Registered number: 05819317 (England & Wales)

Kemble Water Finance Limited

Interim report and financial statements

For the six month period ended 30 September 2021

Contents

Chairman's Report

Introduction

This report comprises a business and financial overview of Kemble Water Finance Limited for the six month period ended 30 September 2021 and constitutes unaudited key financial data and narrative review of performance over this period.

Kemble Water Finance Limited (the "Company" or "KWF") is an intermediate holding company in the Kemble Water Holdings Group of Companies (the "KWH Group"). The Kemble Water Finance Group of Companies (the "Group") represents the consolidation of Kemble Water Finance Limited and its subsidiaries.

The Company is party to various financing agreements which require the Group to prepare unaudited consolidated financial statements. This interim report and financial overview has been prepared to meet these requirements and has been approved by the Company's Board as fairly representing the Group's consolidated financial position as at 30 September 2021 and its performance for the six month period ended 30 September 2021.

Business review

The Company acts as an intermediate holding company within the KWH Group and also acts as the borrower of funds both directly and through its direct subsidiary, Thames Water (Kemble) Finance Plc ("TW(K)F"), for use within the wider Group. Under these arrangements the Company together with TW(K)F have £1,465 million of external debt, £950 million of which has been raised directly by the Company and £515 million by TW(K)F.

Three companies within the Group, namely Thames Water Utilities Limited ("TWUL" or "Thames Water"), Thames Water Utilities Holdings Limited (TWUHL") and Thames Water Utilities Finance plc ("TWUF"), are part of a Whole Business Securitisation Group ("WBS Group"). The companies within the whole business securitisation group raise debt in external debt markets through the issuance of secured bonds and loans. The subordinated debt issued by KWF and TW(K)F has been issued outside of the whole business securitisation group.

The principal operating activity of the Group continues to be the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned subsidiary TWUL, in accordance with TWUL's Licence of Appointment. References to "our" or "we" in this report relate to the activities of the Group including TWUL.

In addition, the Group operates a separately managed property business which manages the Group's property portfolio including the sale of land and property no longer required by the regulated business.

Consequently, the Group's performance is largely dependent on the performance of TWUL and, as such, this report should be read alongside the interim financial statements for this entity which details its operating and financial performance for the six month period ended 30 September 2021. These can be located on the Thames Water website at https://www.thameswater.co.uk/about-us/investors/our-results.

The Group's management structure separates the management of the Group from the directors of the Company, who are all non-executive. The executive directors of TWUL also work on behalf of the Group.

Principal risks and uncertainties

Following review, our principal risks, as disclosed in the Thames Water Annual Report and Sustainability Report 2020/21, remain largely unchanged. However, the risk landscape remains challenging due to the longer-term impacts of Covid-19, our withdrawal from the EU and frequent flooding of the wastewater network due to extreme weather events.

Pressure remains on our financial position due to challenges in cash and debt collection. In the wake of Covid-19 financial support measures being removed we are supporting customers that face financial hardship and are unable to pay their water bill.

In addition, we continue to experience disruption within our supply chain, inflation and shortages in labour markets, and increasing costs of raw materials, in particular chemicals (a sector-wide issue that is being monitored at a national level via the National Chemical Specialist Group, and power prices. The lack of availability of drivers and construction workers from the continent and the increase in demand from other sectors, means that competition for scarce resource has increased causing a supply and demand issue and resulting in increased rates of pay and potential delays to our capital programme.

Going Concern

The Directors have assessed KWF's ability to continue as a going concern, recognising it is a holding company with no material, direct business operations and is therefore mainly dependent on Thames Water Utilities Limited Group ("TWUL Group") which holds the regulated entity Thames Water Utilities Limited ("TWUL") to generate the funds necessary for KWF to meet its financial obligations.

Given the dependency on TWUL Group, the Directors have considered the going concern assessment made by the TWUL Group directors as well as the actions taken by TWUL Group post the balance sheet date of 30 September 2021. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL interim report for 2021/22 copies of which may be obtained from the Company Secretary's Office at Clearwater Court, Vastern Road, Reading, RG1 8DB.

Chairman's Report (continued)

Going Concern (continued)

Summary of TWUL Group going concern assessment

The Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 30 September 2021, such liquidity consists of £107 million of cash and cash equivalents, access to £1.72 billion of revolving credit facilities of which £1.03 billion was undrawn, £100m undrawn Class B facility and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). Furthermore during the pandemic, the Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the Group is subject to financial covenants, assessed based on interest cover and gearing ratios. With significant headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints and Brexit, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse events related to climate change. 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 the various scenarios, the business remains compliant with the relevant financial covenants and shows significant liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

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 condensed 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.

Conclusion

The conclusion from the TWUL Group Board helps to underpin the Directors' belief that KWF has the ability to meet its financial obligations over the assessment period. To provide additional comfort, the Directors have also sought support from Kemble Water Holdings Limited ("KWH"), the ultimate parent of KWF. KWH has confirmed that it will continue to provide support to enable the Company to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of the condensed financial statements.

The Directors have assessed the Company's liquidity position and ability to comply with its financial covenants which differ from that of TWUL Group. The financial covenants for KWF take into account the effects of the aggregate net debt outstanding as well as the operational cashflows and profits from KWF and its subsidiaries a consolidated basis. In addition to the cash balances available, KWF also has in place a committed undrawn working capital facility which can fund at least 18 months of interest payments on the external debt held by KWF and its financing subsidiary Thames Water (Kemble) Finance plc ("TW(K)F"). The Directors have considered projected cashflows and forecast compliance with the financial covenants during the assessment period.

Taking into consideration the above factors, the Board is satisfied that the Company has adequate resources for a period of at least 12 months from the date of approval of the condensed financial statements to continue operations and discharge the Company's obligations as they fall due. For this reason, the Board considers it is appropriate to adopt the going concern basis in preparing the financial statements.

Chairman's Report (continued)

Financial review

The key measures of financial performance of the Group are detailed below, all of which are used by the Board of Directors in assessing performance.

	Six month period ended 30 September 2021		Six month period ended 30 September 2020	
	Underlying	**Total**	Underlying	Total
Revenue (£m)	**1,062**	**1,105**	996	1,032
Operating expenses (£m)	**(884)**	**(884)**	(853)	(853)
Other operating income (£m)	**37**	**37**	32	32
Operating profit (£m)	**215**	**258**	174	211
Net finance expense (£m)	**(542)**	**(542)**	(465)	(465)
Net losses on financial instruments (£m)	**(456)**	**(456)**	(356)	(356)
Loss before tax (£m)	**(783)**	**(740)**	(647)	(611)
Loss after tax (£m)	**(956)**	**(921)**	(526)	(497)
Capital expenditure including intangibles (£m)	**627**	**627**	499	499
Statutory net debt (£m)	**(21,283)**	**(21,283)**	(20,239)	(20,239)
Gearing (%)[1]	**90.1**	**n/a**	91.7	n/a
Credit rating[2]	**n/a**	**Baa2 stable / BBB+ negative outlook**	n/a	Baa2 stable / BBB+ negative outlook

[1] Ratio of covenant net debt to Regulatory Capital Value ("RCV")
[2] Representing the consolidated Corporate Family Rating assigned by Moody's to Thames Water Utilities Limited / S&P Class A debt of the securitisation group

Group revenue

Underlying revenue for the six-month period ended 30 September 2021 has increased by 6.7% to £1,062 million year-on-year. The increase was driven by the combination of c4% higher allowed revenue set by Ofwat in AMP7 and the adverse impact of Covid-19 in the previous financial period. There has been a steady recovery of revenue in the non-household market as Covid-19 restrictions ease and a resilience in household revenue, where usage has remained high despite customers returning to work.

Our bills for wastewater customers include amounts relating to the construction of the Thames Tideway Tunnel. As we collect the cash, it is passed over to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the tunnel - also known as Tideway. As this money is not retained by us, we exclude it from our underlying results. The annual amounts included in our bills is driven by the phasing of construction works, which is the primary reason for the increase in revenue related to BTL, from £36 million for the six months ended 30 September 2020 to £43 million for the six months ended 30 September 2021.

The in-year charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £23 million (30 September 2020: £24 million), which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £12 million (30 September 2020: £11 million), which is shown within operating expenses. Our total bad debt charge equates to 3.2% (30 September 2020: 3.4%) of total gross revenue.

The TWUL billing cycle means that the timing of bills for unmetered customers results in a large increase in trade receivables and deferred income at the interim reporting date. These balances will reduce over the second half of the year.

Operating expenses

Total operating expense has increased by £31 million (3.6%) to £884 million (30 September 2020: £853 million). The increase is driven mainly by:

- a £17 million increase in our employment costs, as we invested to improve our service to customers and provide pay rises for non-manager grades;
- a £16 million increase in our power costs driven by the extreme power price inflation that has impacted industries globally as well as our customers; and
- a £9 million increase in depreciation and amortisation, as we continue with our significant investment programme;

These increases are offset by a £3 million decrease in impairment losses on financial and contract assets and £8 million decrease in exceptional costs relating to a restructuring of the business that occurred in previous periods which did not reoccur. No exceptional costs were recognised in the current period.

Chairman's Report (continued)

Net finance expense

To keep our investment programme affordable for our customers, and to protect them from volatility in bills, we borrow from external institutions and through external debt capital markets. We are required to pay interest on these borrowings leading to a net finance expense. Our net finance expense for the first six months of the year was £542 million (30 September 2020: £465 million). Included within net finance expense is £61 million finance expense that is directly attributable to constructing specific assets is included in the cost of the asset.

Our statutory net debt, essentially our borrowings plus lease liability less cash and cash equivalents and short-term investments, has increased by £1,044 million to £21,283 million from 30 September 2020 mostly due to £665 million increase in intercompany loan interest payable to immediate parent Kemble Water Eurobond plc and £378 million increase due to use of external funding in order to deliver our capital investment programme in the most affordable way for our customers.

Financial instruments

Our borrowings, revenue and totex (total expenditure) are exposed to fluctuations in the external market such as changes in interest rates, inflation and foreign exchange rates. We manage these exposures by entering into derivative contracts to hedge against future changes in these external rates.

We have approximately £10 billion of derivative financial instruments (face value). For the purposes of our financial statements, we are required to "fair value" our portfolio as at the reporting date. We report these non-cash value movements within our Income Statement creating volatility in our reported profit before tax. During the six month period a net loss of £456 million (30 September 2020: loss of £356 million) on financial instruments has been recognised in the income statement.

This is primarily driven by a £408 million net losses arising on swaps where hedge accounting is not applied, £18 million loss on the cash flow hedge transferred from equity and a £29 million net foreign exchange loss on foreign currency borrowings.

Taxation

The tax charge in the period arises from the movement in current and deferred tax. A current tax credit of £65 million arises on the sale of tax losses as group relief to companies in the KWH Group. In addition to a deferred tax credit of £75 million in the period, the government enacted a corporation tax rate increase from 19% to 25%, with effect from 1 April 2023, which affects deferred tax balances in these accounts. This resulted in a one-off tax expense in the income statement for the period of £321 million.

Our tax position remains an area of focus for many. We continue to be transparent about our finances and seek to describe these in a simple and straightforward way and have published a 'Our finances explained' on our website. All intercompany interest paid is due to group companies that are tax resident in the UK. The tax rate change referred to above has increased the Group's deferred tax liability and could increase future current tax charges.

Capital expenditure

During the first half of the year, we invested a total of £627 million (30 September 2020: £499 million) in our assets of which £61 million related to capitalised borrowing costs. The significant increase in capital delivery relative to the prior year comparative period is principally due to the reduced impact of Covid-19 on our supply chain and greater mobilisation of our AMP7 programme. Excluding capitalised borrowing costs, key projects within the above capital expenditure include:

- £88 million through our Infrastructure Alliance on our Water Network (Water) to reduce leakage and improve our trunk main network;
- £29 million on our water metering programme;
- £16 million on upgrading our major sewage treatment works at Beckton;
- £15 million on Water mains replacement and rehabilitation in London and the Thames Valley; and
- £12 million connecting our waste network to the Thames Tideway Tunnel

Group debt

TWUL, as the principal trading subsidiary of the Group, is the entity that generates substantially all of the cash needed by the Group to service borrowings made against the Regulatory Capital Value ("RCV"). For the debt held outside of the securitised group, TWUL's dividends are passed up the Group structure to provide funding for debt held at the Group level.

Within the securitised group TWUL is an obligor, underwriting all the securitised debt. In addition to the debt that TWUL holds directly, TWUL also, through on-lending arrangements for borrowings in its subsidiary, services the debt held in that company Structurally subordinated debt is issued outside the securitised group. The Group has adequate cash and available facilities outside of TWUL to enable it to service that debt for at least twelve months from the date of these financial statements.

Chairman's Report (continued)

Credit rating

We retain investment grade credit ratings for TWUL Group, that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers. In July 2021, 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 (30 September 2020: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (30 September 2020: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (30 September 2020: Ba1 with stable outlook). In January 2021, S&P reaffirmed our securitisation group companies' credit ratings of BBB+ and BBB- (30 September 2020: BBB+ & BBB-) in relation to our senior secured (Class A) debt and our subordinated (Class B) debt respectively, both with negative outlook (30 September 2020: negative outlook).

In April 2021, Fitch affirmed KWF's senior secured debt rating at B+ (30 September 2020: B+) and KWF's Long-Term Issuer Default Rating at B+ with negative outlook (30 September 2020: B+ with negative outlook). In July 2021 Moody's completed a periodic review of Thames Water (Kemble) Finance plc's senior secured debt rating which continues at B1 with stable outlook (30 September 2020: B1 with stable outlook).

Dividends

TWUL has paid no dividends in the six months to 30 September 2021 (six months to 30 September 2020: £nil). Dividends paid during previous periods were applied to the interest cost of third party debt at group level. The Board of Directors have not declared any interim dividends in the six months ended 30 September 2021. Consequently, the external shareholders of the KWH Group have not received any distributions for amounts relating to the current year.

Pensions

We run four pension schemes for our employees - three defined benefit schemes and one defined contribution scheme. During the six-month period ended 30 September 2021, we contributed £13 million (30 September 2020: £7 million) to our defined contribution scheme.

In December 2019, we completed the triennial valuation dated 31 March 2019 for two of our three defined benefit pension schemes. Our defined benefit schemes' valuation has been updated to 30 September 2021 on our behalf by independent and professionally qualified consulting actuary, Hymans Robertson LLP.

Pensions

The net deficit on our defined benefit schemes has increased to £325 million as at 30 September 2021 (31 March 2021: £227 million), as a result of changes in actuarial assumptions. The increase in the deficit is mostly driven by an increase in the RPI assumption, decrease in the discount rate and due to inflation over the year being lower than the long-term assumption. This partly offset by asset growth in excess of the discount rate assumption.

We've been taking measures to reduce the overall deficit by making regular contributions and deficit repair payments and, 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.

Chairman's Report (continued)

Governance Changes

The Directors who have held office during the financial year to date, and to the date of this report, are as follows:

M McNicholas
S Deeley
J Divoky
A Hall
G Lambert
P Noble
S Obozian
G Pestrak
C Schmidt
G Tucker
M Bloch-Hansen
D Wilkins (appointed 01 September 2021)
C Pham
F Sheng
M Wang
P Mccosker (resigned 30 May 2021)
H De Run (resigned 01 September 2021)

The following Directors were formally appointed alternate Directors to represent them when they are unavailable:

Director	Alternate Director
C Pham	J Divoky
P Noble	D Wilkins
A Hall	S Obozian
M Bloch-Hansen	S Obozian
G Lambert	P McCosker
M McNicholas	S Obozian
G Tucker	C Schmidt

P Noble
Chairman

1 December 2021

Condensed income statement

For the six month period ended

	30 September 2021			30 September 2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue	**1,062.3**	**42.8**	**1,105.1**	996.0	35.9	1,031.9
Operating expenses excluding impairment losses on financial and contract assets[1]	**(876.1)**	**-**	**(876.1)**	(842.3)	-	(842.3)
Impairment losses on financial and contract assets	**(8.1)**	**(0.1)**	**(8.2)**	(11.1)	-	(11.1)
Total operating expenses	**(884.2)**	**(0.1)**	**(884.3)**	(853.4)	-	(853.4)
Other operating income	**36.7**	**-**	**36.7**	31.8	-	31.8
Operating profit	**214.8**	**42.7**	**257.5**	174.4	35.9	210.3
Finance income	**62.3**	**-**	**62.3**	79.2	-	79.2
Finance expense	**(604.5)**	**-**	**(604.5)**	(544.3)	-	(544.3)
Net losses on financial instruments	**(455.6)**	**-**	**(455.6)**	(355.8)	-	(355.8)
(Loss)/profit on ordinary activities before taxation	**(783.0)**	**42.7**	**(740.3)**	(646.5)	35.9	(610.6)
Tax (charge)/credit on (loss)/profit on ordinary activities	**(172.9)**	**(8.1)**	**(181.0)**	120.7	(6.8)	113.9
(Loss)/profit for the period	**(955.9)**	**34.6**	**(921.3)**	(525.8)	29.1	(496.7)

Condensed statement of other comprehensive income

For the six month period ended

	30 September 2021			30 September 2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the period	**(955.9)**	**34.6**	**(921.3)**	(525.8)	29.1	(496.7)
Other comprehensive income						
Will not be reclassified to the income statement:						
Net actuarial gains/(losses) on pension schemes	**(97.1)**	**-**	**(97.1)**	(353.7)	-	(353.7)
Deferred tax on net actuarial losses less impact of tax rate change in current period	**60.3**	**-**	**60.3**	81.0	-	81.0
May be reclassified to the income statement:						
Cash flow hedges transferred to income statement	**18.3**	**-**	**18.3**	18.8	-	18.8
Deferred tax charge on cash flow hedge less impact of tax rate change in current period	**-**	**-**	**-**	(3.5)	-	(3.5)
Other comprehensive income	**(18.5)**	**-**	**(18.5)**	(257.4)	-	(257.4)
Total comprehensive (expense)/income	**(974.4)**	**34.6**	**(939.8)**	(783.2)	29.1	(754.1)

[1] Underlying operating expenses for the six months ended 30 September 2020 includes £8.2 million of costs that are considered to be exceptional. No exceptional costs were recognised for the six months ended 30 September 2021. A summary of exceptional costs is included within note 1.

All of 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.

Condensed statement of financial position

As at

	30 September 2021			31 March 2021		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current assets						
Goodwill	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Intangible assets	**281.8**	**-**	**281.8**	276.5	-	276.5
Property, plant and equipment[1]	**17,038.4**	**-**	**17,038.4**	16,746.7	-	16,746.7
Right-of use asset[1]	**49.4**	**-**	**49.4**	41.6	-	41.6
Investment property[1]	**50.0**	**-**	**50.0**	50.0	-	50.0
Trade and other receivables	**49.4**	**270.7**	**320.1**	51.4	228.9	280.3
Retirement benefit surplus TWMIPS	**23.5**	**-**	**23.5**	57.9	-	57.9
Derivative financial assets	**137.3**	**-**	**137.3**	151.1	-	151.1
	19,097.9	**270.7**	**19,368.6**	18,843.3	228.9	19,072.2
Current assets						
Inventories and current intangible assets	**13.9**	**-**	**13.9**	14.9	-	14.9
Contract assets	**264.2**	**8.5**	**272.7**	240.0	5.8	245.8
Trade and other receivables	**1,067.5**	**11.8**	**1,079.3**	635.3	(7.3)	628.0
Cash and cash equivalents	**377.5**	**6.6**	**384.1**	803.2	3.6	806.8
Derivative financial assets	**29.3**	**-**	**29.3**	12.3	-	12.3
	1,752.4	**26.9**	**1,779.3**	1,705.7	2.1	1,707.8
Current liabilities						
Contract liabilities	**(498.4)**	**(16.7)**	**(515.1)**	(121.9)	(2.1)	(124.0)
Trade and other payables	**(559.5)**	**(14.7)**	**(574.2)**	(607.1)	(11.4)	(618.5)
Lease liabilities	**(6.6)**	**-**	**(6.6)**	(7.5)	-	(7.5)
Borrowings	**(1,332.7)**	**-**	**(1,332.7)**	(1,146.1)	-	(1,146.1)
Derivative financial liabilities	**(87.5)**	**-**	**(87.5)**	-	-	-
	(2,484.7)	**(31.4)**	**(2,516.1)**	(1,882.6)	(13.5)	(1,896.1)
Net current liabilities	**(732.3)**	**(4.5)**	**(736.8)**	(176.9)	(11.4)	(188.3)
Non-current liabilities						
Contract liabilities	**(797.2)**	**-**	**(797.2)**	(757.3)	-	(757.3)
Lease liabilities	**(59.9)**	**-**	**(59.9)**	(52.9)	-	(52.9)
Borrowings	**(20,265.7)**	**-**	**(20,265.7)**	(20,191.9)	-	(20,191.9)
Derivative financial liabilities	**(1,783.5)**	**-**	**(1,783.5)**	(1,469.9)	-	(1,469.9)
Deferred tax	**(1,219.5)**	**-**	**(1,219.5)**	(1,033.6)	-	(1,033.6)
Provisions for liabilities and charges	**(148.8)**	**-**	**(148.8)**	(145.0)	-	(145.0)
Retirement benefit obligations TWPS	**(348.4)**	**-**	**(348.4)**	(284.7)	-	(284.7)
	(24,623.0)	**-**	**(24,623.0)**	(23,935.3)	-	(23,935.3)
Net (liabilities)/assets	**(6,257.4)**	**266.2**	**(5,991.2)**	(5,268.9)	217.5	(5,051.4)
Equity						
Called up share capital	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	**(41.5)**	**-**	**(41.5)**	(59.8)	-	(59.8)
Retained earnings	**(6,216.9)**	**266.2**	**(5,950.7)**	(5,210.1)	217.5	(4,992.6)
Total equity	**(6,257.4)**	**266.2**	**(5,991.2)**	**(5,268.9)**	**217.5**	**(5,051.4)**

[1]£45.4 million of properties leased in connection with the construction of Thames Tideway Tunnel meet the definition of Right-of-use assets, for consistency with prior periods these have been included within Land and Buildings. Assets of £50.0 million in relation to Investment Property have been reclassified from Property, Plant and Equipment above in the prior period.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants.

Condensed statement of changes in equity

For the six month period ended 30 September 2021

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2020	**1.0**	**(90.2)**	**(4,068.5)**	**(4,157.7)**
Loss for the period	-	-	(496.7)	**(496.7)**
Cash flow hedges transferred to income statement	-	18.8	-	**18.8**
Deferred tax on cash flow hedge	-	(3.5)	-	**(3.5)**
Actuarial loss on pension scheme	-	-	(353.7)	**(353.7)**
Deferred tax on actuarial loss	-	-	81.0	**81.0**
At 30 September 2020	**1.0**	**(74.9)**	**(4,837.9)**	**(4,911.8)**
At 1 April 2020	**1.0**	**(90.2)**	**(4,068.5)**	**(4,157.7)**
Loss for the year	-	-	(771.7)	**(771.7)**
Cash flow hedges transferred to income statement	-	37.5	-	**37.5**
Deferred tax charge on cash flow hedge gain	-	(7.1)	-	**(7.1)**
Actuarial loss on pension schemes	-	-	(195.6)	**(195.6)**
Deferred tax credit on actuarial loss	-	-	43.2	**43.2**
At 31 March 2021	**1.0**	**(59.8)**	**(4,992.6)**	**(5,051.4)**
Loss for the period			(921.3)	(921.3)
Cash flow hedges transferred to income statement	-	18.3	-	18.3
Deferred tax on cash flow hedge less impact of tax rate change in current period	-	-	-	-
Net actuarial gains/(losses) on pension schemes	-	-	(97.1)	**(97.1)**
Deferred tax on actuarial loss less impact of tax rate change in current period	-	-	60.3	**60.3**
At 30 September 2021	**1.0**	**(41.5)**	**(5,950.7)**	**(5,991.2)**

Condensed statement of cash flows

For the six month period ended

	30 September 2021 Underlying £m	30 September 2021 BTL £m	30 September 2021 Total £m	30 September 2020 Underlying £m	30 September 2020 BTL £m	30 September 2020 Total £m
Operating activities:						
(Loss)/profit for the financial year	**(955.9)**	**34.6**	**(921.3)**	(525.8)	29.1	(496.7)
Less finance income	**(62.3)**	**-**	**(62.3)**	(79.2)	-	(79.2)
Add finance expense	**602.9**	**-**	**602.9**	542.6	-	542.6
Add interest expense on lease liabilities	**1.6**	**-**	**1.6**	1.7	-	1.7
Add net losses on financial instruments	**455.6**	**-**	**455.6**	355.8	-	355.8
Taxation on (loss)/profit on ordinary activities	**172.9**	**8.1**	**181.0**	(120.7)	6.8	(113.9)
Operating profit	**214.8**	**42.7**	**257.5**	174.4	35.9	210.3
Depreciation on property, plant and equipment	**302.8**	**-**	**302.8**	290.5	-	290.5
Depreciation on right of use asset	**2.0**	**-**	**2.0**	5.6		5.6
Amortisation of intangible assets	**26.9**	**-**	**26.9**	26.3	-	26.3
Gain on sale of property, plant and equipment	**(0.2)**	**-**	**(0.2)**	0.5	-	0.5
Difference between pension charge and cash contribution	**(1.0)**	**-**	**(1.0)**	(23.4)	-	(23.4)
(Increase)/decrease in inventory	**1.0**	**-**	**1.0**	(1.1)	-	(1.1)
Increase in trade and other receivables	**(361.7)**	**(54.9)**	**(416.6)**	(419.2)	(48.2)	(467.4)
Decrease/(increase) in contract assets	**(24.2)**	**(2.7)**	**(26.9)**	10.8	0.5	11.3
(Decrease)/increase in trade and other payables	**(57.9)**	**3.3**	**(54.6)**	(61.4)	12.1	(49.3)
Increase in contract liabilities	**416.4**	**14.6**	**431.0**	408.5	10.6	419.1
(Decrease)/increase in provisions	**3.8**	**-**	**3.8**	(0.2)	-	(0.2)
Cash generated from operations	**522.7**	**3.0**	**525.7**	411.3	10.9	422.2
Amounts paid in respect of group relief	**-**	**-**	**-**	(0.4)	-	(0.4)
Net cash generated by operating activities	**522.7**	**3.0**	**525.7**	410.9	10.9	421.8
Investing activities:						
Interest received	**40.5**	**-**	**40.5**	45.1	-	45.1
Decrease in current asset investments	**-**	**-**	**-**	300.0	-	300.0
Purchase of property, plant and equipment	**(594.9)**	**-**	**(594.9)**	(484.3)	-	(484.3)
Purchase of intangible assets	**(32.3)**	**-**	**(32.3)**	(20.3)	-	(20.3)
Proceeds from sale of property, plant and equipment	**0.6**	**-**	**0.6**	-	-	-
Net cash used in investing activities	**(586.1)**	**-**	**(586.1)**	(159.5)	-	(159.5)
Financing activities:						
New loans raised	**1,616.6**	**-**	**1,616.6**	848.9	-	848.9
Repayment of borrowings	**(1,772.7)**	**-**	**(1,772.7)**	(1,123.0)	-	(1,123.0)
Repayment of lease principal	**(5.3)**	**-**	**(5.3)**	(6.6)	-	(6.6)
Interest paid	**(206.7)**	**-**	**(206.7)**	(230.9)	-	(230.9)
Net fees received/(paid)	**5.8**	**-**	**5.8**	(5.9)	-	(5.9)
Derivative accretion settlement[1]	**-**	**-**	**-**	(15.3)	-	(15.3)
Net cash used in financing activities	**(362.3)**	**-**	**(362.3)**	(532.8)	-	(532.8)
Net (decrease)/increase in cash and cash equivalents	**(425.7)**	**3.0**	**(422.7)**	(281.4)	10.9	(270.5)
Net cash and cash equivalents at beginning of period	**803.2**	**3.6**	**806.8**	815.2	2.6	817.8
Net cash and cash equivalents at end of period	**377.5**	**6.6**	**384.1**	533.8	13.5	547.3

[1] Derivative accretion settlement of £nil (30 September 2020: £15.3 million) relates to index-linked swaps where accretion is payable periodically.

Bazalgette Tunnel Limited (“BTL”) is an independent company that was appointed in 2015 to construct the Thames Tideway Tunnel. BTL is responsible for the construction of the Thames Tideway Tunnel. For the period ended 30 September 2021 the Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. These amounts are subsequently paid to BTL. The revenue and profit on this arrangement, which is excluded from our key performance indicators, as required by some of our financial covenants, has been disclosed separately to the Group’s underlying performance in the statements above. The cash balance included above reflects amounts collected and not paid over at the balance sheet date.

Analysis of net debt

	30 September 2021 £m	31 March 2021 £m
Secured bank loans and private placements	**(4,862.8)**	(4,443.0)
Bonds	**(9,275.3)**	(9,737.2)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and bonds	**(145.3)**	(192.0)
Interest payable on amounts owed to group undertakings	**(4,214.4)**	(3,865.2)
Lease liability	**(66.5)**	(60.4)
	(21,664.9)	(21,398.4)
Cash and cash equivalents[1]	**381.8**	804.5
Short-term investments	**-**	-
Net debt (statutory basis)	**(21,283.1)**	(20,593.9)
Amounts owed to group undertakings	**3,100.6**	3,100.6
Interest payable on secured bank loans, private placements and bonds	**145.3**	192.0
Interest payable on amounts owed to group undertakings	**4,214.4**	3,865.2
Unamortised debt issuance costs and discount	**(83.1)**	(85.8)
Relevant derivative financial liabilities (Accretion and FX)	**(396.9)**	(293.3)
Fair value adjustment on acquisition to loans	**131.3**	136.5
Unamortised IFRS 9 transition adjustment	**24.1**	24.5
Cash (not relevant)/relevant for covenant	**(14.8)**	(20.4)
Net debt (covenant basis)	**(14,162.2)**	(13,674.6)

[1]The cash and cash equivalents balance excludes £2.3m (31 March 2021: £2.3 million) which is held as security for the SUURBS defined benefit pension scheme. The use of the cash is restricted for this purpose only.

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment, cash not relevant for covenant based on covenant definitions, fair value adjustment made to the Thames Water Group's borrowing on acquisition by Kemble Water consortium; 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.

A summary of the Group's net debt (covenant basis) by different types of debt is as follows:

	30 September 2021 £m	31 March 2021 £m
Securitised Class A debt	**(11,479.5)**	(11,390.1)
Securitised Class B debt	**(1,518.3)**	(1,543.3)
Subordinated debt	**(1,464.9)**	(1,464.9)
Cash net of covenant cash adjustment	**367.0**	784.1
Lease liability	**(66.5)**	(60.4)
Net debt (covenant basis)	**(14.162.2)**	(13,674.6)

Notes to the condensed consolidated financial statements

1. Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered unusual by nature and/or scale. There are no costs classified as exceptional for the six month period ended 30 September 2021.

For the six month period ended	**30 September 2021**			30 September 2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Company reorganisation - severance	-	-	-	**0.2**	-	**0.2**
Transformation and change set-up	-	-	-	**8.0**	-	**8.0**
		-	-			
Total net operating expenses	-	-	-	**8.2**	-	**8.2**

Costs relate to transformation expenditure incurred in the prior six-month period as a result of the significant restructuring of the business that commenced in 2019 and continued into 2020. These costs are considered to be exceptional in nature with significant expenditure incurred that is not in the ordinary course of business. The restructure of the business involved significant changes in the way that the Company operates and therefore this transformation expenditure is deemed exceptional by nature. The tax impact of exceptional items in the six-month period 30 September 2020 was an increase in the tax credit in the income statement of £1.6 million. No exceptional costs were recognised for the 6 month period ended 30 September 2021.

2. Post balance sheet events

Consistent with the period to September 2021, no dividends have been paid to external shareholders of Kemble Water Holdings Limited since 30 September 2021.

During October and November 2021, £1.7 billion Revolving Credit Facilities and £189.2 million loans transitioned from a LIBOR based interest rate to SONIA. In addition, a further net £316.9 million Class A Revolving Credit Facilities were drawn and a total of £289.3 million Class B Revolving Credit Facilities were repaid.

TWUL is subject to ongoing information requests from Ofwat and the Environment Agency, affecting all Water and Sewerage Companies in England and Wales. The information requests were received on 18 November 2021 and relate to the company's obligations under its Instrument of Appointment, the Water Industry Act 1991 and the Environmental Permitting Regulations 2016. The outcome of these enquiries and the existence of any possible future financial obligations, or other consequences, is unable to be determined at this time.