked loan due 2027 (b), (d)	62.4	54.9
£300.0m 3.500% fixed rate loan due 2028 ((b)	298.0	297.6
£400.0m 7.738% fixed rate bond due 2058 (b)	417.3	418.0
£250.0m 1.875% fixed rate bond due 2024 (b)	249.6	249.3
£250.0m 2.625% fixed rate bond due 2032 (b)	248.1	247.9
£300.0m 2.375% Class B fixed rate bond due 2023 (b)	300.0	299.6
£250.0m 2.875% Class B fixed rate bond due 2027 (b)	248.3	248.0
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	148.9	151.5
£350.0m 2.375% fixed rate bond due 2040 (b)	346.3	346.1
£40.0m 2.442% fixed rate bond due 2050 (b)	39.9	39.9
£84.7m 0.875% fixed rate bond due 2023 (b)	84.7	84.5
€500.0m 0.190% fixed rate bond due 2023 (a), (b)	439.3	421.3
$57.0m 2.060% fixed rate bond due 2030 (a), (b)	45.9	43.2
$40.0m 1.604% fixed rate bond due 2027 (a), (b)	32.3	30.4
€575.0m 0.875% fixed rate bond due 2028 (a), (b)	503.2	482.6
€575.0m 1.250% fixed rate bond due 2032 (a), (b)	498.9	478.3
€650.0m 4.000% fixed rate bond due 2027 (a), (b)	566.7	–
€1.0bn 4.375% fixed rate bond due 2031 (a), (b)	875.3	–
Total bonds	**11,121.8**	9,691.0

All bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.

(b) These bonds are shown net of issuance costs.

(c) The Group has entered into swap agreements that convert this debt into GBP (£) RPI-linked debt.

(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index (“RPI”).

(e) In September 2022, the Group exercised a ‘Step Up and Call’ on this Class B bond to redeem the nominal value of the debt at par value together with accrued and unpaid interest due.

(f) This is a Limited Price Index (“LPI”) bond. Accretion is calculated using an adjusted UK Retail Price Index.

As at 31 March	2023 £m	2022 £m
Amounts owed to group undertakings		
THAMES WATER LIMITED		
£0.3m floating rate loan due 2043	0.3	0.3
THAMES WATER UTILITIES HOLDINGS LIMITED		
£5.2m floating rate loan due 2043	5.2	5.2
Total amounts owed to group undertakings	**5.5**	5.5

Notes to the consolidated financial statements continued

19. Financial instruments

Categories of financial instruments

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

Financial assets:

As at 31 March	2023 £m	2022 £m
Fair value through profit or loss		
Cross currency swaps	**150.8**	82.1
Interest rate swaps	**257.4**	34.1
Index-linked swaps	**40.9**	75.9
Cash and cash equivalents – money market funds	**1,226.2**	411.5
	1,675.3	603.6
Amortised cost		
Intercompany loans receivable	**1,249.3**	1,701.8
Other receivables (excluding prepayments)	**64.6**	45.6
Trade and other receivables (excluding prepayments)	**384.8**	353.3
Cash and cash equivalents – short-term investments	**605.0**	–
Cash and cash equivalents – cash at bank and in hand	**5.1**	13.5
	2,308.8	2,114.2
Total	**3,984.1**	2,717.8

Financial liabilities:

As at 31 March	2023 £m	2022 £m
Fair value through profit or loss		
Cross currency swaps	**(95.4)**	(125.1)
Interest rate swaps	**(316.3)**	(140.8)
Index-linked swaps	**(1,580.1)**	(2,075.8)
	(1,991.8)	(2,341.7)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(810.9)**	(689.5)
Borrowings	**(15,737.9)**	(13,296.7)
Lease liabilities	**(57.0)**	(63.3)
	(16,605.8)	(14,049.5)
Total	**(18,597.6)**	(16,391.2)

Fair value measurements

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

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed

Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate, index-linked and cross currency swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. The table below sets out the valuation basis of financial instruments (excluding cash and cash equivalents – money market funds which are classified as level 1) held at fair value through profit or loss as at 31 March 2023:

	Level 2[1]	
As at 31 March	2023 £m	2022 £m
Financial assets – derivative financial instruments		
Cross currency swaps	**150.8**	82.1
Interest rate swaps	**257.4**	34.1
Index-linked swaps	**40.9**	75.9
	449.1	192.1
Financial liabilities – derivative financial instruments		
Cross currency swaps	**(95.4)**	(125.1)
Interest rate swaps	**(316.3)**	(140.8)
Index-linked swaps	**(1,580.1)**	(2,075.8)
	(1,991.8)	(2,341.7)
Net total	**(1,542.7)**	(2,149.6)

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

During the year, £21.1 million (2022: £31.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 123. The amounts recognised on the cash flow hedge reserve are recycled to the income statement as a phased release over the relevant hedging period and where the related debt has been issued and has not matured.

Notes to the consolidated financial statements continued

19. Financial instruments continued

In November 2019, the maturity date of three index linked swaps, with a total notional value of £400.0 million, were extended. These three index linked 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 £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. This reduction in value that was supported by unobservable inputs does not impact the ongoing valuation methodology of the index-linked swaps, 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 balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2023, £31.3 million (2022: £33.3 million) remained capitalised within derivative financial liabilities and £2.0 million had been recognised in the income statement within net gains/(losses) on financial instruments (2022: £2.0 million).

Comparison of fair value of financial instruments with their carrying amounts

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

Financial assets:

	2023		2022	
As at 31 March	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Intercompany loans receivable	1,249.1	1,249.1	1,693.4	1,693.4
Derivative financial instruments				
Cross currency swaps	118.9	118.9	78.5	78.5
Interest rate swaps	257.4	257.4	34.1	34.1
Index-linked swaps	40.9	40.9	56.6	56.6
Other receivables (excluding prepayments)	64.6	64.6	45.6	45.6
	1,730.9	1,730.9	1,908.2	1,908.2
Current				
Cash and cash equivalents	1,836.3	1,836.3	425.0	425.0
Intercompany loans receivable[1]	0.2	0.2	8.4	8.4
Trade and other receivables (excluding prepayments)	384.8	384.8	353.3	353.3
Derivative financial instruments				
Cross currency swaps	31.9	31.9	3.6	3.6
Index-linked swaps	–	–	19.3	19.3
	2,253.2	2,253.2	809.6	809.6
Total	3,984.1	3,984.1	2,717.8	2,717.8

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

Financial liabilities:

	2023		2022	
As at 31 March	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	(3,405.4)	(3,280.5)	(2,961.7)	(3,230.5)
Bonds	(10,046.5)	(9,419.5)	(9,580.3)	(12,610.5)
Amounts owed to group undertakings	(5.5)	(5.5)	(5.5)	(5.5)
Derivative financial instruments				
Cross currency swaps	(81.7)	(81.7)	(120.1)	(120.1)
Interest rate swaps	(316.3)	(316.3)	(140.8)	(140.8)
Index-linked swaps	(1,526.7)	(1,526.7)	(1,977.8)	(1,977.8)
Lease liabilities	(49.7)	(49.7)	(57.1)	(57.1)
	(15,431.8)	(14,679.9)	(14,843.3)	(18,142.3)
Current				
Borrowings				
Secured bank loans and private placements	(1,022.5)	(1,021.2)	(479.4)	(480.2)
Bonds	(1,075.3)	(1,058.8)	(110.7)	(113.2)
Interest payable	(182.7)	(182.7)	(159.1)	(159.1)
Derivative financial instruments				
Cross currency swaps	(13.7)	(13.7)	(5.0)	(5.0)
Index-linked swaps	(53.4)	(53.4)	(98.0)	(98.0)
Trade and other payables (excluding other taxation and social security)	(810.9)	(810.9)	(689.5)	(689.5)
Lease liabilities	(7.3)	(7.3)	(6.2)	(6.2)
	(3,165.8)	(3,148.0)	(1,547.9)	(1,551.2)
Total	(18,597.6)	(17,827.9)	(16,391.2)	(19,693.5)

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

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

Notes to the consolidated financial statements continued

19. Financial instruments continued

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To retain the Company's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (TWUF and Thames Water Utilities Holdings Limited ("TWUHL")) guarantee the funding activity of the Company, and the Company and TWUHL guarantee the funding activity of TWUF, which raises debt finance in external debt markets through the issuance of secured bonds and the entry into loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

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

The Securitisation Group complied with these ratios throughout the financial year.

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

As at 31 March	2023 £m	2022 £m
Secured bank loans and private placements	**(4,427.9)**	(3,441.1)
Bonds	**(11,121.8)**	(9,691.0)
Lease liability	**(57.0)**	(63.3)
Amounts owed to group undertakings	**(5.5)**	(5.5)
Interest payable on borrowings	**(182.7)**	(159.1)
	(15,794.9)	(13,360.0)
Cash and cash equivalents	**1,836.3**	425.0
Net debt (statutory basis)	**(13,958.6)**	(12,935.0)
Reconciliation to net debt (covenant basis)		
Interest payable on borrowings	**182.7**	159.1
Amounts owed to group undertakings	**5.5**	5.5
Unamortised debt issuance costs and discount	**(85.0)**	(79.7)
Relevant derivative financial liabilities (Accretion and FX)	**(831.7)**	(583.9)
Unamortised IFRS 9 transition adjustment	**23.1**	23.8
Cash (not relevant)/relevant for covenant	**(0.2)**	0.8
Net debt (covenant basis)	**(14,664.2)**	(13,409.4)
Equity attributable to owners of the Group	**1,802.6**	1,830.7

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment; includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rates on cross currency swaps held in the Group and cash is added for covenants purposes (which is based on cash and investments whereas the accounting definition adjusts for other items). Amounts owed to group undertakings include loans from immediate parent TWUHL £5.2 million (2022: £5.2 million) and from the parent of the immediate parent Thames Water Limited £0.3 million (2022: £0.3 million).

Notes to the consolidated financial statements continued

19. Financial instruments continued

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

As at 31 March	2023 Borrowings £m	2023 Net derivative financial liabilities £m	2023 Lease liabilities £m	2022 Borrowings £m	2022 Net derivative financial liabilities £m	2022 Lease liabilities £m
Opening balance	(13,296.7)	(2,149.6)	(63.3)	(12,768.2)	(1,306.5)	(60.4)
Non-current	(12,547.5)	(2,069.5)	(57.1)	(11,643.3)	(1,318.8)	(52.9)
Current	(749.2)	(80.1)	(6.2)	(1,124.9)	12.3	(7.5)
Cash flows						
New loans raised	(5,068.0)	–	–	(3,585.4)	–	–
Repayment of borrowings	3,221.4	–	–	3,321.5	–	–
Repayment of lease principal	–	–	10.0	–	–	9.9
Proceeds from derivative settlement[1]	–	(48.1)	–	–	(20.6)	–
Payment for derivative settlement[2]	–	412.6	–	–	–	–
Interest paid[3]	401.7	–	–	386.6	–	–
Interest received[4]	–	(165.1)	–	–	(108.9)	–
	(1,444.9)	199.4	10.0	122.7	(129.5)	9.9
Non-cash changes						
Interest accrued/Fees amortised	(434.0)	162.0	–	(380.0)	108.5	–
Foreign exchange movement	(102.1)	–	–	(42.3)	–	–
Indexation	(460.9)	–	–	(229.6)	–	–
Unamortised IFRS 9 transition adjustment	0.7	–	–	0.7	–	–
Fair value changes	–	245.5	–	–	(822.1)	–
Lease additions	–	–	(2.3)	–	–	(9.6)
Interest accrued for IFRS 16 leases	–	–	(1.4)	–	–	(3.2)
	(996.3)	407.5	(3.7)	(651.2)	(713.6)	(12.8)
Closing balance	(15,737.9)	(1,542.7)	(57.0)	(13,296.7)	(2,149.6)	(63.3)
Non-current	(13,457.4)	(1,507.5)	(49.7)	(12,547.5)	(2,069.5)	(57.1)
Current	(2,280.5)	(35.2)	(7.3)	(749.2)	(80.1)	(6.2)

1 Proceeds from derivative settlement of £48.1 million includes £18.9 million (2022: £nil) relating to accretion received on index-linked swaps and £29.2 million (2022: £20.6 million) relating to settlement of cross currency swaps.
2 Payment for derivative settlement of £412.6 million includes £408.4 million (2022: £nil) relating to accretion paydown on index-linked swaps and £4.2 million (2022: £nil) relating to settlement of cross currency swaps.
3 Interest paid of £401.7 million (2022: £386.6 million) includes £215.2 million of capitalised borrowing costs (2022: £115.3 million) and excludes £0.3 million of bank charges (2022: £0.2 million).
4 Interest received of £165.1 million (2022: £108.9 million) excludes £55.7 million of interest received on an intercompany loan with holding company TWUHL (2022: £3.6 million), £7.8 million interest received on bank deposits (2022: £0.2 million) and £1.0 million other interest income (2022: £0.5 million).

Financial risk management

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

(a) Market risk

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

As at 31 March 2023:	Total at fixed rates £m	Total at floating rates £	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	6,329.4	531.1	9,503.3	16,363.8

As at 31 March 2022:	Total at fixed rates £m	Total at floating rates £	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	5,591.7	357.7	7,748.3	13,697.7

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

Year ended 31 March	Weighted average interest rate 2023 %	2022 %	Weighted average period until maturity 2023 Years	2022 Years
Fixed	4.0	3.7	9.0	10.3
Index-linked	13.4	8.1	15.6	17.3

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 154.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2023. 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	2023 +1% £m	2023 -1% £m	2022 +1% £m	2022 -1% £m
Profit/(loss)	447.6	(501.3)	477.0	(560.8)
Equity	447.6	(501.3)	477.0	(560.8)

Notes to the consolidated financial statements continued

19. Financial instruments continued

(ii) Exchange rate sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2023. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2023 +10% £m	2023 -10% £m	2022 +10% £m	2022 -10% £m
(Loss)/profit	(132.1)	101.0	(25.6)	(11.2)
Equity	(132.1)	101.0	(25.6)	(11.2)

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates on financial instruments at 31 March 2023. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2023 +1% £m	2023 -1% £m	2022 +1% £m	2022 -1% £m
(Loss)/profit	(756.6)	660.6	(911.0)	771.0
Equity	(756.6)	660.6	(911.0)	771.0

(b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, its loan to its immediate parent entity TWUHL, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. For household customers, due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets and contract assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2023, no collateral was held (2022: nil).

The following table summarises amounts held as cash at bank and in hand, in money market funds and short-term investments by credit rating of counterparties.

As at 31 March	2023 £m	2022 £m
AAA	1,226.2	411.5
A+	230.0	–
A	380.1	13.5
Total	**1,836.3**	425.0

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

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

As at 31 March	2023 £m	2022 £m
AA-	72.6	27.8
A+	339.7	147.0
A	36.8	17.3
Total	**449.1**	192.1

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings are disclosed in note 18.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2023 £m	2022 £m
Within one year	2,097.8	590.1
Between one and two years	675.9	1,653.9
Between two and three years	754.5	634.4
Between three and four years	697.4	669.6
Between four and five years	1,743.9	728.1
After more than five years	9,585.7	8,861.5
Total	**15,555.2**	13,137.6

Notes to the consolidated financial statements continued

19. Financial instruments continued

(i) Cash flows from non-derivative financial liabilities

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

As at 31 March Undiscounted amounts payable	2023 £m	2022 £m
Within one year	3,426.8	1,694.2
Between one and two years	1,164.9	2,087.1
Between two and three years	1,415.7	1,032.7
Between three and four years	944.3	1,244.8
Between four and five years	2,167.4	888.6
After more than five years	21,210.0	21,142.7
Total	**30,329.1**	28,090.1

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March Undiscounted amounts payable	2023 £m	2022) £m
Within one year	144.4	41.2
Between one and two years	(199.5)	(60.6)
Between two and three years	110.9	(226.6)
Between three and four years	160.5	50.0
Between four and five years	30.5	85.7
After more than five years	(2,780.0)	(2,272.6)
Total	**(2,533.2)**	(2,382.9)

Cash flow hedges

The Group had designated a number of contracts which qualified, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 130.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2023, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the life of the relevant hedging period.

During the year, £21.1 million (2022: £31.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 123. The amount recycled of £21.1 million related to the phased release of cash flow hedge reserve where the related debt has been issued and has not matured.

The Group's cash flow hedge reserve disclosed on the 'Statement of changes in equity' on page 123 relate to forward starting interest rate swaps which have commenced.

Cash flow hedge reserve	£m
At 1 April 2021	(59.7)
Cash flow hedge transferred to income statement	31.1
Deferred tax charge on cash flow hedges including impact of tax rate change	(4.6)
At 31 March 2022	(33.2)
Cash flow hedge transferred to income statement	21.1
Deferred tax charge on cash flow hedges	(4.0)
At 31 March 2023	**(16.1)**

The following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

As at 31 March Quantitative	2023 £m	2022 £m
Cash flow hedge transferred to income statement	21.1	31.1

As at 31 March Qualitative	2023	2022
Line item affected in income statement due to reclassification	Net gains/(losses)on financial instruments	Net losses on financial instruments

The table below shows phasing of amounts to be reclassified to the income statement from the cash flow hedge reserve, which relates to the Group's forward starting interest rate swaps which have commenced:

As at 31 March	2023 £m	2022 £m
Interest rate swaps		
Within one year	(18.7)	(21.1)
Between one and two years	(2.8)	(18.7)
Between two and three years	–	(2.8)
Between three and four years	–	–
Between four and five years	–	–
After more than five years	–	–
Total	(21.5)	(42.6)

Notes to the consolidated financial statements continued

19. Financial instruments continued

Offsetting financial assets and financial liabilities

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

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2023 and 31 March 2022. The column 'net amount' shows the impact on the consolidated statement of financial position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the Consolidated statement of financial position				
As at 31 March 2023	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	449.1	–	449.1	(301.9)	147.2
	449.1	–	449.1	(301.9)	147.2
Financial liabilities					
Derivative financial instruments	(1,991.8)	–	(1,991.8)	301.9	(1,689.9)
	(1,991.8)	–	(1,991.8)	301.9	(1,689.9)
Total	(1,542.7)	–	(1,542.7)	–	(1,542.7)

	Effects of offsetting on the Consolidated statement of financial position				
As at 31 March 2022	Gross amounts £m	Amounts set off £m	Net amounts presented on consolidated statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	192.1	–	192.1	(126.8)	65.3
	192.1	–	192.1	(126.8)	65.3
Financial liabilities					
Derivative financial instruments	(2,341.7)	–	(2,341.7)	126.8	(2,214.9)
	(2,341.7)	–	(2,341.7)	126.8	(2,214.9)
Total	(2,149.6)	–	(2,149.6)	–	(2,149.6)

IBOR reform

The following table contains details of all of the financial instruments that the Group holds at 31 March 2023 and 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

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

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

	Carrying value at 31 March 2022		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	–	(199.8)	–	(199.8)
Amortised cost				
Intercompany loans receivable[2]	1,693.4	–	1,693.4	–
Borrowings[3]	–	(899.3)	–	(899.3)
Total assets and liabilities exposed to GBP LIBOR	1,693.4	(1,099.1)	1,693.4	(1,099.1)

1 Consists of £199.8 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
2 In May/June 2022, the interest rates in respect of £1,693.4 million of intercompany loans receivable were transitioned from LIBOR to SONIA. Refer to Note 13 Intercompany loans receivable for a breakdown of these intercompany loans. No gain or loss was recognised on transition as the Phase 2 reliefs were met.
3 Included in the £899.3 million of borrowings in the table above is £893.8 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The remaining £5.5 million includes a £5.2 million loan from immediate parent Thames Water Utilities Holdings Limited and a £0.3 million loan from the immediate parent of Thames Water Utilities Holdings Limited, Thames Water Limited, where the interest rate is directly linked to LIBOR. In June 2022, the interest rates in respect of these £5.5 million loans were transitioned from LIBOR to SONIA. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

Notes to the consolidated financial statements continued

20. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Cash flow hedges £m	Tax losses carried forward £m	Other £m	Total £m
At 1 April 2021	(1,225.4)	32.4	197.0	–	22.8	(973.2)
(Charge)/credit to income statement including impact of tax rate change	(293.6)	(15.2)	200.9	–	(3.7)	(111.6)
Credit/(charge) to other comprehensive income including impact of tax rate change	–	42.9	(4.6)	–	–	38.3
Other	0.1	–	–	–	–	0.1
At 31 March 2022	(1,518.9)	60.1	393.3	–	19.1	(1,046.4)
Credit/(charge) to income statement including impact of tax rate change	56.1	0.1	(206.6)	31.7	(4.3)	(123.0)
Charge to other comprehensive income	–	(16.8)	(4.0)	–	–	(20.8)
At 31 March 2023	(1,462.8)	43.4	182.7	31.7	14.8	(1,190.2)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for the deferred tax liability on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group. The majority of the impact of the tax rate change was booked in the prior year, but some timing differences have unwound earlier or later than previously estimated, so the residual impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income as shown above.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

As at 31 March	2023 £m	2022 £m
Deferred tax assets	272.6	472.5
Deferred tax liabilities	(1,462.8)	(1,518.9)
Net deferred tax liabilities	(1,190.2)	(1,046.4)

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of the Group's capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences normally increase every year. This year, capital allowances claimed are less than accounting depreciation so the deferred tax liability arising in respect of accelerated tax depreciation has reduced.

Deferred tax assets have arisen on the following temporary differences:

- **Retirement benefit obligations:** A net deferred tax asset is recognised on the retirement benefit obligations booked in the financial statements. The £43.4 million deferred tax asset at 31 March 2023 is the net of an asset of £45.5 million (deficit on the TWPS pension scheme of £182.0 million at 25% tax rate) less a liability of £2.1 million (surplus on the TWMIPS pension scheme of £6.0 million at 35% tax rate). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- **Cash flow hedges:** A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- **Tax losses carried forward:** The Group has a tax loss in the year, most of which is being sold to group companies as group relief, for which payment will be received at the standard corporation tax rate. The remaining tax loss is being carried forward for use against future profits.
- **Other:** A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

21. Provisions for liabilities and charges

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Environmental and legal provisions £m	Other provisions £m	Total £m
At 1 April 2022	75.9	13.7	11.3	53.6	30.5	185.0
Utilised during the period	(14.7)	(4.6)	(0.6)	(0.1)	(17.2)	(37.2)
Additional provisions recognised	39.1	3.6	0.8	25.2	29.1	97.8
Unused amounts reversed	(2.8)	–	–	–	(15.1)	(17.9)
At 31 March 2023	97.5	12.7	11.5	78.7	27.3	227.7

	Insured liabilities £m	Capital infrastructure provision £m	Dilapidations £m	Environmental and legal provisions £m	Other provisions £m	Total £m
Disclosed within non-current liabilities	78.6	12.7	11.5	70.7	19.2	192.7
Disclosed within current liabilities	18.9	–	–	8.0	8.1	35.0
Total	97.5	12.7	11.5	78.7	27.3	227.7

The insured liabilities provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 15. The provision is split between current and non current based on management's estimate of the timing in which claims will be settled.

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. The Group considers it appropriate to classify these as non-current as management do not consider it likely that these will settle in the next 12 months.

Notes to the consolidated financial statements continued

21. Provisions for liabilities and charges continued

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our outsourced property advisor. During the year one additional site has been included, two leases were extended and the provision for two sites were utilised as the lease ended in the current financial year.

Environmental and legal provisions relate to legal claims including environmental and commercial matters. Environmental matters are in relation to the Company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016.

Other provisions relate to other claims and regulatory obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations. Unused amounts reversed relate to previously recognised provisions which were reassessed during the year and it was concluded there is no longer an obligation for these.

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. Contingent liabilities identified have been disclosed in note 25. Timing of settlement of provisions have been estimated based on the nature of the provision and informed by both timelines set and historical benchmarks. Amounts have been classified between current and non-current.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is a risk that the final outcome of legal claims could be materially different to amounts provided, further details can be found within our accounting policies under our significant accounting judgements and key sources of estimation uncertainty.

22. Called up share capital and other reserves

Called up share capital

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Authorised, allotted, called up and fully paid:						
29,050,000 ordinary shares of £1 each (2022: 29,050,000 ordinary shares of £1 each)	29.0	–	29.0	29.0	–	29.0

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Share premium	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	(16.1)	–	(16.1)	(33.2)	–	(33.2)
Revaluation reserve	795.5	–	795.5	820.1	–	820.1
Retained earnings	526.4	390.3	916.7	628.5	286.3	914.8
Total	1,405.8	390.3	1,796.1	1,515.4	286.3	1,801.7

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS in the FY2015/16 period, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the consolidated financial statements continued

23. Retirement benefit obligations

Background

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

	What are they?	How do they impact the financial statements?
Defined Contribution Scheme This scheme was set up in April 2011 and was managed through Standard Life. From October 2020, this is now managed through Aon MasterTrust. This scheme is open to all employees of the Company that are not members of the defined benefit pension schemes.	In a defined contribution pension scheme, the benefits are linked to: • contributions paid; • the performance of the individual's chosen investments; and • the form of benefits.	A charge of £28.7 million (2022: £27.1 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £0.1 million of outstanding contributions (2022: £3.5 million) at the year-end recognised in the statement of financial position. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit pension schemes: • Thames Water Pension Scheme ("TWPS"); and • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both now are career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the pension trustees. TWMIPS has been closed to new entrants since 1989 and TWPS since April 2011. Both schemes are closed to new employees. TWPS was closed to future accrual as of 31 March 2021.	In a defined benefit pension scheme, the benefits: • are defined by the scheme rules; • depend on a number of factors including age, years of service and pensionable pay; and • do not depend on contributions made by the members or the Company.	A charge was recognised in the income statement of £9.8 million (2022: £8.7 million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • past service cost representing the increase in the defined benefit liability arising from GMP equalisation; • administrative expenses for the pension schemes; and • the net interest expense on pension scheme assets and liabilities. An actuarial gain of £69.4 million (2022: loss of £22.9 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic of the scheme members when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense. A pension asset of £6.0 million (2022: £12.0 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £182.0 million (2022: £257.3 million) is recognised in the statement of financial position for the TWPS scheme. As at 31 March 2023, the net pension deficit is £176.0 million (2022: £245.3 million). The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2023 these related payments amounted to £nil (2022: £nil).

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the trustees of the pension schemes and the Group. The purpose of this triennial valuation is to evaluate and, if necessary, modify the funding plans of the pension schemes to ensure the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the pension trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the two schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million). The next triennial valuation based on the 31 March 2022 position is currently under progress. Under UK regulations, the Group has 15 months to complete the triennial valuation from the valuation date of 31 March 2022. This review will be completed and signed off after the financial statements have been published and therefore the update to the valuation of the pension will be taken into account in the next financial period.

This triennial funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2019 to 31 March 2022. The 2019 funding valuation had been updated to an accounting valuation as at 31 March 2022 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 Employee Benefits and shown in this note to the financial statements.

Amounts recognised in the financial statements in respect of the defined benefit pension schemes

Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

	2023		2022	
Year ended	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Current service cost	–	1.6	–	1.5
Scheme administration expenses	–	1.5	1.3	1.2
Net interest cost/(income)	7.0	(0.3)	5.8	(1.1)
Total	7.0	2.8	7.1	1.6

The net expense is recognised in the following captions within the income statement:

	2023		2022	
Year ended	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Operating expenses	–	3.1	1.3	2.7
Net finance expense/(income)	7.0	(0.3)	5.8	(1.1)
Total	7.0	2.8	7.1	1.6

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

As at 31 March	2023 £m	2022 £m
Actual return less expected return on pension scheme assets	(629.1)	(122.4)
Experience loss arising on scheme liabilities	(84.4)	(84.6)
Gain/(loss) arising due to change in financial assumptions	750.0	179.4
Gain arising due to change in demographic assumptions	32.9	4.7
Total actuarial gain/(loss)	69.4	(22.9)
Cumulative actuarial losses recognised	(438.4)	(507.8)

Statement of financial position

The net pension liability recognised within the statement of financial position is as follows:

	2023			2022		
As at 31 March	TWPS £m	TWMIPS £m	Total £m	TWPS £m	TWMIPS £m	Total £m
Fair value of scheme assets	1,145.5	538.1	1,683.6	1,640.1	698.7	2,338.8
Present value of defined benefit obligations	(1,327.5)	(532.1)	(1,859.6)	(1,897.4)	(686.7)	(2,584.1)
(Deficit)/surplus	(182.0)	6.0	(176.0)	(257.3)	12.0	(245.3)
Net pension deficit			(176.0)			(245.3)

Reconciliation of defined benefit plan assets and liabilities

The movements in the present value of the defined benefit obligations were as follows:

	2023		2022	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,897.4	686.7	2,008.0	713.0
Current service cost	–	1.6	–	1.5
Interest cost	52.3	18.4	41.6	13.9
Contributions from scheme members	–	–	–	–
Benefits paid	(59.1)	(39.2)	(55.2)	(39.2)
Actuarial (gains)	(563.1)	(135.4)	(97.0)	(2.5)
At 31 March	1,327.5	532.1	1,897.4	686.7

The movements in the fair value of scheme assets were as follows:

	2023		2022	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,640.1	698.7	1,730.9	770.9
Interest income on scheme assets	45.3	18.7	35.8	15.0
Contributions by sponsoring employers	7.1	2.6	3.4	2.1
Administration costs paid from scheme assets	–	(1.5)	(1.3)	(1.2)
Benefits paid	(59.1)	(39.2)	(55.2)	(39.2)
Actuarial (gains)	(487.9)	(141.2)	(73.5)	(48.9)
At 31 March	1,145.5	538.1	1,640.1	698.7

Analysis of assets

	2023				2022			
As at 31 March	Quoted £m	Unquoted £m	Total £m	Total (%)	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	16.6	–	16.6	1.0	41.7	–	41.7	1.8
Rest of World	103.0	–	103.0	6.1	422.2	–	422.2	18.0
Bonds								
Government – UK	52.7	–	52.7	3.1	72.3	–	72.3	3.1
Government – Rest of World	100.6	–	100.6	6.0	101.8	–	101.8	4.4
Corporates – UK	45.7	–	45.7	2.7	49.6	–	49.6	2.1
Corporates – Rest of World	236.2	9.8	246.0	14.7	256.8	–	256.8	11.0
Property								
UK	–	–	–	–	–	–	–	–
Rest of world	–	–	–	–	–	–	–	–
Alternative assets								
Liability driven instruments	914.9	–	914.9	54.3	1,140.9	–	1,140.9	48.7
Other (including derivatives)	150.6	–	150.6	8.9	155.7	–	155.7	6.7
Cash	53.5	–	53.5	3.2	97.8	–	97.8	4.2
Total market value of assets	1,673.8	9.8	1,683.6	100.0	2,338.8	–	2,338.8	100.0

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Redington. 58.1% (2022: 51.9%) of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

In the current period, Index Linked Gilts amount to £345.2 million and Fixed Interest Gilts amount to £1,221.5million of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

IAS 19 Assumptions

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

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

Financial assumptions

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

	2023		2022	
As at 31 March	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	**3.25%**	**3.30%**	3.65%	3.85%
Price inflation – CPI (Pre 2030)	**1.00%**	**1.00%**	1.00%	1.00%
Price inflation – CPI (Post 2030)	**0.10%**	**0.10%**	0.10%	0.10%
Rate of increase to pensions in payment – RPI	**3.25%**	**3.30%**	3.65%	3.65%
Rate of increase to pensions in payment – CPI (Pre 2030)	**1.00%**	**1.00%**	1.00%	1.00%
Rate of increase to pensions in payment – CPI (Post 2030)	**0.10%**	**0.10%**	0.10%	0.10%
Discount rate	**4.80%**	**4.80%**	2.75%	2.75%

Mortality assumptions

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

	2023		2022	
As at 31 March	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**27.3**	**26.4**	27.7	26.8
Female	**29.6**	**28.8**	29.8	29.1
Life expectancy from age 60 currently age 40:				
Male	**27.9**	**27.6**	28.3	27.9
Female	**30.7**	**30.0**	30.9	30.2

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, discount rate risk, inflation risk and longevity risk.

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

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

	2023		2022	
As at 31 March	TWPS £m	TWMIPS £m)	TWPS £m	TWMIPS £m
Change in assumptions resulting in a (decrease)/increase in liabilities				
Change in discount rate (+ 1% p.a.)	**(210.0)**	**(50.0)**	(345.0)	(85.0)
Change in rate of inflation (- 1% p.a.)	**(135.0)**	**(30.0)**	(235.0)	(65.0)
Change in life expectancy (+ 1 year)	**55.0**	**20.0**	75.0	35.0

Notes to the consolidated financial statements continued

23. Retirement benefit obligations continued

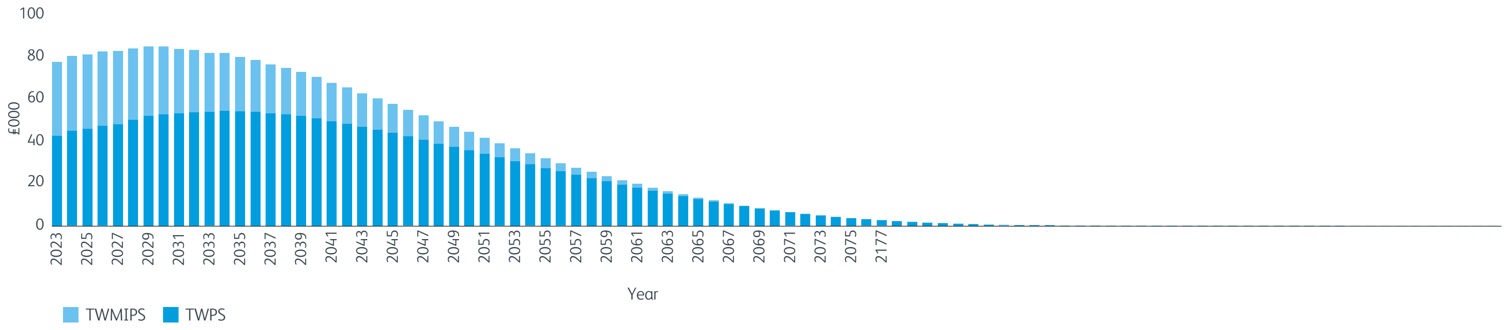
Future expected cash flows

The Group made a pension deficit repair payment of £69.7 million on 30 March 2021 covering the financial periods from 2021/22 to 2024/25, which was treated as an exceptional cash flow in the year ended 31 March 2021. The reduction in average duration of the benefit obligations is driven by rises in interest rates and yields leading to higher discount rates. The Group made a payment of £28.3 million on 1 April 2020 in relation to 2020/21. The average duration of the benefit obligation at the end of the year is 15 years for TWPS and 10 years for TWMIPS (2022: 19 years for TWPS and 13 years for TWMIPS).

In December 2020, the funding valuation as at 31 March 2020 was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	69.7	–	–	–	17.9	17.9	17.9

The expected cash flows payable from the schemes are presented in the graph below:



The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2019. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

24. Capital commitments

As at 31 March	2023 £m	2022 £m
Property, plant and equipment	**826.2**	652.8
Intangible assets	**10.8**	21.2
Total contracted for but not provided	**837.0**	674.0

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments have increased during the year due to more investment being made in our infrastructure to help mitigate the challenge of ensuring resilience in our network from the impact of climate change and population growth.

25. Contingent liabilities

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

The Group is currently defending five sets of court proceedings commenced by different groups of Property Search Companies ("PSCs") seeking refunds of fees paid for property search data, including CON29DW and Commercial DW searches, from 18 December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, free of charge or for a smaller fee. The position is replicated across other Water & Sewerage Companies in England. These claims are considered still at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of the Group.

The Group is subject to investigations being separately led by Ofwat and the Environment Agency into compliance with conditions of environmental permits and sewer overflows. This impacts all Sewerage Companies in England and Wales per obligations set under Instruments of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The Group is providing information requested to support with these ongoing investigations. The outcome of these investigations and the existence of any possible future financial obligations, or other consequences, is unable to be reliably determined at this time.

Other contingent liabilities include other contractual matters with suppliers incurred in the ordinary course of business, which may result in a liability that could have a material effect on the Group's financial statements. These contractual matters are unquantifiable and subject to significant uncertainties. The Group has considered these contractual matters as a contingent liability.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 18. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

26. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- leases not in the scope of IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Group is part of a whole business Securitisation Group. Thames Water Utilities Holdings Limited, the Company and its direct subsidiary, Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed ("STID"). Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt on a post swap basis as at 31 March 2023 was £16.4 billion (2022: £13.8 billion).

Notes to the consolidated financial statements continued

27. Post balance sheet events

Since 31 March 2023, a total of £370.7 million Class B Revolving Credit Facilities and a £300.0 million Class B bond were repaid.

28. Statement of cash flows

Reconciliation of operating profit to operating cash flows

Year ended 31 March	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
(Loss)/profit for the financial year	(132.3)	102.2	(30.1)	(1,042.0)	68.7	(973.3)
Less finance income	(223.7)	–	(223.7)	(128.8)	–	(128.8)
Add finance expense excluding interest on lease liabilities	698.8	–	698.8	510.1	–	510.1
Add interest expense on lease liabilities	1.4	–	1.4	3.2	–	3.2
Add net (gains)/losses on financial instruments	(122.3)	–	(122.3)	895.5	–	895.5
Add/(less) taxation on profit/(loss) on ordinary activities before taxation	49.7	(17.8)	31.9	106.4	16.1	122.5
Operating profit	271.6	84.4	356.0	344.4	84.8	429.2
Depreciation on property, plant and equipment	637.3	–	637.3	623.7	–	623.7
Amortisation of intangible assets	65.9	–	65.9	55.6	–	55.6
Depreciation of right of use asset	8.8	–	8.8	5.7	–	5.7
Loss/(gain) on sale of property, plant and equipment	3.0	–	3.0	(1.4)	–	(1.4)
Impairment of property, plant and equipment and intangible assets	18.2	–	18.2	10.0	–	10.0
Difference between pension charge and cash contribution	(6.6)	–	(6.6)	(1.5)	–	(1.5)
(Increase)/decrease in inventory	(7.9)	–	(7.9)	1.9	–	1.9
Increase in trade and other receivables[1]	(60.6)	(70.9)	(131.5)	(8.0)	(82.1)	(90.1)
Increase/(decrease) in contract assets	(2.6)	3.3	0.7	(11.5)	(2.7)	(14.2)
Increase/(decrease) in trade and other payables	49.7	(13.0)	36.7	57.7	1.7	59.4
Increase/(decrease) in contract liabilities	94.9	(2.0)	92.9	77.7	(0.1)	77.6
Group relief paid	–	–	–	(4.2)	–	(4.2)
Increase in provisions	42.7	–	42.7	41.3	–	41.3
Net cash generated by operating activities	1,114.4	1.8	1,116.2	1,191.4	1.6	1,193.0

1 Movement in trade and other receivables excludes the movement in group relief receivable/payable; any amounts paid/received in the period are disclosed within "Group relief paid".

Movement in cash and cash equivalents

Year ended 31 March	2023 £m	2022 £m
Unrestricted cash movement	(8.4)	11.1
Movement in money market funds	1,419.7	(80.6)
Total	1,411.3	(69.5)

29. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'Transactions with associates and the non-appointed business' disclosure in the Annual Performance Report, published on our website.

Year ended 31 March	2023 Services provided by the Group £'000	2023 Services provided to the Group £'000	2022 Services provided by the Group £'000	2022 Services provided to the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	915	–	–	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Eurobond plc	35	–	–	–
Kemble Water Finance Limited	284	–	–	–
Thames Water Limited	720	–	2,004	–
Immediate parent				
Thames Water Utilities Holdings Limited[1]	47,462	–	8,270	–
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	394	31	124	–
Thames Water Commercial Services Limited	–	–	20	–
Thames Water Property Services Limited	–	236	168	233
Thames Water Pension Trustees Limited	331	–	–	–
Kemble Ventures Operations Limited	2,256	–	–	–
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	–	16	–	15
Water UK	–	788	–	–
Total	52,397	1,071	10,586	248

1 This amount relates to interest on the intercompany loan refer to note 13.

During the year the Group paid its immediate parent company, Thames Water Utilities Holdings Limited, a dividend of £45.2 million (2022: £37.1 million).

Notes to the consolidated financial statements continued

29. Related party transactions continued

Outstanding balances

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

As at 31 March	2023 Amounts owed to the Group £'000	2023 Amounts owed by the Group £'000)	2022 Amounts owed to the Group £'000	2022 Amounts owed by the Group £'000
Intermediaries between the immediate and ultimate parent				
Kemble Water Eurobond plc	96,146[1]	–	–	–
Immediate parent				
Thames Water Utilities Holdings Limited	1,249,106	30,397[1]	1,693,422	25,636[1]
Entities external to the Kemble Water Holdings group				
Water UK	–	328	–	–
Total	1,345,252	30,725	1,693,442	25,636

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

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

Key management personnel

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

The remuneration of the Directors is included within the amounts disclosed below, and includes remuneration for services provided to other group companies. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 88 – 104.

Year ended 31 March	2023 £'000	2022 £'000
Fees	545	581
Salary	4,376	3,821
Pension and pension allowance	436	349
Bonus	739	2,093
Payment on loss of office	209	346
Other benefits	1,316	981
Total	7,621	8,171

Information regarding transactions with post-employment benefits plans is included in note 23.

Other benefits includes long-term incentive plan, taxable benefits, medical benefits, car allowances, relocation costs, salary adjustments and other incentive payments.

30. Intermediate and ultimate parent Company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and is the smallest group to consolidate these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

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

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the financial statements for all entities may be obtained from The Group Secretary's Office at this address.

Company income statement

For the year ended 31 March

	Note	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
Revenue	2	**2,180.7**	**84.5**	**2,265.2**	2,092.0	84.9	2,176.9
Operating expenses excluding impairment losses on financial and contract assets		**(1,994.6)**	**–**	**(1,994.6)**	(1,833.0)	–	(1,833.0)
Impairment losses on financial and contract assets	3, 15	**(22.3)**	**(0.1)**	**(22.4)**	(10.1)	(0.1)	(10.2)
Total operating expenses	31	**(2,016.9)**	**(0.1)**	**(2,017.0)**	(1,843.1)	(0.1)	(1,843.2)
Other operating income	2	**107.6**	**–**	**107.6**	95.7	–	95.7
Operating profit		**271.4**	**84.4**	**355.8**	344.6	84.8	429.4
Finance income	32	**229.5**	**–**	**229.5**	122.5	–	122.5
Finance expense	32	**(810.6)**	**–**	**(810.6)**	(575.5)	–	(575.5)
Net losses on financial instruments	33	**(52.8)**	**–**	**(52.8)**	(743.8)	–	(743.8)
(Loss)/profit on ordinary activities before taxation		**(362.5)**	**84.4**	**(278.1)**	(852.2)	84.8	(767.4)
Tax credit/(charge) on (loss)/profit on ordinary activities	34	**17.6**	**17.8**	**35.4**	(153.0)	(16.1)	(169.1)
(Loss)/profit for the year		**(344.9)**	**102.2**	**(242.7)**	(1,005.2)	68.7	(936.5)

The Company's activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

Company statement of other comprehensive income

For the year ended 31 March

	Note	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
(Loss)/profit for the year		**(344.9)**	**102.2**	**(242.7)**	(1,005.2)	68.7	(936.5)
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial gain/(loss) on pension schemes	23	**69.4**	**–**	**69.4**	(22.9)	–	(22.9)
Deferred tax (charge)/credit on net actuarial gain/(loss)	42	**(16.8)**	**–**	**(16.8)**	11.8	–	11.8
Impact of tax rate change in prior year in respect of net actuarial losses	42	**–**	**–**	**–**	31.1	–	31.1
May be reclassified to the income statement:							
Cash flow hedge transferred to income statement	41	**21.1**	**–**	**21.1**	31.1	–	31.1
Deferred tax charge on cash flow hedge including impact of tax rate change in prior year	42	**(4.0)**	**–**	**(4.0)**	(4.6)	–	(4.6)
Other comprehensive income for the year		**69.7**	**–**	**69.7**	46.5	–	46.5
Total comprehensive (expense)/income for the year		**(275.2)**	**102.2**	**(173.0)**	(958.7)	68.7	(890.0)

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

Company statement of financial position

As at

	Note	31 March 2023 Underlying £m	31 March 2023 BTL £m	31 March 2023 Total £m	31 March 2022 Underlying £m	31 March 2022 BTL £m	31 March 2022 Total £m
Non-current assets							
Intangible assets	9	263.3	–	263.3	284.8	–	284.8
Property, plant and equipment	10	18,017.4	–	18,017.4	16,949.8	–	16,949.8
Investment property	11	2.0	–	2.0	50.0	–	50.0
Investment in subsidiary undertakings	35	207.7	–	207.7	207.7	–	207.7
Right of use assets	12	39.8	–	39.8	45.8	–	45.8
Derivative financial assets	41	332.6	–	332.6	111.5	–	111.5
Intercompany loans receivable	36	1,549.1	–	1,549.1	1,993.4	–	1,993.4
Prepayments	37	–	377.9	377.9	–	308.8	308.8
Insurance, amounts owed to group undertakings and other receivables	37	61.8	–	61.8	41.5	–	41.5
Pension asset	23	6.0	–	6.0	12.0	–	12.0
		20,479.7	377.9	20,857.6	19,696.5	308.8	20,005.3
Current assets							
Inventories	14	20.9	–	20.9	13.0	–	13.0
Intercompany loans receivable	36	40.3	–	40.3	43.5	–	43.5
Contract assets	37	253.6	5.2	258.8	251.0	8.5	259.5
Trade receivables	37	315.9	16.8	332.7	301.6	14.0	315.6
Prepayments	37	48.8	–	48.8	36.9	–	36.9
Amounts owed to group undertakings and other receivables	37	156.5	(16.6)	139.9	40.8	1.0	41.8
Derivative financial assets	41	–	–	–	3.6	–	3.6
Cash and cash equivalents	38	1,828.1	7.0	1,835.1	418.7	5.2	423.9
		2,664.1	12.4	2,676.5	1,109.1	28.7	1,137.8
Current liabilities							
Contract liabilities	39	(130.1)	–	(130.1)	(125.1)	(2.0)	(127.1)
Trade and other payables	39	(896.2)	–	(896.2)	(699.3)	(49.2)	(748.5)
Borrowings	40	(2,503.1)	–	(2,503.1)	(974.3)	–	(974.3)
Lease liabilities	12	(7.3)	–	(7.3)	(6.2)	–	(6.2)
Derivative financial liabilities	41	(53.4)	–	(53.4)	(58.4)	–	(58.4)
Provisions for liabilities and charges	21	(35.0)	–	(35.0)	–	–	–
		(3,625.1)	–	(3,625.1)	(1,863.3)	(51.2)	(1,914.5)
Net current (liabilities)/assets		(961.0)	12.4	(948.6)	(754.2)	(22.5)	(776.7)

	Note	31 March 2023 Underlying £m	31 March 2023 BTL £m	31 March 2023 Total £m	31 March 2022 Underlying £m	31 March 2022 BTL £m	31 March 2022 Total £m
Non-current liabilities							
Contract liabilities	39	(921.6)	–	(921.6)	(831.7)	–	(831.7)
Borrowings	40	(13,769.4)	–	(13,769.4)	(12,862.5)	–	(12,862.5)
Lease liabilities	11	(49.7)	–	(49.7)	(57.1)	–	(57.1)
Derivative financial liabilities	41	(1,495.7)	–	(1,495.7)	(1,597.2)	–	(1,597.2)
Deferred tax	42	(1,262.4)	–	(1,262.4)	(1,184.1)	–	(1,184.1)
Provisions for liabilities and charges	21	(192.7)	–	(192.7)	(185.0)	–	(185.0)
Pension deficit	23	(182.0)	–	(182.0)	(257.3)	–	(257.3)
		(17,873.5)	–	(17,873.5)	(16,974.9)	–	(16,974.9)
Net assets		1,645.2	390.3	2,035.5	1,967.4	286.3	2,253.7
Equity							
Called up share capital	43	29.0	–	29.0	29.0	–	29.0
Share premium	43	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	43	(16.1)	–	(16.1)	(33.2)	–	(33.2)
Revaluation reserve	43	795.5	–	795.5	820.1	–	820.1
Retained earnings	43	736.8	390.3	1,127.1	1,051.5	286.3	1,337.8
Total equity		1,645.2	390.3	2,035.5	1,967.4	286.3	2,253.7

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 127.

The Company only financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 10 July 2023 and signed on its behalf by:

Alastair Cochran
Chief Financial Officer

Company statement of changes in equity

For the year ended

	Note	Called up Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	**Total equity £m**
1 April 2021		29.0	100.0	(59.7)	903.1	2,208.4	**3,180.8**
Loss for the year		–	–	–	–	(936.5)	**(936.5)**
Cash flow hedge transfer to the income statement	41	–	–	31.1	–	–	**31.1**
Deferred tax charge on cash flow hedge including impact of tax rate change	42	–	–	(4.6)	–	–	**(4.6)**
Net actuarial loss on pension scheme	23	–	–	–	–	(22.9)	**(22.9)**
Deferred tax credit on net actuarial loss	42	–	–	–	–	11.8	**11.8**
Impact of tax rate change in respect of net actuarial losses	42	–	–	–	–	31.1	**31.1**
Total comprehensive income/(expense)		–	–	26.5	–	(916.5)	**(890.0)**
Transfer of depreciation[1]		–	–	–	(21.5)	21.5	**–**
Deferred tax on depreciation transfer[1]		–	–	–	(61.5)	61.5	**–**
Dividends paid	8	–	–	–	–	(37.1)	**(37.1)**
31 March 2022		29.0	100.0	(33.2)	820.1	1,337.8	**2,253.7**
Loss for the year		–	–	–	–	(242.7)	**(242.7)**
Cash flow hedge transfer to the income statement	41	–	–	21.1	–	–	**21.1**
Deferred tax charge on cash flow hedge	42	–	–	(4.0)	–	–	**(4.0)**
Net actuarial gain on pension scheme	23	–	–	–	–	69.4	**69.4**
Deferred tax charge on net actuarial gain	42	–	–	–	–	(16.8)	**(16.8)**
Total comprehensive income/(expense)		–	–	17.1	–	(190.1)	**(173.0)**
Transfer of depreciation[1]		–	–	–	(32.8)	32.8	**–**
Deferred tax on depreciation transfer[1]		–	–	–	8.2	(8.2)	**–**
Dividends paid	8	–	–	–	–	(45.2)	**(45.2)**
31 March 2023		29.0	100.0	(16.1)	795.5	1,127.1	**2,035.5**

1 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax (including the impact of the tax rate change) on the fair value uplift on assets.

Company statement of cash flows

For the year ended 31 March

		2023			2022		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Net cash generated by operating activities[1]	47	**1,120.0**	**1.8**	**1,121.8**	1,209.4	1.6	1,211.0
Investing activities:							
Purchase of property, plant and equipment		**(1,554.8)**	**–**	**(1,554.8)**	(1,271.7)	–	(1,271.7)
Purchase of intangible assets		**(43.6)**	**–**	**(43.6)**	(72.3)	–	(72.3)
(Costs)/Proceeds from sale of property, plant and equipment		**(7.0)**	**–**	**(7.0)**	1.3	–	1.3
Interest received		**228.9**	**–**	**228.9**	103.3	–	103.3
Repayment of loans by parent company		**444.3**	**–**	**444.3**	–	–	–
Net cash used in investing activities		**(932.2)**	**–**	**(932.2)**	(1,239.4)	–	(1,239.4)
Financing activities:							
New loans raised[2]		**5,092.1**	**–**	**5,092.1**	3,590.6	–	3,590.6
Repayment of borrowings[3]		**(3,250.1)**	**–**	**(3,250.1)**	(3,306.1)	–	(3,306.1)
Proceeds from derivative settlement[4]		**7.9**	**–**	**7.9**	–	–	–
Payment for derivative settlement[5]		**(365.1)**	**–**	**(365.1)**	–	–	–
Repayment of lease principal		**(10.0)**	**–**	**(10.0)**	(9.9)	–	(9.9)
Interest paid		**(193.0)**	**–**	**(193.0)**	(273.5)	–	(273.5)
Fees paid		**(15.0)**	**–**	**(15.0)**	(3.8)	–	(3.8)
Dividends paid		**(45.2)**	**–**	**(45.2)**	(37.1)	–	(37.1)
Net cash generated by/(used in) financing activities		**1,221.6**	**–**	**1,221.6**	(39.8)	–	(39.8)
Net increase/(decrease) in cash and cash equivalents		**1,409.4**	**1.8**	**1,411.2**	(69.8)	1.6	(68.2)
Net cash and cash equivalents at beginning of period		**418.7**	**5.2**	**423.9**	488.5	3.6	492.1
Net cash and cash equivalents at end of period		**1,828.1**	**7.0**	**1,835.1**	418.7	5.2	423.9

1 Net cash generated by operating activities for the year ended 31 March 2023 includes £nil (31 March 2022: £nil) payments that are considered to be exceptional. An exceptional outflow of £69.7 million was recognised in the year ended 31 March 2021 which relating to upfront deficit repayments for the remainder of AMP7. If this prepayment had not been made then the net cash generated by operating activities for the year ended 31 March 2023 would be £1,097.1 million, which would have included a cash payment of £24.7 million.

2 New loans raised of £5,092.1 million (2022: £3,590.6 million) represents amounts raised by TWUF and on lent to the Company and includes £2,616.3 million (2022: £2,430.0 million) of drawdowns relating to revolving credit facilities, including £1,875.0 million Class A and £741.3 million Class B (2022: £1,770.0 million Class A and £660.0 million Class B). The remaining £2,475.8 million (2022: £1,160.6 million) relates to £1,458.2 million (net of fees) bonds issuances by TWUF and on lent to the Company and £1,017.6 million loans raised by the Company (2022: £963.2 million (net of fees) bond issuances and £197.4 million (net of fees) loans raised by TWUF and on lent to the Company).

3 Repayment of borrowings of £3,250.1 million (2022: £3,306.1 million) mainly represents amounts repaid to TWUF and includes £2,616.3 million (2022: £2,273.5 million) of repayments relating to revolving credit facilities, including £1,875.0 million Class A and £741.3 million Class B (2022: £1,770.0 million Class A and £503.5 million Class B). The remaining £633.8 million (2022: £1,032.6 million) includes £445.0 relating to amounts repaid to TWUF and £188.8 million was repaid to external counterparties (2022: £917.6 million relating to amounts repaid to TWUF and £115.0 million was repaid to external counterparties).

4 Proceeds from derivative settlement of £7.9 million (2022: £nil) relating to settlement of cross currency swaps.

5 Payment for derivative settlement of £365.1 million (2022: £nil) relating to accretion paydown on index-linked swaps.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies on pages 127.

Notes to the Company financial statements

31. Operating expenses

The Company's total operating expenses for the year end 31 March 2023 are £2,017.0 million (31 March 2022: £1,843.2 million). This is higher than the Group's total operating expenses total for the year by £0.2 million (31 March 2022: lower by £0.2 million).

32. Finance income and expense

During the year ended 31 March 2023, the Company recognised finance income of £229.5 million (2022: £122.5 million) relating mainly to interest income on swaps, intercompany loans receivable and bank deposits.

Finance income

Year ended 31 March	2023 £m	2022 £m
Interest income on bank deposits	13.4	0.2
Interest income on intercompany loans receivable	54.1	14.3
Interest income on swaps	161.1	98.6
Other finance income on swaps	–	9.0
Trading interest income	0.9	0.4
Total finance income	**229.5**	**122.5**

Finance expense

The Company also recognised finance expenses of £810.6 million (2022: £575.5 million) relating mainly to interest and accretion on borrowings, interest on defined benefit pension obligations and other finance fees.

Year ended 31 March	Note	2023 £m	2022 £m
Interest in relation to bank and other loans:			
Interest expense		(79.0)	(45.0)
RPI accretion on loans		(118.5)	(70.9)
Interest in relation to intercompany borrowings:			
Interest expense		(393.0)	(359.3)
RPI accretion on loans		(424.7)	(205.1)
Interest in relation to defined benefit obligation			
Net interest expense on defined benefit obligation	23	(6.7)	(4.7)
Interest in relation to leases			
Leases	12	(1.4)	(3.2)
Interest in relation to non-household business			
Trading interest expense		(0.1)	–
Fees			
Other finance fees		(2.4)	(2.6)
Gross finance expense		**(1,025.8)**	**(690.8)**
Capitalised borrowing costs		215.2	115.3
Total finance expense		**(810.6)**	**(575.5)**

33. Net losses on financial instruments

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

Year ended 31 March	2023 £m	2022 £m
Net exchange losses on foreign currency borrowings	(0.1)	(5.7)
Net losses arising on swaps where hedge accounting is not applied[1]	(31.6)	(707.0)
Losses on cash flow hedge transferred from equity[2]	(21.1)	(31.1)
Total	**(52.8)**	**(743.8)**

1 In the current period the net losses arising on swaps where hedge accounting is not applied primarily reflects accretion paydown on swaps, partially offset by higher interest rate expectations. The amount includes the fair value of £625.3 million (2022: £271.5 million) accreted on index linked swaps during the year. In March 2023, £296.9 million was paid to early settle £309.5 million accretion on index-linked swaps. The difference of £12.6 million reflecting the discount for early repayment.

2 Refer to note 41 Financial Instruments on page 178 for more information on the loss on cash flow hedge transferred from equity.

34. Tax (credit)/charge on (loss)/profit on ordinary activities

	2023			2022		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Current tax:						
Amounts (receivable)/payable in respect of group relief	(98.9)	–	(98.9)	(9.3)	16.1	6.8
Adjustments in respect of prior periods	23.8	(17.8)	6.0	(1.7)	–	(1.7)
Current tax subtotal	**(75.1)**	**(17.8)**	**(92.9)**	**(11.0)**	**16.1**	**5.1**
Deferred tax:						
Origination and reversal of timing differences	43.1	–	43.1	(147.7)	–	(147.7)
Effect of tax rate change	21.0	–	21.0	309.9	–	309.9
Adjustments in respect of prior periods	(6.6)	–	(6.6)	1.8	–	1.8
Deferred tax subtotal	**57.5**	**–**	**57.5**	**164.0**	**–**	**164.0**
Tax (credit)/charge/ on (loss)/profit on ordinary activities	**(17.6)**	**(17.8)**	**(35.4)**	**153.0**	**16.1**	**169.1**

Notes to the Company financial statements continued

34. Tax (credit)/charge on (loss)/profit on ordinary activities continued

The tax credit for the year ended 31 March 2023 is lower (2022: higher charge) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023				2022			
Year ended 31 March	Underlying £m	BTL £m	Total £m	Effective tax rate %	Underlying £m	BTL £m	Total £m	Effective tax rate %
(Loss)/profit on ordinary activities before taxation	**(362.5)**	**84.4**	**(278.1)**		(852.2)	84.8	(767.4)	
Corporation tax at 19% (2022: 19%) on (loss)/profit on ordinary activities before taxation	**(68.8)**	**16.0**	**(52.8)**	**19.0%**	(161.9)	16.1	(145.8)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.7**	**–**	**4.7**		4.5	–	4.5	
Disallowable expenditure[1]	**4.8**	**–**	**4.8**		7.8	–	7.8	
Non-taxable income[2]	**(7.5)**	**–**	**(7.5)**		(5.3)	–	(5.3)	
Property disposals	**0.2**	**–**	**0.2**		–	–	–	
Impact of "super-deduction" allowance on capital expenditure[3]	**(5.2)**	**–**	**(5.2)**		(2.3)	–	(2.3)	
Impact of tax loss not paid for at standard rate[4]	**16.0**	**(16.0)**	**–**		–	–	–	
Other	**–**	**–**	**–**		0.2	–	0.2	
Tax (credit)/charge as adjusted for recurring items	**(55.8)**	**–**	**(55.8)**	**20.1%**	(157.0)	16.1	(140.9)	18.4%
Non-recurring items:								
Effect of tax rate change[5]	**21.0**	**–**	**21.0**		309.9	–	309.9	
Adjustments in respect of prior periods – current tax[4]	**23.8**	**(17.8)**	**6.0**		(1.7)	–	(1.7)	
Adjustments in respect of prior periods – deferred tax	**(6.6)**	**–**	**(6.6)**		1.8	–	1.8	
Total tax charge/(credit)	**(17.6)**	**(17.8)**	**(35.4)**	**12.7%**	153.0	16.1	169.1	(22.0)%

The Company is not currently in a cash tax paying position with HMRC, primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs, although it does (receive)/pay amounts for group relief sold to/bought from group companies. This year, the Company has a tax loss most of which will be sold as group relief to group companies at the standard rate of corporation tax of 19%, resulting in the net current tax credit shown below, while some is carried forward for use against future taxable profits. The differences between (loss)/profit on ordinary activities before taxation at the standard corporation tax rate and the current tax (credit)/charge for the year are set out below.

	2023			2022		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	**(362.5)**	**84.4**	**(278.1)**	(852.2)	84.8	(767.4)
Corporation tax at 19% (2022: 19%) on (loss)/profit on ordinary activities before taxation	**(68.8)**	**16.0**	**(52.8)**	(161.9)	16.1	(145.8)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.7**	**–**	**4.7**	4.5	–	4.5
Disallowable expenditure[1]	**4.8**	**–**	**4.8**	7.8	–	7.8
Non-taxable income[2]	**(7.5)**	**–**	**(7.5)**	(5.3)	–	(5.3)
Property disposals	**0.2**	**–**	**0.2**	–	–	–
Impact of tax loss not paid for at standard rate[4]	**16.0**	**(16.0)**	**–**	–	–	–
Capital allowances, including impact of "super deductions", for the year lower than depreciation[6]	**82.2**	**–**	**82.2**	81.6	–	81.6
Capitalised borrowing costs allowable for tax[7]	**(40.8)**	**–**	**(40.8)**	(21.9)	–	(21.9)
Losses on financial derivatives[8]	**(108.8)**	**–**	**(108.8)**	89.7	–	89.7
Pension cost charge in excess of/(lower than) pension contributions	**–**	**–**	**–**	0.6	–	0.6
Other short term timing differences	**(5.0)**	**–**	**(5.0)**	(4.4)	–	(4.4)
Tax losses carried forward[9]	**24.1**	**–**	**24.1**	–	–	–
Adjustments in respect of prior periods – current tax[4]	**23.8**	**(17.8)**	**6.0**	(1.7)	–	(1.7)
Current tax (credit)/charge for the year	**(75.1)**	**(17.8)**	**(92.9)**	(11.0)	16.1	5.1

1 Disallowable expenditure primarily relates to fines included in operating expenses.
2 Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.
3 The UK government introduced an accelerated capital allowance called a "super-deduction" which is available on some of the Company's capital expenditure up to 31 March 2023. The allowance includes an additional 30% allowance in excess of expenditure on qualifying plant and machinery which results in a tax credit in the income statement. A super-deduction allowance was also available on some of the Company's capital expenditure in the prior period, and this is therefore shown as a recurring item.
4 Tax losses arising in the underlying business are used to cover taxable profits of BTL. No payment is made for this as all amounts arise within the Company. The prior year adjustment reversed some tax charges booked in prior years for BTL and associated tax credits booked for losses used from the underlying business.
5 The tax rate change enacted in the prior year was reflected in the prior year, including deferred tax, using the estimated tax rate at which timing differences were expected to unwind. In the event, some timing differences have unwound earlier or later than expected, giving rise to an additional tax rate change impact in the current year.
6 In the current year, capital allowances claimed were lower than depreciation in order to minimise tax losses arising in the year (see footnote 9). In the prior year, capital allowances claimed were lower than depreciation because of a reduction in taxable profits caused by accounting losses in that year.
7 Capitalised borrowing costs are eligible for a full tax deduction in the year.
8 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.
9 This year, the Company has a tax loss, most of which will be sold as group relief to group companies at the standard rate of corporation tax of 19%, resulting in a current tax credit. Some tax losses are being carried forward for use against future taxable profits; this reduces the current tax credit recognised in the year at 19%, and instead a deferred tax asset has been recognised at 25% on the tax losses carried forward (see Note 42).

Uncertain tax positions

At 31 March 2023 the total value of uncertain tax positions was £nil (2022: £nil).

Notes to the Company financial statements continued

34. Tax (credit)/charge on (loss)/profit on ordinary activities continued

Tax (charged)/credited directly to other comprehensive income

The deferred tax (charged)/credited directly to other comprehensive income during the year is as follows:

Year ended 31 March	2023 £m	2022 £m
Deferred tax (charge)/credit on net actuarial gain/(loss) in the year	(16.8)	11.8
Impact of tax rate change in prior year on net actuarial losses	–	31.1
	(16.8)	42.9
Deferred tax charge on cash flow hedges in the year	(4.0)	(5.9)
Impact of tax rate change in prior year on cash flow hedges	–	1.3
	(4.0)	(4.6)
Total tax (charged)/credited directly to other comprehensive income	**(20.8)**	**38.3**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for deferred tax on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Company. The impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income.

35. Investment in subsidiary undertaking

The Company has no interest in joint ventures or associates. The Company had the following investment in a subsidiary undertaking as at 31 March 2023 and 31 March 2022:

Entity	Holding	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights & shares held
Thames Water Utilities Finance plc	Direct	Finance Company	United Kingdom	£1 Ordinary	100%

The subsidiary undertaking is wholly owned by the Company.

The address of the registered office of Thames Water Utilities Finance plc is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

36. Intercompany loans receivable

	2023		2022	
As at 31 March	Book value £m	Fair value £m	Book value £m	Fair value £m
Amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	1,249.1	1,249.1	1,693.4	1,693.4
Thames Water Utilities Finance plc	300.0	300.0	300.0	300.0
Total principal owed	1,549.1	1,549.1	1,993.4	1,993.4
Interest receivable on amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	0.2	0.2	8.4	8.4
Thames Water Utilities Finance plc	40.1	40.1	35.1	35.1
Total interest receivable	40.3	40.3	43.5	43.5
Total	**1,589.4**	**1,589.4**	2,036.9	2,036.9
Disclosed within non-current assets	1,549.1	1,549.1	1,993.4	1,993.4
Disclosed within current assets	40.3	40.3	43.5	43.5

The above intercompany loans are unsecured. These balances have not been included within the Company's net debt and covenant calculations.

The intercompany loans receivable from TWUHL is repayable on demand. Amounts owed by group undertakings have been disclosed in non-current assets as Directors do not expect to seek or require repayment for at least the next 12 months. Interest on the loans are charged at SONIA plus 0.6266% margin (2022: LIBOR plus 0.35% margin). Paragraph B5.5.38 of IFRS 9 states that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. As the loans are repayable on demand, the expected credit losses are based on the assumption that repayment of the loans is demanded in full at the reporting date. The Group has considered the recoverability of the intercompany loans receivable as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany loans receivable and the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

In March 2023, £500.0 million was invested by shareholders into the business (refer to page 44 for more information). The £500.0 million investment was cascaded from KWH to the Company via intermediate holding companies. The Company received the £500.0 million through repayment of £55.7 million interest and £444.3 million principal on intercompany loans to TWUHL.

The Company recognises two intercompany loans receivable from TWUF plc for a total principal amount of £300.0 million, consisting of £200.0 million and £100.0 million loans. The interest is charged at LIBOR plus 2% margin (2022: LIBOR plus 2% margin) and LIBOR plus 1.55% margin (2022: LIBOR plus 1.55% margin) respectively. There are also corresponding borrowings payable to TWUF plc of a total principal amount of £300.0 million, see note 40, which is also made up of two loans for £200.0 million and £100.0 million. The intercompany loans receivable therefore net off with the borrowings on a notional basis and therefore the Directors do not consider there is any need to book an impairment provision and expect to materially recover the intercompany amount.

The terms of the intercompany loans may be impacted by the GBP LIBOR transition plan. Refer to IBOR reform section on page 179 for more information.

Notes to the Company financial statements continued

37. Trade and other receivables

As at 31 March	2023 Underlying £m	2023 BTL £m	2023 Total £m	2022 Underlying £m	2022 BTL £m	2022 Total £m
Non-current:						
Prepayments	–	377.9	377.9	–	308.8	308.8
Amounts owed by group undertakings	–	–	–	0.3	–	0.3
Insurance claims receivable	33.9	–	33.9	35.4	–	35.4
Other receivables	27.9	–	27.9	5.8	–	5.8
	61.8	377.9	439.7	41.5	308.8	350.3
Current:						
Gross trade receivables	468.9	21.0	489.9	448.4	17.7	466.1
Less doubtful debt provision	(153.0)	(4.2)	(157.2)	(146.8)	(3.7)	(150.5)
Net trade receivables	315.9	16.8	332.7	301.6	14.0	315.6
Amounts owed by group undertakings	7.9	–	7.9	6.2	–	6.2
Group relief receivable	101.5	(16.6)	84.9	–	–	–
Prepayments	48.8	–	48.8	36.9	–	36.9
Other receivables	47.1	–	47.1	34.6	1.0	35.6
	521.2	0.2	521.4	379.3	15.0	394.3
Current:						
Contract assets	253.6	5.2	258.8	251.0	8.5	259.5
	774.8	5.4	780.2	630.3	23.5	653.8
Total	836.6	383.3	1,219.9	671.8	332.3	1,004.1

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 31 March 2023 includes £377.9 million (2022: £308.8 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to the Company once construction is complete.

Contract assets at 31 March 2023 includes £178.2 million (2022: £183.8 million) of services provided to metered customers. Included within this amount is £8.0 million of bad debt (31 March 2022: £4.6 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement. On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2023 £m	2022 £m
At 1 April	(150.5)	(146.3)
Charge for bad and doubtful debts – charged against revenue[1]	(65.5)	(67.5)
Charge for bad and doubtful debts – included within operating expenses	(22.4)	(10.2)
Excess credits recognised during the year	–	–
Amounts written off	81.2	73.5
Total at 31 March	(157.2)	(150.5)

1 Included within this is a £2.8 million decrease (2022: £10.3 million increase) in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The increase of the provision in the current financial year is debited to gross revenue. The remaining amount relates to the £68.3 million (2022: £57.1 million) charge for bad and doubtful debts against revenue as seen in note 2.

Ageing of gross receivables is as follows:

As at 31 March	2023 £m	2022 £m)
Up to 365 days	329.3	311.3
1 – 2 years	83.9	87.0
2 – 3 years	41.5	34.1
More than 3 years	35.2	33.7
Total	489.9	466.1

The ageing of gross BTL receivables is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	15.1	12.8
1 – 2 years	4.0	3.6
2 – 3 years	1.9	1.3
Total	21.0	17.7

BTL receivables relates to the amount of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Expected credit loss split by ageing is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	83.9	84.4
1 – 2 years	26.4	25.3
2 – 3 years	17.1	12.1
More than 3 years	29.8	28.7
Total	157.2	150.5

Notes to the Company financial statements continued

37. Trade and other receivables continued

Ageing of impaired BTL receivables is as follows:

As at 31 March	2023 £m	2022 £m
Up to 365 days	2.8	2.6
1 – 2 years	0.9	0.8
2 – 3 years	0.5	0.3
Total	**4.2**	**3.7**

38. Cash and cash equivalents

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £mq	Total £m
Cash at bank and in hand	5.1	–	5.1	12.4	–	12.4
Money market funds & short-term investments	1,823.0	7.0	1,830.0	406.3	5.2	411.5
Total	**1,828.1**	**7.0**	**1,835.1**	418.7	5.2	423.9

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

39. Trade and other payables

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities	921.6	–	921.6	831.7	–	831.7
Current:						
Trade payables – operating	301.7	–	301.7	248.1	–	248.1
Amounts owed to group undertakings	75.7	–	75.7	69.0	–	69.0
Other taxation and social security	10.3	–	10.3	8.9	–	8.9
Amounts (receivable)/payable in respect of group relief	–	–	–	(27.9)	36.2	8.3
Accruals	406.4	–	406.4	325.4	–	325.4
Amounts owed to Bazalgette Tunnel Limited	–	–	–	–	13.0	13.0
Other payables	102.1	–	102.1	75.8	–	75.8
	896.2	–	896.2	699.3	49.2	748.5
Current:						
Contract liabilities	130.1	–	130.1	125.1	2.0	127.1
	1,026.3	–	1,026.3	824.4	51.2	875.6
Total	**1,947.9**	**–**	**1,947.9**	1,656.1	51.2	1,707.3

Current contract liabilities at 31 March 2023 includes £73.0 million (2022: £74.0 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance in relation to compensation received for infrastructure charges, including deposits and other fees for service connections and requisitions.

Non-current contract liabilities at 31 March 2023 includes £546.2 million (2022: £534.6 million) of deferred infrastructure charges and £375.5 million of deferred income for nil cost "adopted" assets (2022: £290.4 million).Amounts owed to group undertaking at 31 March 2023 of £75.7 million (2022: £69.0 million) primarily reflects £75.1 million (2022: £68.4 million) relating to interest received by the Company on behalf of TWUF plc in relation to restructured swaps.

Other payables at 31 March 2023 includes £74.0 million (2022: £45.9 million) of credit balances on customer accounts as a result of payments exceeding amounts billed to date, for example those customers who pay by direct debit who are yet to be billed.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.

40. Borrowings

As at 31 March	2023 £m	2022 £m
Secured bank loans and private placements	3,259.7	2,309.0
Amounts owed to group undertakings	12,719.8	11,281.2
	15,979.5	13,590.2
Interest payable on secured bank loans and private placements	25.6	6.6
Interest payable on amounts owed to group undertakings	267.4	240.0
	293.0	246.6
Total	**16,272.5**	**13,836.8**
Disclosed within non-current liabilities	13,769.4	12,862.5
Disclosed within current liabilities	2,503.1	974.3
Total	**16,272.5**	**13,836.8**

Secured bank loans, private placements and bonds are in an arrangement whereby each Obligor (representing each of the companies within the whole business Securitisation Group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, TWUHL has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, the Company and its wholly owned subsidiary TWUF, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

As at 31 March 2023, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £12,981.5 million (2022: £11,515.7 million) owed to TWUF. Financing costs arising in TWUF are directly recharged with an additional margin of ten basis points or one basis point, except for a subset of loans where financing costs are recharged under mirrored terms.
- £5.4 million (2022: £5.2 million) owed to Thames Water Utilities Holdings Limited.
- £0.3 million (2022: £0.3 million) owed to Thames Water Limited.

Maturity analysis with respect to borrowings is presented in note 41.

Notes to the Company financial statements continued

40. Borrowings continued

Breakdown of secured bank loans and private placements

As at 31 March	2023 £m	2022 £m
£215.0m 0.460% index-linked loan due 2023[(a), (f)]	316.1	278.7
£100.0m 0.790% index-linked loan due 2025[(a), (d), (f)]	139.9	123.4
£125.0m 0.598% index-linked loan due 2026[(a), (d), (f)]	174.0	153.4
£215.0m 0.380% index-linked loan due 2032[(a), (b), (f)]	198.7	192.8
£100.0m 3.261% index-linked loan due 2043[(a), (c), (f)]	165.2	145.6
£70.0m Class B 3.867% fixed rate loan due 2026[(a)]	70.0	70.0
£50.0m Class B 3.875% fixed rate loan due 2026[(a)]	50.0	50.0
£39.0m Class B 3.918% fixed rate loan due 2026[(a)]	38.7	38.7
£20.0m Class B floating rate loan due 2026[(a), (g)]	20.0	20.0
£50.0m Class B floating rate loan due 2025[(a), (g)]	49.9	–
£100.0m Class B floating rate loan due 2028[(a), (g)]	99.2	–
£150.0m Class B floating rate loan due 2029[(a), (g)]	148.6	–
$55.0m 3.380% private placement due 2023[(a), (e)]	–	41.8
$285.0m 3.570% private placement due 2025[(a), (e)]	230.4	216.5
£216.0m 2.450% private placement due 2028[(a)]	215.6	215.6
£210.0m 2.550% private placement due 2030[(a)]	209.5	209.4
£40.0m 2.620% private placement due 2033[(a)]	39.9	39.9
$95.0m 4.890% private placement due 2029[(a), (e)]	76.6	–
£18.0m 4.800% private placement due 2029[(a)]	18.0	–
$256.0m 5.010% private placement due 2032[(a), (e)]	206.5	–
$81.0m 5.300% private placement due 2037[(a), (e)]	65.3	–
£150.0m 4.940% private placement due 2037[(a)]	149.6	–
£90.0m 5.120% private placement due 2042[(a)]	89.7	–
£150.0m floating rate loan due 2024[(a), (g)]	149.9	149.8
£125.0m floating rate loan due 2024[(a), (g), (h)]	124.9	124.7
£50.0m floating rate loan due 2022[(a), (h)]	–	50.0
£63.1m floating rate loan due 2027[(a), (g), (i)]	–	62.9
£51.2m floating rate loan due 2029[(a), (g), (i)]	51.0	62.9
£63.1m floating rate loan due 2031[(a), (g)]	62.9	62.9
£100.0m floating rate loan due 2029[(a), (g)]	99.6	–
Total secured bank loans and private placements	**3,259.7**	**2,309.0**

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

(a) These loans and private placements are shown net of issuance costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet repayment of £25.0 million.
(d) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(e) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.
(f) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(g) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
(h) These loans contain a circular economy adjustment that reduce the interest rate of the loans if certain key performance indicators are met.
(i) In April 2022, the Company early repaid the £63.1 million floating rate loan that was due to mature in 2027 and made a part-prepayment of £11.9 million of the £63.1 million (now £51.2 million) floating rate loan that matures in 2029.

Breakdown of amounts owed to group undertakings

These amounts are intercompany loans.

As at 31 March	2023 £m	2022 £m
THAMES WATER UTILITIES FINANCE PLC		
£330.0m 6.750% fixed rate due 2028[(b)]	328.3	328.1
£200.0m 6.500% fixed rate due 2032[(b)]	198.3	198.2
£600.0m 5.125% fixed rate due 2037[(b)]	597.0	596.8
£300.0m 1.680% index-linked due 2053[(b), (j)]	530.7	472.3
£300.0m 1.681% index-linked due 2055[(b), (j)]	530.7	472.3
£82.0m 2.9720% fixed rate due 2026[(a)]	81.9	81.8
£101.3m 3.2300% fixed rate due 2029[(a)]	101.1	101.0
£44.1m 3.1468% fixed rate due 2030[(a)]	43.9	43.9
£100.0m 1.985% index-linked due 2022[(a), (e), (j)]	–	135.1
£128.7m 4.300% fixed rate due 2024[(a)]	128.8	128.8
£161.1m 4.534% fixed rate due 2027[(a)]	161.0	161.0
£100.0m 1.790% index-linked due 2029[(e), (j), (l)]	131.4	111.7
£300.0m 5.750% Class B Fixed rate due 2030[(a), (b), (f)]	–	299.3
£300.0m 4.375% fixed rate due 2034[(a), (b)]	296.5	296.3
¥20.0bn 3.280% fixed rate due 2038[(a), (h)]	121.8	125.2
£200.0m 0.205% index-linked due 2039[(a), (e), (j)]	264.5	224.8
£50.0m 3.853% index-linked due 2040[(a), (d)]	76.8	72.8
£500.0m 5.500% fixed rate due 2041[(a), (b)]	490.8	490.6
£50.0m 1.980% index-linked due 2042[(a), (b), (j)]	86.6	76.3
£55.0m 2.091% index-linked due 2042[(a), (b), (j)]	92.7	81.7
£40.0m 1.974% index-linked due 2045[(a), (b), (j)]	51.8	47.2
£300.0m 4.625% fixed rate due 2046[(a), (b)]	294.0	293.9
£100.0m 1.846% index-linked due 2047[(a), (b), (j)]	173.0	152.4
£200.0m 1.819% index-linked due 2049[(a), (b), (j)]	345.5	304.3
£200.0m 1.771% index-linked due 2057[(a), (b), (j)]	345.1	303.8
£100.0m index-linked due 2060[(a), (j)]	131.5	111.8
£350.0m 1.760% index-linked due 2062[(a), (b), (j)]	603.4	531.0
£500.0m 4.000% fixed rate due 2025[(a), (b)]	498.4	497.7
£40.0m 0.750% index-linked loan due 2034[(a), (b), (j)]	55.5	48.9
£45.0m 0.721% index-linked loan due 2027[(a), (b), (j)]	62.3	54.9
£300.0m 3.500% fixed rate loan due 2028[(a), (b)]	298.0	297.6
£400.0m 7.738% fixed rate bond due 2058[(a), (b)]	417.1	417.8
£250.0m 1.875% fixed rate bond due 2024[(a), (b)]	249.7	249.3
£250.0m 2.625% fixed rate bond due 2032[(a), (b)]	248.1	247.9
£300.0m 2.375% Class B fixed rate bond due 2023[(a), (b)]	300.0	299.7
£250.0m 2.875% Class B fixed rate bond due 2027[(a), (b)]	248.4	248.0
£143.6m 2.296% fixed rate bond due 2024[(a), (b)]	143.4	143.4

Notes to the Company financial statements continued

40. Borrowings continued

As at 31 March	2023 £m	2022 £m
£350.0m 2.375% fixed rate bond due 2040[(a), (b)]	346.2	346.1
£40.0m 2.442% fixed rate bond due 2050[(a), (b)]	39.9	39.9
£84.7m 0.875% fixed rate bond due 2023[(a)]	84.6	84.5
£362.8m 0.987% fixed rate bond due 2023[(a)]	362.7	362.6
£90.4m 1.009% fixed rate bond due 2023[(a)]	90.4	90.4
£44.2m 1.619% fixed rate bond due 2030[(a)]	44.1	44.1
£29.6m 1.233% fixed rate bond due 2027[(a)]	29.6	29.6
£483.6m 2.218% fixed rate bond due 2028[(a)]	481.7	481.4
£483.7m 2.483% fixed rate bond due 2032[(a)]	481.7	481.5
£200.0m Class B floating rate loan due 2026[(a), (b), (k)]	198.2	197.3
£220.7m Class B floating rate loan due 2022[(i), (k), (l)]	–	220.7
£75.0m Class B floating rate loan due 2022[(i), (k), (l)]	–	75.0
£75.0m Class B floating rate loan due 2022[(k), (l)]	–	75.0
£573.6m 4.100% fixed rate bond due 2027[(a)]	573.6	–
£882.9m 4.475% fixed rate bond due 2031[(a)]	882.9	–
£220.7m Class B floating rate loan due 2023[(g), (i), (k)]	220.7	–
£75.0m Class B floating rate loan due 2023[(g), (i), (k)]	75.0	–
£75.0m Class B floating rate loan due 2023[(g), (k)]	75.0	–
THAMES WATER LIMITED		
£0.3m floating rate loan due 2043	0.3	0.3
THAMES WATER UTILITIES HOLDINGS LIMITED		
£5.2m floating rate loan due 2043	5.2	5.2
Total amounts owed to group undertakings	**12,719.8**	11,281.2

All debt is Class A except where highlighted.

(a) TWUF charges the Company a margin of ten basis points in respect of the loans.
(b) These loans are shown net of issuance costs.
(c) TWUF charges the Company a margin of one basis point in respect of this loan.
(d) This is a Limited Price Index ("LPI") loan. Accretion is calculated using an adjusted UK Retail Price Index.
(e) These amounts have been swapped into RPI-linked debt within the financing subsidiary and the net proceeds lent to the Company.
(f) In September 2022, the Group exercised a 'Step Up and Call' on this Class B bond to redeem the nominal value of the debt at par value together with accrued and unpaid interest due.
(g) In March 2023, £370.7 million Class B revolving credit facilities were drawn. In April 2023, these Class B drawdowns were fully repaid.
(h) The Company has entered into cross currency swap agreements which convert this debt into sterling debt.
(i) The interest margin of these loans is based on a ratings grid and varies depending on the senior debt credit rating of the Company assigned by both Standard and Poor's and Moody's and the Group's GRESB Score.
(j) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(k) These loans' interest rates are based on SONIA (Sterling Overnight Index Average).
(l) This intercompany loan has been disclosed as current as it is expected to be settled within 12 months.

41. Financial instruments

Categories of financial instruments

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

Financial assets:

As at 31 March	2023 £m	2022 £m
Fair value through profit or loss		
Cross currency swaps	34.3	24.3
Interest rate swaps	257.4	34.1
Index-linked swaps	40.9	56.7
Cash and cash equivalents – money market funds	1,225.0	411.5
	1,557.6	526.6
Amortised cost		
Intercompany loans receivable	1,589.4	2,036.9
Other receivables (excluding prepayments)	61.8	41.5
Trade and other receivables (excluding prepayments)	387.7	357.4
Cash and cash equivalents – short-term investments	605.0	–
Cash and cash equivalents – cash at bank and in hand	5.1	12.3
	2,649.0	2,448.1
Total	**4,206.6**	2,974.7

Financial liabilities:

As at 31 March	2023 £m	2022 £m
Fair value through profit or loss		
Cross currency swaps	(44.4)	(68.7)
Interest rate swaps	(316.3)	(140.8)
Index-linked swaps	(1,188.4)	(1,446.1)
	(1,549.1)	(1,655.6)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	(885.9)	(739.6)
Borrowings	(16,272.5)	(13,836.8)
Lease liabilities	(57.0)	(63.3)
	(17,215.4)	(14,639.7)
Total	**(18,764.5)**	(16,295.3)

Notes to the Company financial statements continued

41. Financial instruments continued

Fair value measurements

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

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed

Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

Unless otherwise stated all of the 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. Cash and cash equivalents – money market funds are classified as level 1. The fair values of interest rate, index-linked and cross currency swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. The table below sets out the valuation basis of financial instruments (excluding cash and cash equivalents – money market funds which are classified as level 1) held at fair value through profit or loss as at 31 March 2023:

	Level 2[1]	
As at 31 March	2023 £m	2022 £m
Financial assets – derivative financial instruments		
Cross currency swaps	34.3	24.3
Interest rate swaps	257.4	34.1
Index-linked swaps	40.9	56.7
	332.6	115.1
Financial liabilities – derivative financial instruments		
Cross currency swaps	(44.4)	(68.7)
Interest rate swaps	(316.3)	(140.8)
Index-linked swaps	(1,188.4)	(1,446.1)
	(1,549.1)	(1,655.6)
Net total	(1,216.5)	(1,540.5)

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

During the year, £21.1 million (2022: £31.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 166. The amount recycled of £21.1 million consisted of the phased release of cash flow hedge reserve over the relevant hedging period where the related debt has been issued and has not matured.

In November 2019, the maturity date of an index linked swap, with a notional value of £200.0 million, was extended to 2038. The index linked swap is measured at fair value through profit or loss. At the restructuring date the fair value of the instrument, as indicated by the fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £15.8 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 swap, which continue to be significantly supported by observable inputs and hence it is appropriate for the index-linked swap to be categorised within level 2 of the fair value hierarchy on an ongoing basis. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2023, £12.8 million within derivative financial liabilities (2022: £13.7 million) remained capitalised and £0.9 million had been recognised in the income statement within net losses on financial instruments (2022: £0.9 million).

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's intercompany loans receivable, trade and other receivables, cash and cash equivalents and amounts owed to group undertaking are considered to be approximate to their fair values. The fair values and carrying values of the Company's other financial assets and financial liabilities are set out in the tables below.

	2023		2022	
As at 31 March	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current				
Intercompany loans receivable[1]	1,549.1	1,549.1	1,993.4	1,993.4
Derivative financial instruments				
Cross currency swaps	34.3	34.3	20.7	20.7
Interest rate swaps	257.4	257.4	34.1	34.1
Index-linked swaps	40.9	40.9	56.7	56.7
Other receivables (excluding prepayments)[1]	61.8	61.8	41.5	41.5
	1,943.5	1,943.5	2,146.4	2,146.4
Current				
Cash and cash equivalents	1,835.1	1,835.1	423.9	423.9
Intercompany loans receivable[1]	40.3	40.3	43.5	43.6
Trade and other receivables (excluding prepayments)	387.7	387.7	357.4	357.4
Derivative financial instruments				
Cross currency swaps	–	–	3.6	3.6
	2,263.1	2,263.1	828.4	828.5
Total	4,206.6	4,206.6	2,974.8	2,974.9

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

Notes to the Company financial statements continued

41. Financial instruments continued

Financial liabilities:

As at 31 March	2023 Book value £m	2023 Fair value £m	2022 Book value £m	2022 Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	**(2,769.6)**	**(2,678.4)**	(2,200.2)	(2,443.7)
Amounts owed to group undertakings	**(10,999.8)**	**(10,555.2)**	(10,662.3)	(14,175.6)
Derivative financial instruments				
Cross currency swaps	**(44.4)**	**(44.4)**	(68.7)	(68.7)
Interest rate swaps	**(316.3)**	**(316.3)**	(140.8)	(140.8)
Index-linked swaps	**(1,135.0)**	**(1,135.0)**	(1,387.7)	(1,387.7)
Lease liabilities	**(49.7)**	**(49.7)**	(57.1)	(57.1)
	(15,314.8)	**(14,779.0)**	(14,516.8)	(18,273.6)
Current				
Borrowings				
Secured bank loans and private placements	**(490.1)**	**(491.1)**	(108.8)	(109.5)
Amounts owed to group undertakings	**(1,720.0)**	**(1,733.8)**	(618.9)	(680.5)
Interest payable	**(293.0)**	**(293.0)**	(246.6)	(246.6)
Trade and other payables (excluding other taxation and social security)	**(885.9)**	**(885.9)**	(739.6)	(739.6)
Lease liabilities	**(7.3)**	**(7.3)**	(6.2)	(6.2)
Derivative financial instruments				
Index-linked swaps	**(53.4)**	**(53.4)**	(58.4)	(58.4)
	(3,449.7)	**(3,464.5)**	(1,778.5)	(1,840.8)
Total	**(18,764.5)**	**(18,243.5)**	(16,295.3)	(20,114.4)

Amounts owed to group undertakings include bonds and private placements issued by subsidiary entities, which are publicly traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of secured bank loans and private placements is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread. The fair value of amounts owed to group undertakings represents the market value of the underlying debt instrument, associated derivative instrument and relevant margin on the intercompany loan. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity, discounted using a risk free rate plus the Group's credit spread.

Capital risk management

Capital risk primarily relates to whether the Company is adequately capitalised and financially solvent. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Company's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, along with TWUHL, guarantees the funding activity of TWUF which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. TWUF and TWUHL guarantee the debt obligations of the Company. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

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

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Group is included on page 151.

Notes to the Company financial statements continued

41. Financial instruments continued

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including changes arising from both cash flow and non-cash items.

	2023			2022		
As at 31 March	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m	Borrowings £m	Net derivative financial liabilities £m	Lease liabilities £m
Opening balance	(13,836.8)	(1,540.5)	(63.3)	(13,266.6)	(834.7)	(60.4)
Non-current	(12,862.5)	(1,485.7)	(57.1)	(11,977.1)	(834.7)	(52.9)
Current	(974.3)	(54.8)	(6.2)	(1,289.5)	–	(7.5)
Cash flows						
New loans raised	(5,089.3)	–	–	(3,590.6)	–	–
Repayment of borrowings	3,250.1	–	–	3,306.1	–	–
Repayment of lease principal	–	–	10.0	–	–	9.9
Proceeds from derivative settlement[1]	–	(7.9)	–	–	–	–
Payment for derivative settlement[2]	–	365.1	–	–	–	–
Interest paid[3]	408.0	–	–	388.6	–	–
Interest received[4]	–	(162.7)	–	–	(97.4)	–
	(1,431.2)	194.5	10.0	104.1	(97.4)	9.9
Non-cash changes						
Interest accrued/Fees amortised	(461.9)	161.1	–	(393.4)	98.6	–
Foreign exchange movement	(0.1)	–	–	(5.7)	–	–
Indexation	(543.1)	–	–	(275.8)	–	–
Fair value changes	–	(31.6)	–	–	(707.0)	–
Lease additions	–	–	–	–	–	–
Interest accrued for IFRS 16 leases	–	–	(2.3)	–	–	(9.6)
Unamortised IFRS 9 transition adjustment	0.6	–	(1.4)	0.6	–	(3.2)
	(1,004.5)	129.5	(3.7)	(674.3)	(608.4)	(12.8)
Closing balance	(16,272.5)	(1,216.5)	(57.0)	(13,836.8)	(1,540.5)	(63.3)
Non-current	(13,769.4)	(1,163.1)	(49.7)	(12,862.5)	(1,485.7)	(57.1)
Current	(2,503.1)	(53.4)	(7.3)	(974.3)	(54.8)	(6.2)

1 Proceeds from derivative settlement of £7.9 million (2022: £nil) relating to settlement of cross currency swaps.
2 Payment for derivative settlement of £365.1 million (2022: £nil) relating to accretion paydown on index-linked swaps.
3 Interest paid of £408.0 million (2022: £388.6 million) includes £215.2 million of capitalised borrowing costs (2022: £115.3 million) and excludes £0.2 million of bank charges (2022: £0.2 million).
4 Interest received of £162.7 million (2022: £97.4 million) excludes £55.7 million of interest received on an intercompany loan with holding company TWUHL (2022: £3.6 million), £1.7 million interest received on an intercompany loan with subsidiary TWUF (2022: £1.6 million) £7.8 million interest received on bank deposits (2022: £0.2 million) and £1.0 million other interest income (2022: £0.5 million).

Financial risk management

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

(a) Market risk

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

As at 31 March 2023	Total at fixedrates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	6,342.5	1,031.1	9,388.6	16,762.2

As at 31 March 2022	Total at fixedrates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
£ Sterling	5,598.2	757.7	7,748.3	14,104.2

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

	Weighted average interest rate		Weighted average period until maturity	
Year ended 31 March	2023 %	2022 %	2023 Years	2022 Years
Fixed	4.1	3.8	9.0	10.3
Index-linked	13.5	8.2	15.6	16.9

(i) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 178.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in GBP interest rates at 31 March 2023. 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	2023 +1% £m	2023 -1% £m	2022 +1% £m	2022 -1% £m
Profit/(loss)	190.1	(216.4)	222.9	(263.9)
Equity	190.1	(216.4)	222.9	(263.9)

Notes to the Company financial statements continued

41. Financial instruments continued

(ii) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to economically hedge the foreign currency exposure of bonds issued in a foreign currency. All economic hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Company has no material unhedged monetary assets or liabilities denominated in a currency other than Sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2023. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	2023 +10% £m	2023 -10% £m	2022 +10% £m	2022 -10% £m
Loss	**(1.4)**	**(11.0)**	(4.9)	(2.5)
Equity	**(1.4)**	**(11.0)**	(4.9)	(2.5)

(iii) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Company as a regulated water and wastewater company is subject to fluctuations in its revenues due to movements in inflation. Therefore, the Company's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2023. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	2023 +1% £m	2023 -1% £m	2022 +1% £m	2022 -1% £m
(Loss)/profit	**(548.8)**	**492.6**	(639.7)	556.1
Equity	**(548.8)**	**492.6**	(639.7)	556.1

(b) Credit risk

Credit risk relates to the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Company's trade receivables, its loans to its immediate parent entity TWUHL, insurance receivables short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Company and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Company's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 37. For non-household customers, the Company's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Company's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Company's maximum exposure to credit risk is the carrying amount of financial assets and contract assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2023, no collateral was held (2022: nil).

The following table summarises amounts held on cash at bank and in hand, in money market funds and short-term investments by credit rating of counterparties.

As at 31 March	2023 £m	2022 £m
AAA	**1,225.0**	411.5
A+	**230.0**	–
A	**380.1**	12.3
Total	**1,835.1**	423.8

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

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

As at 31 March	2023 £m	2022 £m
AA-	**47.0**	12.2
A+	**265.0**	89.2
A	**20.6**	13.7
Total	**332.6**	115.1

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in note 40.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2023 £m	2022 £m
Within one year	**2,210.1**	727.7
Between one and two years	**670.4**	1,661.8
Between two and three years	**754.5**	626.4
Between three and four years	**652.3**	669.6
Between four and five years	**1,726.7**	700.3
After more than five years	**9,965.5**	9,204.4
Total	**15,979.5**	13,590.2

Notes to the Company financial statements continued

41. Financial instruments continued

(i) Cash flows from non-derivative financial liabilities

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

As at 31 March Undiscounted amounts payable	2023 £m	2022 £m
Within one year	3,476.9	1,770.7
Between one and two years	1,337.4	2,064.2
Between two and three years	1,428.9	1,134.9
Between three and four years	917.1	1,250.3
Between four and five years	2,179.5	865.6
After more than five years	21,905.2	21,957.6
Total	31,245.0	29,043.3

(ii) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March Undiscounted amounts payable	2023 £m	2022 £m
Within one year	119.5	68.5
Between one and two years	(27.0)	(83.5)
Between two and three years	124.1	(124.3)
Between three and four years	133.3	55.4
Between four and five years	42.6	62.6
After more than five years	(2,084.8)	(1,457.8)
Total	(1,692.3)	(1,479.1)

Cash flow hedges

The Company has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 130.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2023, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedging has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the relevant hedging period.

During the year, £21.1 million (2022: £31.1 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 166. The amount recycled of £21.1 million consisted of a phased release of cash flow hedge reserve where the related debt has been issued and has not matured.

The Company's cash flow hedge reserve disclosed on the statement of changes in equity on page 166 relate to forward starting interest rate swaps which have now commenced.

Cash flow hedge reserve	£m
At 1 April 2021	(59.7)
Cash flow hedge transferred to income statement	31.1
Deferred tax charge on cash flow hedge including impact of tax rate change	(4.6)
At 31 March 2022	(33.2)
Cash flow hedge transferred to income statement	21.1
Deferred tax charge on cash flow hedge	(4.0)
At 31 March 2023	(16.1)

The following are the effects of forward starting interest rate swaps which have commenced on the Company's financial position and performance:

As at 31 March	2023 £m	2022 £m
Quantitative		
Cash flow hedge transferred to income statement	21.1	31.1

As at 31 March	2023	2022
Qualitative		
Line item affected in income statement due to reclassification	Net losses on financial instruments	Net losses on financial instruments

The table below shows phasing of amounts to be reclassified to income statement from the cash flow hedge reserve, which relates to the Company's forward starting interest rate swaps which have commenced:

As at 31 March	2023 £m	2022 £m
Interest rate swaps		
Within one year	(18.7)	(21.1)
Between one and two years	(2.8)	(18.7)
Between two and three years	–	(2.8)
Between three and four years	–	–
Between four and five years	–	–
After more than five years	–	–
Total	(21.5)	(42.6)

Notes to the Company financial statements continued

41. Financial instruments 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 the early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2023 and 31 March 2022. The column 'net amounts' shows the impact on the statement of financial position if circumstances arose for set-off rights to be applied.

	Effects of offsetting on the Company statement of financial position				
As at 31 March 2023	Gross amounts £m	Amounts set off £m	Net amounts presented on Company statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	332.6	–	332.6	(270.8)	61.8
	332.6	–	332.6	(270.8)	61.8
Financial liabilities					
Derivative financial instruments	(1,549.1)	–	(1,549.1)	270.8	(1,278.3)
	(1,549.1)	–	(1,549.1)	270.8	(1,278.3)
Total	(1,216.5)	–	(1,216.5)	–	(1,216.5)

	Effects of offsetting on the Company statement of financial position				
As at 31 March 2022	Gross amounts £m	Amounts set off £m	Net amounts presented on Company statement of financial position £m	Impact of master netting arrangements £m	Net amounts £m
Financial assets					
Derivative financial instruments	115.1	–	115.1	(90.8)	24.3
	115.1	–	115.1	(90.8)	24.3
Financial liabilities					
Derivative financial instruments	(1,655.6)	–	(1,655.6)	90.8	(1,564.8)
	(1,655.6)	–	(1,655.6)	90.8	(1,564.8)
Total	(1,540.5)	–	(1,540.5)	–	(1,540.5)

IBOR reform

The following table contains details of all of the financial instruments that the Company holds at 31 March 2023 and 31 March 2022 with an interest rate linked to GBP LIBOR which have not yet transitioned to SONIA or an alternative interest rate benchmark:

	Carrying value at 31 March 2023		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	–	(111.4)	–	(111.4)
Amortised cost				
Intercompany loans receivable[2]	300.0	–	300.0	–
Borrowings[3]	–	(993.9)	–	(993.9)
Total assets and liabilities exposed to GBP LIBOR	300.0	(1,105.3)	300.0	(1,105.3)

1 Consists of £111.4 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
2 Consists of £300.0 million intercompany loans receivable where the interest rate is directly linked to LIBOR.
3 Consists of £993.9 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation.

	Carrying value at 31 March 2022		Of which: Have yet to transition to an alternative benchmark interest rate as at 31 March 2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Assets and liabilities exposed to GBP LIBOR				
Fair value through profit or loss				
Derivative financial instruments				
Index-linked swaps[1]	–	(199.8)	–	(199.8)
Amortised cost				
Intercompany loans receivable[2]	1,993.4	–	1,993.4	–
Borrowings[3]	–	(899.3)	–	(899.3)
Total assets and liabilities exposed to GBP LIBOR	1,993.4	(1,099.1)	1,993.4	(1,099.1)

1 Consists of £199.8 million index-linked swaps (in a fair value liability position) where the interest rate is not directly linked to LIBOR, however have LIBOR references in the documentation.
2 In May/June 2022, the interest rates in respect of £1,693.4 million intercompany loans receivable were transitioned from LIBOR to SONIA. Refer to Note 36 Intercompany loans receivable for a breakdown of these intercompany loans. No gain or loss was recognised on transition as the Phase 2 reliefs were met.
3 Included in the £899.3 million of borrowings in the table above are £893.8 million relating to external debt where the interest rate is not directly linked to LIBOR, however has LIBOR references in the documentation. The remaining £5.5 million includes a £5.2 million loan from immediate parent TWUHL and a £0.3 million loan from the immediate parent of TWUHL, Thames Water Limited, where the interest rate is directly linked to LIBOR. In June 2022, the interest rates in respect of these £5.5 million loans were transitioned from LIBOR to SONIA. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

Notes to the Company financial statements continued

42. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefits £m	Cash flow hedge £m	Tax losses carried forward £m	Other £m	Total £m
At 1 April 2021	(1,225.4)	32.4	111.7	–	22.8	**(1,058.5)**
(Charge)/credit to income statement including impact of tax rate change	(293.7)	(15.2)	148.6	–	(3.7)	**(164.0)**
Credit/(charge) to other comprehensive income including impact of tax rate change[1]	–	42.9	(4.6)	–	–	**38.3**
Other	0.1	–	–	–	–	**0.1**
At 31 March 2022	(1,519.0)	60.1	255.7	–	19.1	**(1,184.1)**
(Charge)/credit to income statement including impact of tax rate change	56.1	0.1	(141.1)	31.7	(4.3)	**(57.5)**
(Charge)/credit to other comprehensive income	–	(16.8)	(4.0)	–	–	**(20.8)**
At 31 March 2023	(1,462.9)	43.4	110.6	31.7	14.8	**(1,262.4)**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements, except for deferred tax on the surplus on the TWMIPS pension scheme which continues to be provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Company. The majority of the impact of the tax rate change was booked in the prior year, but some timing differences have unwound earlier or later than previously estimated, so the residual impact of the rate change affects deferred tax amounts in the income statement and in other comprehensive income as shown above.

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

As at 31 March	2023 £m	2022 £m
Deferred tax assets	**200.5**	334.9
Deferred tax liabilities	**(1,462.9)**	(1,519.0)
Net deferred tax liabilities	**(1,262.4)**	(1,184.1)

A deferred tax liability arises in respect of accelerated tax depreciation because the rate of tax relief specified in UK tax legislation on most of the Company's capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Company mean that the temporary differences normally increase every year. This year, capital allowances claimed are less than accounting depreciation so the deferred tax liability arises in respect of accelerated tax depreciation has reduced.

Deferred tax assets have arisen on the following temporary differences:

- **Retirement benefit obligations:** A net deferred tax asset is recognised on the retirement benefit obligations booked in the financial statements. The £43.4 million deferred tax asset at 31 March 2023 is the net of an asset of £45.5 million (deficit on the TWPS pension scheme of £182.0 million at 25% tax rate) less a liability of £2.1 million (surplus on the TWMIPS pension scheme of £6.0 million at 35% tax rate). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- **Cash flow hedges:** A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- **Tax losses carried forward:** The Company has a tax loss in the year, most of which is being sold to group companies as group relief, for which payment will be received at the standard corporation tax rate. The remaining tax loss is being carried forward for use against future profits.
- **Other:** A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax deductions are available in accordance with the legislation.

43. Share capital and other reserves

Share capital

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Authorised, allotted, called up and fully paid:						
29,050,000 ordinary shares of £1 each (2022: 29,050,000 ordinary shares of £1 each)	**29.0**	**–**	**29.0**	29.0	–	29.0

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

	2023			2022		
As at 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Share premium	**100.0**	**–**	**100.0**	100.0	–	100.0
Cash flow hedge reserve	**(16.1)**	**–**	**(16.1)**	(33.2)	–	(33.2)
Revaluation reserve	**795.5**	**–**	**795.5**	820.1	–	820.1
Retained earnings	**736.8**	**390.3**	**1,127.1**	1,051.5	286.3	1,337.8
Total	**1,616.2**	**390.3**	**2,006.5**	1,938.4	286.3	2,224.7

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Refer to note 8 for information on the dividends paid by the Company.

Notes to the Company financial statements continued

44. Contingent liabilities

Contingent liabilities for the Company are consistent with the Group, as detailed in note 25.

Financial guarantees

The Company is part of a Whole Business Securitisation ("WBS") group as described in note 40. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Company will be required to make a payment under the guarantee.

45. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases that do not fall under IFRS 16;
- power prices forward contracts;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Company is part of a whole business Securitisation Group. Thames Water Utilities Holdings Limited, the Company and its direct subsidiary are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt on a post swap basis as at 31 March 2023 was £16.4 billion (2022: £13.8 billion).

46. Post balance sheet events

Since 31 March 2023, the intercompany loans with TWUF in respect of £370.7 million Class B Revolving Credit Facilities and a £300.0 million Class B bond were repaid.

47. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2023			2022		
Year ended 31 March	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	(344.9)	102.2	(242.7)	(1,005.2)	68.7	(936.5)
Less finance income	(229.5)	–	(229.5)	(122.5)	–	(122.5)
Add finance expense excluding interest on lease liabilities	809.2	–	809.2	572.3	–	572.3
Add interest expense on lease liabilities	1.4	–	1.4	3.2	–	3.2
Add net losses on financial instruments	52.8	–	52.8	743.8	–	743.8
Add/(less) taxation on (loss)/profit on ordinary activities	(17.6)	(17.8)	(35.4)	153.0	16.1	169.1
Operating profit	271.4	84.4	355.8	344.6	84.8	429.4
Depreciation on property, plant and equipment	637.3	–	637.3	623.7	–	623.7
Amortisation of intangible assets	65.9	–	65.9	55.6	–	55.6
Depreciation of right of use asset	8.8	–	8.8	5.7	–	5.7
Loss/(gain) on sale of property, plant and equipment	3.0	–	3.0	(1.4)	–	(1.4)
Impairment of property, plant and equipment and intangible assets	18.2	–	18.2	10.0	–	10.0
Difference in pension charge and cash contribution	(6.6)	–	(6.6)	(1.5)	–	(1.5)
Decrease/(increase) in inventory	(7.9)	–	(7.9)	1.9	–	1.9
Increase in trade and other receivables[1]	(60.7)	(70.9)	(131.6)	(12.1)	(82.1)	(94.2)
(Increase)/decrease in contract assets	(3.2)	3.9	0.7	(11.5)	(2.7)	(14.2)
Increase/(decrease) in trade and other payables	55.6	(13.0)	42.6	76.4	1.7	78.1
Increase/(decrease) in contract liabilities	95.5	(2.6)	92.9	77.7	(0.1)	77.6
Group relief paid	–	–	–	(1.0)	–	(1.0)
Increase in provisions	42.7	–	42.7	41.3	–	41.3
Net cash generated by operating activities	1,120.0	1.8	1,121.8	1,209.4	1.6	1,211.0

1 Movement in trade and other receivables excludes the movement in group relief receivable/payable; any amounts paid/received in the period are disclosed within "Group relief paid".

Movement in cash and cash equivalents

Year ended 31 March	2023 £m	2022 £m
Unrestricted cash movement	(7.3)	12.3
Movement in money market funds	1,418.5	(80.5)
Total	1,411.2	(68.2)

Notes to the Company financial statements continued

48. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the 'supply of trade' disclosure in the Annual Performance Report, published on our website.

Trading transactions

Year ended 31 March	2023 Services provided by the Company £'000	2023 Services provided to the Company £'000	2022 Services provided by the Company £'000	2022 Services provided to the Company £'000
Ultimate parent				
Kemble Water Holdings Limited	915	–	–	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Eurobond plc	35	–	–	–
Kemble Water Finance Limited	284	–	–	–
Thames Water Limited	720	–	2,004	–
Immediate parent				
Thames Water Utilities Holdings Limited	47,462	–	8,270	–
Subsidiary				
Thames Water Utilities Finance Plc	6,595	379,745	5,999	345,295
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	394	31	124	–
Thames Water Commercial Services Limited	–	–	20	–
Thames Water Property Services Limited	–	236	168	233
Thames Water Pension Trustees Limited	331	–	–	–
Kemble Ventures Operations Limited	2,256	–	–	–
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	–	16	–	15
Water UK	–	788	–	–
Total	58,992	380,816	16,585	345,343

During the year the Company paid its immediate parent company, Thames Water Utilities Holdings Limited, a dividend of £45.2 million (2022: £37.1 million).

Outstanding balances

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

As at 31 March	2023 Amounts owed to the Company £'000	2023 Amounts owed by the Company £'000	2022 Amounts owed to the Company £'000	2022 Amounts owed by the Company £'000
Intermediaries between the immediate and ultimate parent				
Kemble Water Eurobond plc	96,146[1]	–	–	–
Immediate parent				
Thames Water Utilities Holdings Limited	1,249,106	16,641[1]	1,693,422	10,888[1]
Subsidiary				
Thames Water Utilities Finance Plc	345,488	13,057,285	335,149	11,584,663
Entities external to the Kemble Water Holdings group				
Water UK	–	328	–	–
Total	1,690,740	13,074,254	2,028,571	11,595,551

1 These amounts relate to provisional group relief receivable/(payable) balances.

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