Registered number 05819317 (England and Wales)

Kemble Water Finance Limited

Annual report and consolidated financial statements

For the year ended 31 March 2020

Contents

Introduction

Kemble Water Finance Limited ("the Company" or "KWF") is an intermediate holding company of the Kemble Water Holdings Group of companies ("the KWH Group"). The Kemble Water Finance Group of companies ("the Group") represents the consolidated results of Kemble Water Finance Limited and its subsidiaries. These consolidated financial statements are prepared as a requirement of the Kemble Water Finance covenants, which govern the way the Group borrows funds.

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 has at 31 March 2020, £1,099.8 million of external debt, £924.8 million (£911.0 million book value) of which has been raised directly by the Company and £175.0 million (£174.3 million book value) has been raised by its financing subsidiary TW(K)F. This subordinated debt is issued outside of the securitised group.

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

In addition, the Group operates a separately managed property business. The property business manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business.

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

The Group's management structure separates the Directors of the Company, who are all Non-Executives, and have no role to play in the day-to-day running of the appointed business (although certain matters require the approval of the Company's board having regard to the interests of its shareholders). In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group. There are controls in place to ensure that the day to day management of the appointed business is separated from the commercial water retail business.

Unless otherwise stated; all current year data included in this report is for the year ended 31 March 2020 ("2019/20").

Directors and Advisors

Directors

P Noble
M McNicholas
S Deeley
J Divoky
G Lambert
A Hall
G Pestrak
F Sheng
M Bloch-Hansen
C Pham
J Cogley
B Moncik
I Grund
P McCosker
H De Run
M Wang
G Tucker
Y Deng

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

Company secretary and registered office

D J Hughes
S Billet
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Strategic report

The Directors present their strategic report of the Kemble Water Finance Limited Group ("the Group") for the year ended 31 March 2020. This strategic report should be read in conjunction with the strategic report of Thames Water Utilities Limited, which can be found at www.thameswater.co.uk/annualresults and provides a more detailed insight into the regulated business.

Business review

Principal Activities

The principal activity of the Group is the appointed supply of water and sewerage services through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL"). The Company's principal activity is to act as the holding company of the Group.

The three main functional areas to the TWUL business are:

Customer experience: comprises the household business segment and provides certain customer-facing activities, billing and revenue collection, including amounts relating to construction of the Thames Tideway Tunnel (TTT) which has also been shown separately in the financial statements. From 1 April 2017, this business segment is also responsible for billing and cash collection of wholesale market charges to licensed non-household retailers for both water and wastewater, including amounts relating to construction of the TTT which is shown separately in the financial statements;

Operations: responsible for all aspects of raw water abstraction, treatment as well as the distribution of high quality drinking water and wastewater collection, treatment and safe disposal for household and non-household customers; and

Support services: responsible for other areas including delivery, finance, legal and HR.

Whilst the appointed supply of water and wastewater services provides approximately 98% of the Group's appointed gross revenue as per the regulated accounts, TWUL also manages certain non-appointed activities including:

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

In addition, outside of TWUL, the Group operates a property business to manage and optimise the value of the Group's property portfolio.

Business strategy

The Group's strategy is as follows:

- For the appointed business of TWUL, to deliver life's essential service, so our customers, communities and the environment can thrive. This means keeping customers' bills as low as possible whilst investing efficiently in assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they expect and require.

- Outside of the appointed business, the Group continues to provide property search services to conveyancers and homebuyers. The Group also retains a property services arm which focuses on the development and enhancement of the value of land and sites that are no longer required for the appointed business, including disposal to third parties.

Principal risks and uncertainties

Our risk management and governance framework

The Board assisted by the Audit Risk and Reporting Committee (ARRC), oversees the risk framework and ensures alignment of risk management objectives with the strategies and objective of the Group, validates risk status and mitigation plans and verifies the long term viability statement process to maintain a sound system of risk management and internal control. This includes the determination of the nature and extent of the principal risks we are prepared to accept to achieve our strategic objectives, and ensuring that an appropriate culture has been embedded throughout the organisation. The work of the Board and its committees is underpinned by delegation of authority and policies and procedures covering key areas of our operation.

Our approach to risk management

Our approach to risk management is to ensure risk is managed effectively and within tolerable limits. Making sure that every effort is made to maximise potential opportunities, minimise the adverse effects of risk and increase our ability to effectively deliver value to our customers, people, communities, environment, stakeholders and shareholders.

There has been a lot of movement in our risk profile during the year, which reflects changes in the political and regulatory environment, which saw the immediate threat of nationalisation of the water industry diminish, the level of uncertainty around Brexit decrease and challenges presented through the transition between AMPs. Many of our risks were also compounded by the Covid-19 pandemic, but overall, the end point shows it relatively stable versus this time last year.

In 2020/21, we anticipate the risk landscape will continue to fluctuate, remain challenging and complex in both our internal and external environment. We will be reflecting on the impacts of Covid-19 on our business, our risk management processes and our internal control environment. Our risk management process is aligned with the Risk Management International Standard, ISO 31000, which supports our compliance with the Financial Reporting Council's UK Corporate Governance Code guidance on risk management. We have therefore adopted the ISO31000 definition of risk: 'the effect of uncertainty on our objectives.'

Principal risks and uncertainties

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Environmental protection and climate change	
Description Without robust operational resilience plans and environmental management systems we may be unable to deal with the impact of extreme and unpredictable weather events , or operational incidents, on our assets and infrastructure resulting in damage to the natural environment, and/or are unable to successfully plan for future water resource supply and demand due to climate change. **Movement in the period:** ↑ The impact of changes due to Covid-19 are unknown. We are already experiencing supply impacts due to unexpected increases in demand at unusual locations due to London and the Thames Valley largely working from home and holidaying at home. This may cause us to have to use emergency abstractions and drought permits to maintain supply leading to adverse environmental impacts.	**Mitigation** • During the Covid-19 pandemic, we continue to ensure the continued provision of essential services by prioritising essential work and postponing non-essential projects • Investment in our water and wastewater networks to improve resilience, including planning ahead to make a strong case at PR24 • Pollution incident reduction plan • Political influencing to support introduction of measures to reduce per capita consumption by government • Influencing manufacturers to develop products that meet the 'fine to flush' standard • Long-term - management of water resource issues as set out in our Water Resource Management Plan and drainage and wastewater issues as set out in our Drainage and Wastewater Management Plan • Focus on influencing a change in customer behaviour to reduce water demand and to prevent sewer misuse • Development of Groundwater Impacted Catchments Management Plans • Development of a comprehensive Environmental Management System for the Wastewater business **Looking Forward** • Mitigating these long-term risks requires a robust and well-evidenced business case for PR24, focussed on enhancing resilience of both our assets and the natural environment. • We are developing a better understanding of risks and integration of systems across our business and the river catchments within which we operate • Commitment to protecting and enhancing the health of the rivers in our area. Developing an action plan with regulators, government and environmental NGOs for the Chilterns chalk streams • Delivery of our Smarter Water Catchments initiative to increase understanding of our river catchments and enhance natural resilience through delivery of partnership projects • Development of stronger relationships with Catchment Partnerships and other environmental NGO's to enable greater partnership working • Commitment to net-zero carbon emissions

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Changes in the political and regulatory environment	
Description We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in changes which may affect our ability to meet our strategic objectives and best serve our customers and the environment **Movement in the period:** → The outcome of the 2019 election sets the medium-term political direction in relation to political intervention in the water sector. The conclusion of PR19 also provides (clarity on the basis for investment over the coming 5 years.	**Mitigation** • Making a proactive and constructive contribution to the public policy debate around the water sector Active and ongoing engagement and consultation with regulators and politicians • Wide and in-depth engagement with a wide range of other stakeholders, including engagement on mitigating the risks and uncertainty arising from Covid-19 **Looking Forward** • Implications of changes in law/regulations around future sludge disposal. We will be developing a long-term plan (AMP8+) to address the challenges around waste to land process • We will engage regulators and political stakeholders in the development of our business plan for PR24, which will be a critical opportunity to effect positive change for our customers and the environment

Maintaining the trust and confidence of our stakeholders	
Description Without robust stakeholder understanding and relationship management we may be unable to meet the needs and expectations of all our stakeholders (customers, regulators, investors, communities, pressure groups, etc), leading to a loss of trust and confidence, as well as damage to our brand **Movement in the period:** → No significant change in the risk profile during 2019/20	**Mitigation** • Full review of the company's approach to stakeholder engagement, looking at areas including systems and processes; relationships with key individuals and organisations, and how we work with communities • Extensive engagement with all stakeholders to understand their needs, expectations and preferences • Regular communications, for example on key company announcements, through our quarterly stakeholder newsletter, and on individual projects • Bespoke engagement on issues of interest, such as long-term water resource and wastewater management planning • Improved levels of transparency **Looking Forward** • Build new, and strengthen existing stakeholder relationships • Forge deeper links with our communities to better understand their needs and preferences • Develop our capability in stakeholder relationship management

Business planning and delivery	
Description Without a clear strategy supported by robust planning, transformational change and operational processes we may be unable to meet our regulatory operational performance targets and/or delivery our capital investment programme **Movement in the period:** → No significant change in the risk profile during 2019/20	**Mitigation** • Clear strategy for delivery of challenging business plan • Prioritised business and asset investment process • Business transformation/change programme and governance • Improved robustness of financial governance arrangements • Performance and financial management reporting process **Looking Forward** • AMP7 transformation programme • Enhancing the business planning and price review process • Continue to drive efficiency through the business • Programme to improve approach to risk and resilience

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

<table>
<tr><th colspan="2">Customer service</th></tr>
<tr><td>

Description

We may be unable to improve and maintain our levels of customer service to deliver what our customers tell us they want: an effortless customer experience, a safe and dependable water service and wastewater service, plan for the future, and for us to be a responsible company.

Movement in the period: ↑

- Response to customers during and post significant events
- Level of complaints received

</td><td>

Mitigation

- Improved incident response including actioning lessons learnt from major events,
- Customer service improvement initiatives enabled by significant investment in new platform to enhance capability within our call centre, reduce complaints and service resolution timescales,
- Continued improvements to our propositions to support customers in vulnerable circumstances
- Continued engagement to understand what our customers want and to prioritise improvements
- Offered financial assistance to household customers affected by Covid-19 such as social tariffs and flexible payment terms

Looking Forward

- Stabilisation and optimisation of new customer service and billing platform
- Water Networks Transformation Programme to improve customer service outcomes
- Incident Management improvement initiatives and growth of Priority Services Register and support wrap
- Bad Debt Transformation programme

</td></tr>
</table>

<table>
<tr><th colspan="2">People</th></tr>
<tr><td>

Description

We may be unable to attract, develop and retain an appropriately skilled, diverse workforce and leadership team that encourages and supports ethical behaviours to drive delivery of our company strategy

Movement in the period: →

No significant change in the risk profile during 2019/20

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Mitigation

- People strategy based on engagement, equality, diversity, talent attraction and development, training, reward and recognition
- Ongoing review of core roles, skills and competency requirements and development of internal capability where difficult to recruit externally
- Learning management and mandatory training programmes in place
- Talent succession planning and leadership programmes
- Clear statement of Company vision and values supported by suite of policies, standards, procedures
- Graduate and apprenticeship programme
- Ongoing monitoring of employee engagement and targeted response plans

Looking Forward

- Implement a robust Licence to Operate programme to further develop technically competent colleagues to demonstrate competency to our regulators
- Design and implementation of a Leadership Capabilities Framework to identify key attributes for leadership assessment and development
- Further development of our learning management system ‘Learning on Tap’ focussing on developing our frontline colleagues and leaders to deliver customer service
- Investing in further learning technology to enable engaging and impactful blended learning solutions
- Implementation of our strategic workforce plan to address long-term capability priorities

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</table>

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Health & safety	
Description Failing to manage risks resulting from our behaviour, operations and construction activities could endanger the health, safety or wellbeing of our people, operating partners and/or members of the public **Movement in the period:** ↓ • Significant reductions in severity and frequency of injury incidents – 35% reduction in RIDDOR notifiable incidents and 41% reduction in days lost to injury • Early intervention and assistance provided to work related mental health cases resulted in 45% in days lost to absence. • Ensuring regular review of site safety through regular management inspections and maintaining focus on statutory inspections – inspections increased by 14% and over 63k assets were examined and tested. *Although the general Incident and injury trend shows a reduction, we have had 1 Life Changing Injury to one of our employees at Iver South STW	**Mitigation** • Strong health and safety and wellbeing culture throughout the business • Health & safety committee monitors performance and oversees and reviews health and safety catastrophic and statutory risks • Health & Safety Leadership Team structure includes Directors from Major Tier1 contractors, with a clear link to Forums for Waste, Water & Logistics • Robust health and safety management system externally accredited to ISO 45001 • Robust mental and physical health strategies alongside in-house occupational health team and over 500 mental health first aiders • During the Covid-19 pandemic, measures undertaken include the provision of appropriate PPE to frontline staff, modifying work practices to maintain social distancing and enhanced resources to ensure our employees are kept to date with company activity and evolving protocols. **Looking Forward** • Further reduce injuries and work-related illness by 20% • Transition and embed health and safety values and standards across all new partners in year 1 of AMP • Increase management focus on health and safety hazard resolution through enhanced reporting systems

Information & operational technology systems resilience	
Description Without a resilient information and operational technology infrastructure , we may be unable to effectively operate or provide our services **Movement in the period:** ↓ • Significant networks upgraded to enhance capability, stability and resilience, • Roll- out of circa 6,500 new devices across the business	**Mitigation** • Migration into the Future Mode of Operations (FMO) virtual solution, thereby addressing underlying risks of infrastructure failure • Migration of mainframe to z Cloud, consolidating our mid-range platforms on modern server solutions • Resilient networks, • Cloud solutions with enough failover plans in place. **Looking Forward** • Replacement of operational field devices to enhance staffs' working experience, reduce hardware failures and address security risks • Implementation of architectural roadmap for replacing or retiring applications and servers; • Finalise infrastructure migration of mainframe to Z cloud solution • Migration of legacy customer billing systems off mainframe onto SAP consolidating our mid-range platforms on modern server solutions • Develop the asset management strategy covering operational technology and the internet of things (IoT) • Operational technology - lease line upgrade programme and ongoing remote terminal unit (RTU) upgrades

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

<table>
<tr><td colspan="2">Supply of enough clean, safe water</td></tr>
<tr><td>Description

We may be unable to provide a secure, resilient supply of clean, safe drinking water with the potential for a negative impact on public confidence in water supply

Movement in the period: →

No significant change in the risk profile during 2019/20</td><td>Mitigation

• Drinking water quality transformation programme agreed with DWI
• Monitoring of assets (asset health measures)
• Contingency arrangements for areas at risk of supply failure
• Leakage reduction plan achieved best result this year
• Plans to reduce demand (leakage and per capita consumption/water efficiency programme)

Looking Forward

• Risk-based water network maintenance and investment plans being developed to improve resilience in key areas of London and Thames Valley
• Transformation of the water network - development of an asset management strategy and investment plans that extend across AMP7-10 and strategically to 2100
• Implementation of an asset management system that is ISO 55000 certified
• Continue work to enhance the understanding our assets through improved data collection
• Programme underway to enhance the technical competence of operational teams
• Implementation of an asset management system that is ISO 55001 certified</td></tr>
</table>

<table>
<tr><td colspan="2">Wastewater treatment</td></tr>
<tr><td>Description

We may be unable to effectively remove and treat wastewater, or impact the environment should our processes, sewers and pumping stations fail

Movement in the period: ↑

Rise in significant pollution incidents</td><td>Mitigation

• Pollution incident reduction plan (PIRP)
• EA agreed, national investment plan covering several AMPs
• Go to Green programme
• Enhanced monitoring of assets (asset health measures)
• Mitigation plans for sites experiencing high load as a result of Covid-19 related population movements
• Engagement with WaterUK regarding the future of sludge recycling

Looking Forward

• Risk-based wastewater network maintenance and investment plans
• Development of an asset management strategy and investment plans that extend across AMP7-10 and strategically to 2100
• Development of an Asset management strategy that is ISO 55001 certified
• Programme underway to increase technical competence of operational teams</td></tr>
</table>

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Supply Chain Management

Description

We may be unable to effectively deliver day to day services, capital, operational or change programmes without a sustainable, resilient, cost-effective supply of goods, services, and high calibre third party contractors

Movement in the period: ↑

- Post Covid-19 impact on Supply Chains are likely to be significant in some areas as economic shocks emerge post governmental financial support.
- Likely to see more financial failure of businesses which may disrupt supply of goods and services
- Potential for shortages of some base products or componentry.
- Potential for price volatility in some supply markets

Mitigation

- Enhanced monitoring of supply chain health in face of Covid-19 economic fallout
- Ensure appropriate supply contingencies are in place to deal with supply shocks, such as Brexit
- Support of small suppliers
- Contractual relationships built on achieving long-term value
- Contract management processes and ongoing performance review
- A supplier management framework to deliver ongoing value
- Compliance monitoring of all suppliers to ensure standards are met, adherence to policy and standards and with legislation (e.g. criminal facilitation of tax evasion; OJEU; Modern Slavery; GDPR, Health and Safety)
- Despite the uncertainty around Brexit, we continue to monitor and develop preparations, with ongoing monitoring of Government Brexit proposals

Looking Forward

- Collaboration with our supply chain to jointly design and deliver innovations that continuously drive towards a more sustainable service, including mitigating single source supply
- Improved engagement across the business to better understand future business needs to drive best value for the organisation.
- Enhance contract management capabilities and capacity within our business
- Further development of the supplier management programme to build best practice supplier relationship management (SRM) to deliver further innovation and supply chain improvement.
- Develop suite of supplier performance metrics
- Introduce category-based approach to procurement using market experts to drive solutions

Asset protection and cyber security

Description

We may be unable to protect our assets from internal / external threats and vulnerabilities, due to inadequate or ineffective security controls protecting sites, data, systems, processes and people and as a result we may experience loss, or corruption of personal and business data, or significant disruption of our key business systems and services.

Movement in the period: →

No significant change in the risk profile during 2019/20

Mitigation

- Collaboration with CPNI and regulators (e.g. DWI and Defra) to drive improvements in approach to security across the water sector
- Technological security measures, including effective modern firewalls, patching policies, threat/vulnerability monitoring, identity management controls, multi-factor authentication, encryption of information,
- Physical and electronic site security controls, including site alarms and CCTV that are actively monitored
- Clear policies and procedures and mandatory security awareness training and communications.
- Regular risk assessments of physical security threats and measures
- Incident response process

Looking Forward

- Improving the quality and accuracy of user information in our systems.
- Limiting, controlling and monitoring the use of standard users and administrators
- Increasing the use of incident alerting tools, and tools to prevent the deliberate and accidental loss of data.
- Improving the quality and utility of data collected and collated within our incident monitoring solution
- A significant program of work to maintain and improve our physical and electronic site security controls including upgrading CCTV and hatch alarms on service reservoirs and boreholes.

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

<table>
<tr><th colspan="2">Legal and regulatory compliance</th></tr>
<tr><td>

Description

Our processes may fail or may not effectively keep pace with changes in legislative and/or complex regulatory landscape leading to instances of non-compliance with our obligations.

Movement in the period: →

No significant change in the risk profile during 2019/20

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Mitigation

- The Board promotes high ethical standards of behaviour and ensures the effective contribution of all Directors.
- Robust policies, processes and controls to understand and meet legal and regulatory compliance obligations, including standards and policies in third party contracts
- Continued focus on delivery of leakage target and associated commitments, with regular reporting to customers, Ofwat and other stakeholders during the year
- Data protection improvement programme aligned with IT transformation programme and migration of sensitive data onto new platforms
- Policy framework and mandatory training programmes
- Robust H&S culture and audit / review programme
- Monitoring of consent and permit compliance
- Horizon scanning for changes to the legal and regulatory environment with associated risk assessment of impacts to our business

Looking Forward

- Programme to improve the legal and regulatory compliance control environment and assurance activities

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</table>

<table>
<tr><th colspan="2">Credit and Liquidity</th></tr>
<tr><td>

Description

We are unable to fund the business sufficiently in order to meet our liabilities as they fall due.

Movement in the period: ↑

- Risk heightened due to broader economic uncertainty and potential impact on financial markets, in addition to increased economic pressure on our customer base affecting collections

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Mitigation

- Strong liquidity position supported by cash and available committed banking facilities
- Agreed schedule of contributions to reduce pension deficit combined with significant overall deficit reduction driven by economic factors
- Ongoing focus on credit ratings and financial covenant headroom in budget setting
- Treasury strategy covering funding, hedging and cash management in place
- Cost transformation programme delivering efficiency savings to the business
- See viability statement (on pages 15 to 16) for further details on financial resilience

Looking Forward

- Further review of business plan and budget to achieve challenging cost saving targets

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Financial review

Key financial performance indicators

	2020			Restated 2019[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue (£m)	**2,108.6**	**64.3**	**2,172.9**	2,037.1	47.5	2,084.6
Operating expenses (£m)	**(1,694.9)**	**(0.2)**	**(1,695.1)**	(1,665.6)	(0.3)	(1,665.9)
Operating profit (£m)	**493.1**	**64.1**	**557.2**	464.9	47.2	512.1
Net finance expense (£m)	**(1,012.4)**	**-**	**(1,012.4)**	(1,005.8)	-	(1,005.8)
Net (losses)/gains on financial instruments (£m)	**190.8**	**-**	**190.8**	(37.7)	-	(37.7)
Loss before tax (£m)	**(328.5)**	**64.1**	**(264.4)**	(578.6)	47.2	(531.4)
Loss after tax (£m)	**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)
Capital expenditure (£m)	**1,223.0**	**-**	**1,223.0**	1,206.6	-	1,206.6
Statutory net debt (£m)	**(19,676.7)**	**-**	**(19,676.7)**	(18,847.2)	-	(18,847.2)
Interest cover (PMICR) *	**1.7**	**n/a**	**n/a**	1.3	n/a	n/a
Gearing (%) **	**89.6**	**n/a**	**n/a**	88.4	n/a	n/a
Credit rating ***	**n/a**	**n/a**	**Baa2 stable**	n/a	n/a	Baa1 negative

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements which are discussed on page 51.

* As defined on page 53.
** Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 53. Reported ratios for 31 March 2019 are before restatements.
*** Representing the consolidated Corporate Family Rating assigned by Moody's for the Thames Water Utilities Limited securitisation group. Separately during March 2020, Moody's concluded their review of ratings for the Group, moving KWF guaranteed debt from negative to stable outlook (still rated B1). During April 2020 Fitch downgraded KWF's rating to B+ from BB-. The directors do not consider that the change in rating reflects a material change in credit risk or impacts the ability of KWF to issue debt via the capital markets.

Overall performance

Total loss before tax for the year was (£264.4) million (restated 2019: £531.4 million).

A summary of the movement in our total loss before tax is summarised below:	**2020 £m**
Restated loss before tax for the year ended 31 March 2019	**(531.4)**
Increase in underlying revenue	**71.5**
Increase in BTL revenue	**16.8**
Increase in operating expenses	**(29.2)**
Decrease in other operating income	**(14.0)**
Increase in net finance expense	**(6.6)**
Movement in (losses)/gains on financial instruments	**228.5**
Loss before tax for the year ended 31 March 2020	**(264.4)**

Revenue

Our revenue is generated from the bills we send our customers for the essential water and wastewater services we provide 24 hours a day, 365 days a year. The amounts we bill our customers is determined every five years, through a price review process, and is ultimately driven by the costs we expect to incur investing in and operating our business to deliver these essential services over that five year regulatory period.

Our revenue also includes amounts billed to our wastewater customers in respect of construction costs for the Thames Tideway Tunnel. As cash is collected, we pass it to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the Tunnel. As these amounts are not retained by us, we show them separately in our financial reporting.

Our total revenue for the year ended 31 March 2020 increased by £88.3 million to £2,172.9 million (2019: £2,084.6 million). The increase can be attributed to a £16.8 million increase in BTL revenue – driven by the phasing of construction work, in addition to an increase of £71.5 million in our underlying revenue.

Our underlying revenue for the year ended 31 March 2020 was £2,108.6 million (2019: £2,037.1 million). The increase can be attributed to the year-on-year allowed revenue as set out in the Final Determination issued by Ofwat at the start of the 2015-2020 five-year regulatory period. As we did for the year ended 31 March 2019, we have also returned money to customers during the year, this time through the leakage rebate (£30.7 million) and a voluntary deferral of revenue (£17.1 million) to keep bill increases to a minimum. While this total reduction of £47.8 million is more than the amount returned to customers early for the year ended 31 March 2019 (£40.3 million), the underlying allowed revenue on which we set our charges increased by £50.4 million. In addition, while we are under-recovered against this underlying allowed revenue (due to lower than forecast property numbers and consumption volumes compared to those assumed when our charges for the year were set) our under-recovery is smaller than that seen during the year ended 31 March 2019, which also contributes to the year-on-year increase.

Capital expenditure

During the year, we continued with our significant investment programme, investing a total of £1,223.0 million (restated 31 March 2019: £1,206.6 million) in our assets. The total investment by area is summarized in the table below.

Key projects within the above capital expenditure include:

- £47.0 million on our metering programme (water)
- £16.6 million on connecting our network to the Thames Tideway Tunnel
- £20.6 million on a customer relationship management and billing system
- £22.6 million on our scheme aimed to reduce the risk of flooding (waste)

Financing our investment

As we continue to invest heavily in the business, our statutory net debt (as defined in the accounting policies section) has increased by £829.5 million to £19,676.7 million (restated 2019[1]: £18,847.2 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £455.6 million to £14,729.3 million (2019: £14,273.7 million). Overall gearing (on a covenant basis), was 89.6% (2019: 88.0%), below the mandated maximum of 95.0%. Additionally, our PMICR in the current year is 1.7x (2019: 1.3x) and is above the mandated minimum of 1.05x.

In January 2019, a £227.3 million equivalent ($106.0 million 7-year, $131.0 million 10-year and €50.0 million 11-year) US Private Placement was priced, and funded in April 2019. During March 2019, a £189.2 million bilateral term loan facility (split equally over 8, 10 and 12 year maturities) was signed and funded in November 2019. During May 2019, a £175.0 million (£125.0 million 5-year and £50.0 million 3-year) bilateral term loan facility was signed and funded in June 2019.

In December 2019, a £300.0 million 3.5-year Class B term loan facility was signed out of which £150.0 million was drawn in March 2020.

In April 2020, a £350.0 million 20-year Class A bond was issued, followed by a further £40.0 million 30-year Class A private placement in May 2020. In May 2020 a £110.0 million 3.5-year Class A term loan facility was signed.

In July and August 2019, we extended the maturity of £4.0 billion fixed and floating interest rate swaps to 2030.

In October and November 2019, we transacted a number of index-linked swaps with a total notional value of around £2.1 billion with maturities of 5 years and 10 years. These swaps help manage inflation risk and effectively convert existing debt which was issued at a fixed nominal rate into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity. In November 2019, we also extended the maturity of £400.0 million notional of index linked swaps. For the 12 month period ended 31 March 2020, these derivative transactions reduced interest costs on a cash basis by £47.1 million although this will be offset by increased costs in later years.

Through the Company, £649.8 million of new Sterling debt was committed in November 2018 (of which £310.0 million was drawn at 31 March 2019 and £339.8 million in April 2019), using the bank and private placement markets. £400.0 million of this was used to refinance the £400.0 million bond guaranteed by the Company which was repaid in April 2019. The remaining amount, £249.8 million, was used to de-gear TWUL in April 2019.

The associated net finance expense has increased by £6.6 million to £1,012.4 million (restated 2019[1]: £1,005.8 million), which has been driven primarily by higher interest expense on intercompany borrowings partially offset by higher interest income on swaps. Some of our interest expense is incurred in relation to borrowings raised to deliver major capital projects. Under the IFRS accounting framework we capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £97.6 million this year (2019: £109.3 million).

Bad debt

Bad debt are the amounts billed that are considered to be uncollectable from customers. Our bad debt charge for the year ended 31 March 2020 was £73.6 million – an increase of £11.0 million compared to the previous year. Even though there was recovery of older debt that was previously considered uncollectable, following new debt collection initiatives put in place during the year, the net increase in the bad debt is primarily due to an additional provision of £15.3 million in respect of Covid-19, as detailed above. The current year bad debt charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £33.1 million, which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £40.8 million, which is shown within operating expenses.

Operating expenses

Our underlying operating expenses have increased by £29.3 million (2.0%) to £1,694.9 million from 2018/19, driven mainly by:

- an increase in employee costs of £20.2 million arising from increased resources within the business
- a £35.3 million increase in depreciation and amortisation, as the significant investment programme continues;
- 'exceptional' costs of £27.7 million relating to our recent company reorganisation and associated programme management costs; offset by
- a £19.1 million decrease in our rates costs, arising primarily from a large rebate due for overpayments in previous years; and
- a £31.2 million reduction in the wider operating costs, such as direct operating costs, consumables, hired and contracted costs and professional fees.

Financial instruments

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

We have approximately £9.3 billion of derivative financial instruments (face value). A total gain on financial instruments of £190.8 million was recognised in the income statement during the year (2019: loss of £37.7 million). This is primarily driven by £277.8 million fair value gains on swaps, partially offset by a £34.9 million loss on cash flow hedge transferred from reserves and £52.1 million net foreign exchange loss on foreign currency loans. Note 7 to the financial statements provides detail of the amounts charged to the income statement in relation to financial instruments

Credit rating

In March 2020, Moody’s downgraded the Corporate Family Rating (“CFR”) for our securisation group to Baa2 with a stable outlook (2019: Baa1 negative outlook).

Moody’s also downgraded our securitisation group companies senior secured (Class A) debt rating to Baa1 with stable outlook (2019: A3 with negative outlook) and subordinated (Class B) debt rating to Ba1 with stable outlook (2019: Baa3 with negative outlook). In February 2020, S&P affirmed our securitisation group companies credit rating of BBB+ and BBB- (2019: BBB+ & BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, with negative outlook (2019: negative outlook). We retain these investment grade credit ratings that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

Separately during March 2020, Moody’s concluded their review of ratings for the Group, moving KWF guaranteed debt from negative to stable outlook (still rated B1). During April 2020 Fitch downgraded KWF’s rating to B+ from BB-. The directors do not consider that the change in rating reflects a material change in credit risk or impacts the ability of KWF to issue debt via the capital markets.

Dividends

The Company’s dividend policy 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. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financability of the company’s business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat’s 5% dividend yield guidance, applied to Ofwat’s notional company, the Thames Water Utilities 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.

No dividends or interest on shareholder debt was paid to external shareholders in 2019/20. The shareholders of the Company have supported the operating Company Board’s decision to not pay dividends over and above those required by the Kemble Water Holdings Group to service group debt obligations and working capital requirements during the 2015-2020 regulatory period, while investment is prioritised to improve service to customers.

Pensions

We operate four pension schemes for our employees – three defined benefit schemes and one defined contribution scheme. During 2019/20, we contributed £13.1 million (2019: £11.0 million) to the defined contribution scheme.

Our defined benefit scheme accounting valuation has been updated to 31 March 2020 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net retirement benefit obligation for the three schemes as at 31 March 2020 was £121.6 million (2019: £285.3 million), which includes a pension deficit of £209.1 million (2019: £338.8 million) for the TWPS scheme and a pension deficit of £7.0 million (2019: surplus of £7.7 million) for the SUURBS pensions scheme offset by a pension surplus of £94.5 million (2019: £45.8 million) for the TWMIPS scheme. We have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments. The reduction in the deficit is mostly driven by a change in actuarial assumptions primarily driven by external market factors, such as an increase in the discount rate.

Capital, financial and actuarial risk management policies and objectives

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

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The key objectives of the funding strategy are to maintain customer bills at a level which is both affordable and sustainable, retain the Group’s investment grade credit rating and provide liquidity sufficient to fund ongoing obligations.

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 capital structure of the Group consists of net debt and equity as disclosed in note 19. The Group's net debt is comprised of cash and cash equivalents, short-term investments, bank loans and intercompany loans from subsidiary undertakings that issue secured bonds.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Group against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used, where appropriate, to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

Financial risk management

(i) Market risk

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

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of debt issued in a foreign currency. All 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 and liabilities denominated in a currency different from the local currency of the Group. Further disclosures regarding financial instruments can be found in note 19.

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

(ii) Credit risk

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

TWUL has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the TWUL and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk, however, TWUL's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15.

(iii) 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 market 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 and other financial instruments are disclosed in notes 18 and 19, respectively.

Actuarial risks

The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. For further details of these risks, please refer to note 23.

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

Viability statement

The Directors have assessed the longer-term viability of the Group over a ten year period to 31 March 2030. Due to the prolonged look-forward period, the level of certainty of the assumptions used reduces the further into the future we look. The high degree of confidence for the first few years of AMP7, is followed by moderate confidence in the remaining years of AMP7 and a lower level of confidence for AMP8. In spite of the reduced confidence levels in the later years of the look forward period, the Directors continue to consider the ten year period to be appropriate given the long term nature of the business, and the necessity to adopt a sustainable approach.

The Directors have considered the current position of the Group, its ability to effectively and efficiently manage its finances, the current regulatory regime, its continued access to the debt markets, and its ability to maintain a strong investment grade credit rating, whilst having regard to the principal risks and uncertainties as described on pages 5 to 11.

The performance of the Group is mainly dependent on the appointed activities of TWUL which is responsible for the supply of water and wastewater services to customers in London, the Thames Valley and surrounding area. As such, this assessment takes into account the long-term viability of TWUL where the Directors of TWUL have a reasonable expectation that TWUL will be able to operate within its financial covenants and maintain sufficient liquidity facilities to meet its funding needs over the same ten year assessment period.

As part of the Group's financial resilience assessment, management has designed a number of 'stress tests' which subject the Group's existing model, that underlies the Group's planning processes, to a number of severe but plausible scenarios and tests its sensitivity to these. The stress tests consider factors, both individually and in combination. These include:

- Fluctuations in interest rates, which could affect the cost of financing the business;
- Fluctuations in inflation rates, which could affect the cost of investment and day-to-day operations, in addition to impacting amounts we bill our customers;
- Increase in operating and capital expenditure, which would increase costs and reduce cash flows;
- Operational underperformance and the crystallisation of certain regulatory risk events leading to regulatory and legal penalties / fines; and
- Inability to secure new finance and/or delays in raising finance, reducing the cash available to deliver our investment programme.

The assessment showed, in the absence of any mitigating actions, that there are severe but plausible downsides which indicated the need to undertake mitigating actions to avoid non-compliance of financial covenants. It should be recognised that such pressure on the Group's viability is based on hypothetical sensitivities where the probability of these scenarios occurring is uncertain. The analysis showed pressures crystallising at a point in time well into the assessment period, thereby providing sufficient time to implement any mitigating actions if so required. As part of its risk management, the Directors regularly monitor compliance of financial covenants so as to ensure any issues are appropriately addressed to avoid or reduce the impact of occurrence of the underlying risk.

The Directors believe there are a number of options available, these include but are not limited to the following:

- Modifying or temporarily waiving existing financial covenants and debt amortisations;
- Improving liquidity by increasing the size of its existing £110 million bank facility. This would extend the period over which the Company is able to meet the interest payments of its external debt in the event that there are no distributions from TWUL or when the Company exceeds certain financial covenants. Currently the facility is expected to cover more than 18 months of interest payments; and
- Raising additional capital in the form of deeply subordinated instruments and / or equity from shareholders.

The viability of the Group is heavily influenced by the Company's ability to service external (non-shareholder) debt. Noticeably, these costs have been met by distributions from TWUL. In circumstances where distributions were not made available by TWUL, the Company, as mentioned above, has access to a £110 million bank facility which is sufficient to cover more than 18 months of interest payments. In the event where the absence period of such distributions exceeded that provided by the bank facility, the Company would be reliant on additional support from its shareholders to meet its obligations. The Directors of the Company have discussed this matter with the shareholders, whom they represent, and are confident that support would be available if required.

Taking account of the range of scenarios, the Directors consider that the Group has sufficient mitigating actions available to address particular circumstances and events, should they arise. The Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. This conclusion has been made assuming capital market continue to operate under normal market conditions and that no renationalisation of the water sector take place over the assessment period.

s172 reporting

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

> "A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
>
> (a) the likely consequences of any decision in the long term;
>
> (b) the interests of the Company's employees;
>
> (c) the need to foster the Company's business relationships with suppliers, customers and others;
>
> (d) the impact of the Company's operations on the community and the environment;
>
> (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
>
> (f) the need to act fairly as between members of the company."

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

During the year, the Company has continued to act as an intermediate holding company within the Kemble Water Holdings Limited group. Day-to-day running of the Company is managed by the Company's management team, consisting of employees from the Group's main trading company, Thames Water Utilities Limited. During the year, items that the Board of Directors have approved include the sale of direct subsidiary company, Thames Water Insurance Company Limited, updates of debt issuance programme documentation and renewal of facilities, interest rate hedge reprofiling, reviewing the impact of the price control review, and the approval of the Company's annual report and financial statements. The

Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Likely consequences of decisions in the long term

Much of the Board's decision making is focussed around ensuring that the Group's business is sustainable in the long term. The consideration of the impact to Ofwat's price control review and the Group's response is consistent with that objective.

Stakeholder management

The Company's stakeholders are considered to be external debt investors, shareholders and other companies within the Kemble Water Holdings group. The Company places considerable importance on communication with investors and through a Group-wide approach, regularly engages with them on a wide range of topics. The Group's Head of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and Environment

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

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group's annual report is available from the address shown in note 29.

Approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

P Noble
Director
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8D

Directors' report

The Directors present their annual report and the audited financial statements of Kemble Water Finance Limited (the "Company") and the audited consolidated financial statements of its group ("the Group") for the year ended 31 March 2020. These are the Group and Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures required under the Companies Act 2006.

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

The 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, and details of these risks and their management or mitigation can be found on pages 5 to 11.

The Directors have voluntarily complied with the Disclosure and Transparency Rules ("DTR"), to the extent that these can be reasonably applied to the Group.

The registered number of the Company is 05819317 (England and Wales).

Principal activity

The Group's principal activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

Details of the associated and subsidiary undertakings of the Group at 31 March 2020 has been provided in the notes to these financial statements.

Future outlook

The future outlook of the Group is discussed in the strategic report.

Directors

The Directors who held office during the year ended 31 March 2020 and to the date of this report were:

M McNicholas	(appointed 4 April 2019)
K Bradbury	(resigned 1 July 2019)
S Deeley	
J Divoky	
A Hall	
G Lambert	
P Noble	
G Pestrak	
G Tucker	(resigned 20 May 2019, appointed 21 May 2020)
M Bloch-Hansen	
E Howell	(resigned 8 April 2020)
P Mulholland	(resigned 20 May 2019)
C Pham	
F Sheng	
T Song	(resigned 5 March 2020)
J Cogley	(appointed 20 May 2019)
B Moncik	(appointed 20 May 2019)
I Grund	(appointed 1 July 2019)
P McCosker	(appointed 14 July 2019)
M Wang	(appointed 5 March 2020)
H De Run	(appointed 8 April 2020)
Y Deng	(appointed 21 May 2020)

During the year under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2019: none). Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	**Alternate Director**
J Divoky	C Pham
P Noble	H De Run
F Sheng	M Wang
A Hall	I Grund
M Bloch-Hansen	I Grund
G Lambert	P McCosker
M McNicholas	I Grund
G Tucker	Y Deng

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval the Group 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 of the Group and these remain in force at the date of this report.

Share capital

As at 29 June 2020, the Company's issued share capital was 1,000,001 ordinary shares of £1 each amounting to £1,000,001. There were no movements in the Company's share capital during the year. Further details of the Company's share capital can be found in note 22.

Dividends

The Company's dividend policy 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. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financability of the company's business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat's 5% 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 Group has not paid any dividends during the current or preceding financial year and do not recommend the payment of a final dividend (2019: £nil).

Operations outside the United Kingdom

There are no active operations conducted outside the United Kingdom. The Group had two wholly owned subsidiary entities incorporated in the Cayman Islands. These companies act solely as a financing vehicle for TWUL and their operations are conducted entirely within the UK. These companies have always been resident in the UK for tax purposes. During the prior year Group dissolved the Cayman Islands subsidiaries.

Going concern

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the strategic report.

The Group has considerable financial resources, a strong liquidity position, ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

As a consequence of these factors and having accepted the five year plan for 2020-2025 (the Final Determination), the Directors believe that the Group is well placed to manage its business risks successfully and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. However, in light of the current situation, the Directors have sought a letter of support from the Company's ultimate parent company, Kemble Water Holdings to support the going concern basis.

The Directors believe, after due and careful enquiry, and noting that the Group is in a net current liabilities position as at the year end, that both the Group and Company have sufficient resources for their present requirements and are able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these financial statements. This is based upon a review of the Group's and Company's financial forecasts for the forthcoming financial year, consideration of the Group's compliance with its covenants, and the cash, current asset investments and available facilities of the Group and Company.

On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Corporate Governance

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

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

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

Financial risk management

During the period the Company had access to the Interim Executive Chairman and the Executive Team of TWUL, who also manage the wider Kemble Water Holdings Limited group ("KWH Group") on a day-to-day basis on behalf of the Directors of individual group companies. The Board receives regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

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

Political donations

No political donations were made by the Group or Company during the current or preceding year.

Charitable donations

Charitable donations of £0.3 million were made by the Group during the year (2019: £0.3 million).

Intellectual property

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

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 Group's activities. The Group 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.

Expenditure on research and development totalled £3.8 million for the year (2018/19: £3.9 million).

Employee engagement

Over 84% of the Group's employees took part in our annual survey, our highest ever response rate, with an overall engagement score of 64%. This demonstrates that our employees are willing to express how they are feeling about working at Thames – both the good aspects and what we can do to improve.

Employees commented favourably on health and safety, diversity and inclusion and work/ life balance as well as the fact that they are proud to work for Thames Water.

We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year.

Earlier in the year the Board approved the appointment of Ian Pearson as a designated Non-Executive Director to take accountability for ensuring that workforce issues are appropriately considered at the Thames Water Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities.

To support the Board, we expanded our engagement approach through regular engagement sessions across a range of functions and sites, providing employees with greater opportunities to meet with and be listened to by Board members.

Our Executive team continue to regularly meet and listen to employees in person as well as reviewing feedback from a variety of other sources. This includes formal channels such as our Hear For You survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as our 'stop' mailbox, yammer communications and local feedback channels. This feedback is considered and included in Executive decision making.

Our lead engagement champions for each area of the business additionally came together along with representatives from each of the three Trade Unions recognised by Thames Water for our first bi-annual employee engagement forum chaired by NED Ian Pearson. The forum discussed what works well in addition to what else we can do to continually improve.

Equal opportunities, diversity and inclusion and disability confident

People are at the heart of our group. We value and harness the unique skills, experiences and backgrounds that each individual brings.

Our ongoing commitment to maintaining an inclusive workplace enables us to attract and retain diverse talent that is representative of our communities. This supports the growth of a great place to work where everyone can flourish in helping us to succeed and drive the right outcomes for our customers, business and the environment.

Over the past year we have seen an increase in minority talent in management and leadership positions, and a year-on-year reduction in our mean gender pay gap.

Additionally, we were honoured to become the first water company to be awarded Disability Confident Leader status in July. This is the highest award in the UK and is in recognition of our continued success in enabling access improvements, the implementation of "adjustment passports" to further support employees in the workplace and the implementation of work experience for people who are not in education, employment or training as well as those with disabilities.

Furthermore, in January we received the results of our Stonewall Workplace Equality Index, a leading benchmarking tool for LGBT inclusion in the workplace. Our target was to be in the Top 250 so we were delighted to jump an incredible 113 places to rank 189th out of more than 500 companies.

Energy Management and Operational Greenhouse Gas Emissions

In 2019/20 we made significant progress reducing our greenhouse gas emissions and improving our energy performance. We achieved a reduction in our gross operational emissions of 9% and increased our renewable energy generation from sludge by 20 GWh to 313 GWh. Of our total 1,679 GWh of energy consumption, we have reduced our electricity consumption by over 16GWh to 1,305GWh. Together with our other renewables (wind and solar photovoltaics (PV)) we have increased our supply from on-site renewables in the year ended 31 March 2020 from 22% to 24%.

Where we're not able to produce our own renewable electricity, we source Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity through contracts with our suppliers. As a result, we have achieved our emissions targets for 2019/20 and for AMP6, for both water and wastewater. Our ambition for operational emissions is to reach Net Zero Carbon by 2030.

Emissions

During 2019/20, we reduced our gross operational emissions by 49.5 ktCO2e to 494.9 ktCO2e. 32 kTCO2e through reduced consumption and the generation of grid electricity from lower carbon sources (decarbonization). Our net operational emissions reduced by 17.8 ktCO2e to 257.9 ktCO2e a fall of 6%. 2.8kTCO2e of this reduction was achieved thanks to the decarbonization of the electricity transmission network. We have achieved numerous successes, realising emissions reductions through a combination of actions including;

- a 7.4 kTCO2e reduction by increasing methane capture from our sludge digestion at two sites;
- a 6% reduction in our emissions from fossil fuels saving 2.6kTCO2e on our sites, by recovering more of our process heat requirements from our renewable CHP engines, and using less diesel in our standby generators;
- our CHP engines exporting more renewable electricity when we did not need it ourselves, which generated an additional 0.6kTCO2e carbon offset;
- changing how we deliver our digital capabilities, with a 1kTCO2e reduction in emissions from our outsourced IT partners.
- rolling out new videoconferencing capabilities in Autumn of 2019, we achieved a 15% reduction in emissions from private and public transport 0.4kTCO2e.

We have also reduced the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat; our emissions intensity.

Water: 19.6 $kgCO_2e$ per Ml down 1.0 $kgCO_2e$ per Ml

Wastewater: 111.9 $kgCO_2e$ per Ml down 15.1 $kgCO_2e$ per Ml

	$kTC0_2e$
Scope 1	205.7
Scope 2	232.9
Scope 3	56.3
Gross	**494.9**
Net-offs	(237.0)
Net	**257.9**

Energy

Supported by our recently ISO certified Energy Management System we have delivered energy efficiency improvements across both water and wastewater operations. We have reduced the net electricity intensity for each megalitre of water and wastewater we supply and treat.

Water: 525 kWh/Ml down 1%

Wastewater: 254kWh/Ml down 9%

This was achieved through a series of actions including efficiencies and generation increases at several sites, notable examples being;

- Crossness STW which has increased its renewable electricity generation from sludge by over 8.5GWh (27%) since March 2019 by expanding and optimising the capacity of its THP sludge treatment process.
- At Beckton STW the site team have optimised its secondary treatment, reducing its total consumption by 2.5 GWh since March 2019.
- We have invested in variable speed drives at our Amwell Marsh Water Pumping Station which has improved the performance and saved 290MWh, an amazing 49% reduction!
- At Aldershot STW we have invested in new high efficiency air blowers, achieving an 8% (180MWh) year-on-year reduction.

Emissions Methodology

We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department of Environment, Food and Rural Affairs (Defra). Operational Greenhouse Gas Emissions ("GHG") within the regulated business are calculated annually reflecting the six major greenhouse gases and the Defra Environmental Reporting Guidelines.

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 outsourced services and business travel); and
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO2e").

Insurance

The Company maintains a comprehensive insurance programme, renewed annually. This includes cover for a range of insurance classes including Public Liability, Property, Employers Liability, Construction, Motor, and Directors' & Officer Liability cover.

The insurance coverage has been reviewed and approved by an independent insurance adviser retained to ensure that the Company's insurances: (i) have regard to the risk being covered; and (ii) address the interests of the Company

Funding

In January 2019, a £227.0 million equivalent ($106.0 million 7-year, $131.0 million 10-year and €50.0 million 11-year) US Private Placement was priced, and funded in April 2019. During March 2019, a £189.2 million bilateral term loan facility (split equally over 8, 10 and 12 year maturities) was signed and funded in November 2019. During May 2019, a £175.0 million (£125.0 million 5-year and £50.0 million 3-year) bilateral term loan facility was signed and funded in June 2019.

Through the Company, £649.8 million of new Sterling debt was committed in November 2018 (of which £310.0 million was drawn at 31 March 2019 and £339.8 million in April 2019), using the bank and private placement markets. £400.0 million of this was used to refinance the £400.0 million bond guaranteed by the Company which was repaid in April 2019. The remaining amount, £249.8 million was used to de-gear TWUL in April 2019.

In December 2019, a £300.0 million 3.5-year Class B term loan facility was signed out of which £150.0 million was drawn in March 2020.

In April 2020, a £350.0 million 20-year Class A bond was issued, followed by a further £40.0 million 30-year Class A bond in May 2020. In May 2020 a £110.0 million 3.5-year Class A term loan facility was signed.

In October and November 2019, we executed a number of index-linked swaps with a total notional value of around £2.1 billion with maturities of 5 years and 10 years. These swaps help manage inflation risk and effectively convert existing debt which was issued at a fixed nominal rate into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity. In November 2019, we also extended the maturity of £400.0 million notional of index linked-swaps.

Disclosure of information to the auditor

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 auditor is unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 29 June 2020 and signed on its behalf by

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of Directors' responsibilities in respect of the annual report, strategic report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the 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 IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also 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 responsible for keeping adequate accounting records that are sufficient to show and explain the group 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

Directors' confirmations

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

- the parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent 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 Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors’ report to the members of Kemble Water Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kemble Water Finance 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 2020 and of the group’s loss and the group’s and the company’s cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company’s financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the “Annual Report”), which comprise: the consolidated and company statements of financial position as at 31 March 2020; the consolidated income statement, the consolidated statement 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 directors.

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 to the group or the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview

- Overall group materiality: £30.0 million (2019: £30.0 million), based on 0.15% of total assets.
- Overall company materiality: £49.1 million (2019: £103.7 million), based on 1% of Total assets.

- Two significant components within the group are subject to a full scope audit.
- Two additional entities were considered in scope for certain financial statement line items, to obtain sufficient coverage of the cash, borrowings and finance expenses of the group.
- For the company only accounts and the significant components we tested both the design and operation of relevant business process controls and performed substantive testing over material financial statement line items.

- Provision for bad and doubtful debts (group only)
- Classification of costs between capital and operating expenditure (group only)
- Valuation of financial derivatives (group only)
- Valuation of retirement benefit obligation (group only)
- Impact of COVID-19 (group and company)
- Investment in Subsidiaries (company only)

	• Carrying value of Goodwill (group only)

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Water Industry Act 1991, Water Resources Act 1991, Environment Act 1995 and Competition Act 1998, 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 preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to increase profits or reclassify costs, management bias in accounting estimates especially in provisions and expected credit losses, or excluding transactions from underlying or free cash flow metrics. Audit procedures performed by the engagement team included:

- Challenging assumptions and judgements made by management in determining significant accounting estimates and independently reviewed and tested assumptions in relation to such judgements and estimates along with the related disclosures in the financial statements;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations; and
- Discussions and enquiries of management, internal audit function and legal counsel

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

Key audit matter	***How our audit addressed the key audit matter***
Provision for bad and doubtful debts The recoverability of customer debts is always a key issue for water companies. Management uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £187.8m (2019: £176.6m). The provision includes an additional overlay in the current year to reflect the potential impact of COVID-19 pandemic, which involves a high degree of estimation uncertainty. Management makes key assumptions based on historical trends relating to non-payment of invoices including comparisons of the relative age of the individual balance and consideration of the actual write-off history. These historical trends are used as a basis to assess expected credit losses in the future. These assumptions are then used in a complex model to compute the provision for bad and doubtful debt, which is sensitive to changes in these assumptions. Management have also considered plausible downside scenarios in assessing the impact of COVID-19 on the receivable balance. Refer to page 13 of the Strategic report and note 15 of the financial statements. This risk is applicable to the group only.	We evaluated the model used to calculate the provision and confirmed its consistency with prior years (excluding the COVID-19 overlay) and the appropriateness of the model. 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 and ensured appropriateness and 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 ensure appropriateness of the aging classifications used in the model. We assessed the various downside scenarios considered by management on account of COVID-19 and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of COVID-19 on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed sensitivity analysis on the downside scenarios considered by management. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on 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 bad and doubtful debts and the impact of COVID-19 on trade receivables. Overall we consider that the provision and disclosure for bad and doubtful debts is reasonable as at 31 March 2020.
Classification of costs between capital and operating expenditure Additions to Assets under construction (AUC) during the period amounted to £1,105bn (2019: £1,098bn). Within this is £192m (2019:189m) of own works capitalised and £94.2m (2019: 102.7m) of borrowing costs incurred with the remainder being external costs incurred. There is a high degree of judgement applied when allocating costs to 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 group and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Refer to note 12 of the financial statements. This risk is applicable to the group only.	We have tested the controls regarding the assessment by management of each project as being 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 qualifying projects involved. We have understood the methodology management have used to determine the value of spend on leak detection capitalised in the current year and that has been restated in respect of previous years. We have sample tested the underlying costs related to leak detection spend. 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 2020.
Valuation of financial derivatives The group derivative position as at 31 March 2020 was an asset of £374m (2019: £162m) and liability of £1,061m (2019: £1,262m). The net derivative fair value as at 31 March 2020 was a liability of £687m (2019: £1,100m). 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 14 of the Strategic report and note 19 of the financial statements. This risk is applicable to the group only.	We obtained independent confirmations from the external counterparties to confirm the existence and terms of all contracts held. Engaged with our specialist valuations team who have performed independent valuations for a sample of the derivative population by applying sampling methodology to determine an appropriate number of derivatives to test. The tested population had a fair value of £743m. We also performed an analytic review of the derivative position by calculating expected movements in derivatives using independent sources of exchange rates and interest rates. We tested management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation method and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.
Valuation of retirement benefit obligation Valuation of total scheme liabilities £2,515.7m (2019: £2,606.4m).	We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities.

The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors 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, salary increases and mortality) 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; this is especially so in the current year in light of the COVID-19 crisis, the new triennial valuations completed and the change of administrator. Refer to page 14 of the Strategic report and note 23 of the financial statements. This risk is applicable to the group only.	We benchmarked the various assumptions used (e.g. discount and inflation rate) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end. The last formal triennial valuation took place as at 31st March 2019. However, the year end liabilities have been calculated using a roll forward approach based on cash flows from the 2016 valuations for the Schemes adjusted for the experience noted in the 31 March 2019 valuation. 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. We assessed the impact on COVID-19 on the scheme assets by ensuring none had any material uncertainty over the valuation. COVID-19 had no impact on the financial assumptions as these were all based on market conditions at the reporting date and the impact of the pandemic at that time would have been included in bond yields and inflation curves. Overall, we concur that the methodology and assumptions used by management at 31 March 2020 are reasonable.
Impact of COVID-19 The COVID-19 pandemic is considered to have a significant impact on specific items in the Annual report. The specific areas of the financial statements where we have assessed the impact of COVID-19 are as below: - Going concern- COVID-19 is likely to have a potential impact on the group's cash flows, macro-economic impact (financial markets) and in turn the ability of the group to access the financial markets. - Recoverability of trade receivables - Valuation of Pension Assets — In particular consideration of any Property backed Investments and impact on valuations performed by investment managers - Disclosure of the impact on the business and impact on any Alternative Performance Measures (APMs)in the financial statements We have also incorporated the guidance for auditors issued by the FRC regarding Covid-19 and applied this where appropriate. Refer to page 5 to 11 of the Strategic report and note 31 of the financial statements. This risk is applicable to both the group and company.	We have considered the impact of COVID-19 on various areas of the Annual report and performed procedures to address the risk around the impact of COVID-19. We have set out our responses to the risk in respective areas of the financial statements as below: - Going concern: We have understood how management have factored in the potential impact of COVID-19 on future cash flows and the potential impact of this on covenant compliance including; lower non-household consumption, delays in cash collection of household revenue and impacts on the cost base. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since year end. Further we have assessed the availability of financial resources and the ability of the Group to absorb potential adverse circumstances over the going concern period. - Recoverability of trade receivables- Refer Key Audit Matter "Provision for bad and doubtful debts" above - Valuation of Pension Assets — Refer Key Audit Matter "Valuation of retirement benefit obligation" above - Disclosure of the impact on the business and impact on any Alternative Performance Measures (APMs)in the financial statements- We have audited the disclosures provided in the financial statements and assessed the reasonableness of such disclosures. As a result of the procedures performed we consider that the disclosures are reasonable and appropriate. Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.
Investment in Subsidiaries Recoverability of Investments	We have obtained management's model and verified the mathematical accuracy of calculations used.

Investments at 31 March 2020 were £4,292.3m (2019: £4,292.3m) and are required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group. Refer to note 33 of the financial statements. This risk is applicable to the company only.	We have reviewed the assessment management has performed to determine the premium on RCV and determined that the assessment performed is reasonable We have traced net debt used in management's assessment at 31 March 2020 to the audited financial statements. We have verified the RCV used by management to the latest Ofwat publication. Overall we consider the management's assessment that there is no impairment at 31 March 2020 to be reasonable.
Carrying value of Goodwill Goodwill at 31 March 2020 is £1,468.1m (2019: £1,4681.1m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group. Refer to note 9 of the financial statements. This risk is applicable to the group only	Our procedures included: We have obtained management's assessment and verified the mathematical accuracy of calculations used and confirmed that significant headroom exists at 31 March 2020. We have reviewed the assessment management has performed to determine an appropriate premium on RCV to apply in its assessment and determined the premium determined is reasonable. We have verified how management have determined the equity value of the group from the deemed total value of the group and that in calculating this that management have deducted statutory net debt, which we have reconciled to the audited group financial statements. We have also verified the RCV used by management to the latest Ofwat publication. Overall we consider the management's assessment that there is no impairment at 31 March 2020 to be reasonable.

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.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. In order to achieve audit coverage over the financial statements, under our audit methodology, we test both the design and operation of relevant business process controls and perform substantive testing over material financial statement line items. Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we determined that the components requiring a full scope audit were Thames Water Utilities Limited and Thames Water Utilities Finance plc. As the main trading and financing entities of the group, these provide sufficient coverage across the majority of balances. Two additional entities were considered in scope for certain financial statement line items, in order to obtain sufficient coverage of the cash, borrowings and finance expenses of the group. We additionally obtained full coverage over the consolidation journal entries for the group.

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:

	Group financial statements	*Company financial statements*
Overall materiality	£30.0 million (2019: £30.0 million).	£49.1 million (2019: £103.7 million).
How we determined it	0.15% of total assets.	1% of Total assets.
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group, therefore group materiality will also be 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, using the lower percentage of 0.15% of total group assets was deemed to be most appropriate.	Total assets has been determined to be the appropriate benchmark for both significant components of the group, therefore company materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical, in the year the company listed private placement debt in Ireland for the first time, so became an EU PIE.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £25.5 million and £28.5 million.

We agreed with the directors that we would report to them misstatements identified during our audit above £3.0 million (Group audit) (2019: £1.5 million) and £4.9 million (Company audit) (2019: £5.2million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons. The increase in the reporting threshold reflects the understanding of audit findings we gained last year, our first year as auditors, and was accepted by the directors.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 24, 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.

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 received 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

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 2 years, covering the years ended 31 March 2019 to 31 March 2020.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
29 June 2020

Consolidated income statement

For the year ended 31 March

		2020			Restated 2019[1]		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	1	**2,108.6**	**64.3**	**2,172.9**	2,037.1	47.5	2,084.6
Operating expenses excluding net impairment losses on financial and contract assets [1,2]	2	**(1,654.3)**	**-**	**(1,654.3)**	(1,636.7)	-	(1,636.7)
Net impairment losses on financial and contract assets	2	**(40.6)**	**(0.2)**	**(40.8)**	(28.9)	(0.3)	(29.2)
Total operating expenses	2	**(1,694.9)**	**(0.2)**	**(1,695.1)**	(1,665.6)	(0.3)	(1,665.9)
Other operating income	4	**79.4**	**-**	**79.4**	93.4	-	93.4
Operating profit		**493.1**	**64.1**	**557.2**	464.9	47.2	512.1
Finance income	5	**73.2**	**-**	**73.2**	18.8	-	18.8
Finance expense	6	**(1,085.6)**	**-**	**(1,085.6)**	(1,024.6)	-	(1,024.6)
Net gains/(losses) on financial instruments	7	**190.8**	**-**	**190.8**	(37.7)	-	(37.7)
(Loss)/profit on ordinary activities before taxation		**(328.5)**	**64.1**	**(264.4)**	(578.6)	47.2	(531.4)
Taxation on loss/(profit) on ordinary activities	8	**(61.2)**	**(6.1)**	**(67.3)**	96.0	(2.8)	93.2
(Loss)/profit for the year		**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)

The group activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements which are discussed on page 51.

[2] Operating expenses for the year ended 31 March 2020 includes £27.7 million (31 March 2019: £nil) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 2.

Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	**2020** Underlying £m	BTL £m	Total £m	Restated 2019[1] Underlying £m	BTL £m	Total £m
(Loss)/profit for the year		**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)
Other comprehensive (loss)/income							
Will not be reclassified to the income statement:							
Net actuarial losses on pension schemes	23	**168.9**	**-**	**168.9**	(23.4)	-	(23.4)
Deferred tax (charge)/credit on net actuarial gain/loss including impact of deferred tax rate change	8	**(27.0)**	**-**	**(27.0)**	4.3	-	4.3
May be reclassified to the income statement:							
Losses on cash flow hedges		**(4.1)**	**-**	**(4.1)**	(8.9)	-	(8.9)
Cash flow hedges transferred to income statement	7	**34.9**	**-**	**34.9**	34.2	-	34.2
Deferred tax charge on cash flow hedge gains including impact of deferred tax rate change	20	**(3.0)**	**-**	**(3.0)**	(4.3)	-	(4.3)
Other comprehensive (loss)/income for the year		**(169.7)**	**-**	**(169.7)**	1.9	-	1.9
Total comprehensive (loss)/income for the year		**(220.0)**	**58.0**	**(162.0)**	(480.7)	44.4	(436.3)

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. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

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[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Consolidated statement of financial position

As at 31 March

		2020			Restated 2019[1]		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Non-current assets							
Goodwill	9	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Interest in joint venture	10	**-**	**-**	**-**	-	-	-
Intangible assets	11	**273.7**	**-**	**273.7**	218.2	-	218.2
Property, plant and equipment	12	**16,328.7**	**-**	**16,328.7**	15,776.8	-	15,776.8
Right of use asset	13	**52.3**	**-**	**52.3**	54.2	-	54.2
Trade and other receivables	15	**71.1**	**159.0**	**230.1**	44.2	101.9	146.1
Pension asset SUURBS	23	**-**	**-**	**-**	7.7	-	7.7
Pension asset TWMIPS	23	**94.5**	**-**	**94.5**	45.8	-	45.8
Derivative financial assets	19	**374.3**	**-**	**374.3**	162.3	-	162.3
		18,662.7	**159.0**	**18,821.7**	17,777.3	101.9	17,879.2
Current assets							
Inventories and current intangible assets	14	**13.6**	**-**	**13.6**	13.5	-	13.5
Contract asset	15	**235.4**	**1.5**	**236.9**	217.5	0.9	218.4
Trade and other receivables	15	**484.9**	**5.1**	**490.4**	800.9	4.1	805.0
Cash and cash equivalents	16	**815.2**	**2.6**	**817.8**	513.8	7.6	521.4
Short term investments	19	**300.0**	**-**	**300.0**	-	-	-
		1,849.1	**9.6**	**1,858.7**	1,545.7	12.6	1,558.3
Current liabilities							
Contract liabilities	17	**(123.8)**	**(0.3)**	**(124.1)**	(110.6)	(3.4)	(114.0)
Trade and other payables	17	**(661.1)**	**(10.3)**	**(671.4)**	(671.8)	(11.1)	(682.9)
Lease liabilities	13	**(7.9)**	**-**	**(7.9)**	(7.4)	-	(7.4)
Borrowings	18	**(1,814.9)**	**-**	**(1,814.9)**	(1,550.8)	-	(1,550.8)
Derivative financial liabilities	19	**(15.0)**	**-**	**(15.0)**	(38.6)	-	(38.6)
		(2,622.7)	**(10.6)**	**(2,633.3)**	(2,379.2)	(14.5)	(2,393.7)
Net current liabilities		**(773.6)**	**(1.0)**	**(774.6)**	(833.5)	(1.9)	(835.4)
Non-current liabilities							
Contract liabilities	17	**(707.3)**	**-**	**(707.3)**	(636.1)	-	(636.1)
Lease liabilities	13	**(62.4)**	**-**	**(62.4)**	(65.1)	-	(65.1)
Borrowings	18	**(18,906.7)**	**-**	**(18,906.7)**	(17,750.4)	-	(17,750.4)
Derivative financial liabilities	19	**(1,045.9)**	**-**	**(1,045.9)**	(1,223.8)	-	(1,223.8)
Deferred tax	20	**(1,120.8)**	**-**	**(1,120.8)**	(904.8)	-	(904.8)
Provisions for liabilities and charges	21	**(145.6)**	**-**	**(145.6)**	(119.9)	-	(119.9)
Pension deficit	23	**(216.1)**	**-**	**(216.1)**	(338.8)	-	(338.8)
		(22,204.8)	**-**	**(22,204.8)**	(21,038.9)	-	(21,038.9)
Net (liabilities)/assets		**(4,315.7)**	**158.0**	**(4,157.7)**	(4,095.1)	100.0	(3,995.1)
Equity							
Called-up share capital	22	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	22	**(90.2)**	**-**	**(90.2)**	(118.0)	-	(118.0)
(Accumulated losses) / retained earnings	22	**(4,226.5)**	**158.0**	**(4,068.5)**	(3,978.1)	100.0	(3,878.1)
Total deficit		**(4,315.7)**	**158.0**	**(4,157.7)**	(4,095.1)	100.0	(3,995.1)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Company statement of financial position

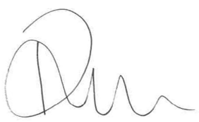
As at 31 March

	Note	**2020 £m**	2019 £m
Non-current assets			
Investment in subsidiaries	33	**4,292.3**	4,292.3
Trade and other receivables	34	**0.6**	8.2
Intercompany receivables	34	**366.4**	170.6
Deferred tax asset	35	**8.4**	9.3
		4,667.7	4,480.4
Current assets			
Intercompany receivables	34	**208.3**	534.3
Cash and cash equivalents	36	**28.7**	349.2
		237.0	883.5
Current liabilities			
Trade and other payables	37	**(0.1)**	(1.2)
Borrowings	38	**(17.0)**	(426.7)
		(17.1)	(427.9)
Net current assets		**219.9**	455.6
Non-current liabilities			
Trade and other payables	37	**(0.3)**	(14.9)
Borrowings	38	**(7,605.7)**	(7,105.8)
		(7,606.0)	(7,120.7)
Net liabilities		**(2,718.4)**	(2,184.7)
Equity			
Called-up share capital	22	**1.0**	1.0
Accumulated losses		**(2,719.4)**	(2,185.7)
Total deficit		**(2,718.4)**	(2,184.7)

The accounting policies and notes on pages 40 to 107 are an integral part of these financial statements.

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent Company. For the year ended 31 March 2020 the Company generated a loss after taxation of £533.6 million (2018: £508.2 million)

The financial statements for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 29 June 2020 and signed on its behalf by:



P Noble
Director

Consolidated statement of changes in equity
For the year ended 31 March

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2018 (as previously reported)	1.0	(139.0)	(3,413.2)	**(3,551.2)**
Restatement for IFRS 16	-	-	(14.2)	**(14.2)**
Other restatements	-	-	5.0	**5.0**
Deferred tax on restatements	-	-	1.6	**1.6**
Restated 1 April 2018	1.0	(139.0)	(3,420.8)	**(3,558.8)**
Loss for the year	-	-	(438.2)	**(438.2)**
Loss on cash flow hedges	-	(8.9)	-	**(8.9)**
Cash flow hedges transferred to income statement	-	34.2	-	**34.2**
Deferred tax charge on cash flow hedge	-	(4.3)	-	**(4.3)**
Actuarial loss on pension schemes	-	-	(23.4)	**(23.4)**
Deferred tax charge on actuarial loss	-	-	4.3	**4.3**
Restated 31 March 2019	1.0	(118.0)	(3,878.1)	**(3,995.1)**
At 1 April 2019 (as previously reported)	1.0	(118.0)	(3,883.9)	**(4,000.9)**
Restatement for IFRS 16	-	-	(12.3)	**(12.3)**
Other restatements	-	-	15.3	**15.3**
Deferred tax on IFRS 16 and other restatements	-	-	2.8	**2.8**
At 1 April 2019 (as restated)	1.0	(118.0)	(3,878.1)	**(3,995.1)**
Loss for the year	-	-	(331.7)	**(331.7)**
Loss on cash flow hedges	-	(4.1)	-	**(4.1)**
Cash flow hedges transferred to income statement	-	34.9	-	**34.9**
Deferred tax charge on cash flow hedge losses including impact of deferred tax rate change	-	(3.0)	-	**(3.0)**
Actuarial gain on pension schemes	-	-	168.9	**168.9**
Loss on disposal of pension assets	-	-	(0.6)	**(0.6)**
Deferred tax charge on actuarial gain	-	-	(34.7)	**(34.7)**
Impact of deferred tax rate change on pension schemes	-	-	7.7	**7.7**
At 31 March 2020	**1.0**	**(90.2)**	**(4,068.5)**	**(4,157.7)**

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 ‘Leases’ as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Company statement of changes in equity
For the year ended 31 March

	Called-up share capital £m	Accumulated losses £m	**Total equity £m**
At 1 April 2018	1.0	(1,677.6)	**(1,676.6)**
Loss for the year	-	(508.2)	**(508.2)**
At 31 March 2019	1.0	(2,185.8)	**(2,184.8)**
Loss for the year	-	(533.6)	**(533.6)**
At 31 March 2020	1.0	(2,719.4)	**(2,718.4)**

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 March

	Note	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated 2019[1] Underlying £m	Restated 2019[1] BTL £m	Restated 2019[1] Total £m
Cash generated from operations	28	**1,153.1**	**(0.6)**	**1,152.5**	1,125.5	5.0	1,130.4
Group relief received / (paid)		**455.0**	**(4.4)**	**450.6**	-	-	-
Overseas tax paid		**(0.9)**	**-**	**(0.9)**	(0.1)	-	(0.1)
Net cash generated by/(used in) operating activities		**1,607.2**	**(5.0)**	**1,602.2**	1,125.4	5.0	1,130.4
Investing activities:							
Interest received		**56.6**	**-**	**56.6**	10.7	-	10.7
Increase in current asset investments		**(300.0)**	**-**	**(300.0)**	-	-	-
Purchase of property, plant and equipment [2]		**(1,137.9)**	**-**	**(1,137.9)**	(1,135.6)	-	(1,135.6)
Purchase of intangible assets		**(86.1)**	**-**	**(86.1)**	(71.2)	-	(71.2)
Proceeds from sale of property, plant and equipment		**-**	**-**	**-**	2.6	-	2.6
Net cash used in investing activities		**(1,467.4)**	**-**	**(1,467.4)**	(1,193.5)	-	(1,193.5)
Financing activities:							
New loans raised		**3,481.6**	**-**	**3,481.6**	1,452.7	-	1,452.7
Repayment of borrowings		**(2,366.5)**	**-**	**(2,366.5)**	(670.2)	-	(670.2)
Interest paid		**(807.7)**	**-**	**(807.7)**	(328.0)	-	(328.0)
Fees paid		**(11.6)**	**-**	**(11.6)**	(19.1)	-	(19.1)
Repayment of lease principal		**(11.0)**	**-**	**(11.0)**	(10.1)	-	(10.1)
Derivative settlements		**(123.2)**	**-**	**(123.2)**	2.8	-	2.8
Net cash generated by financing activities		**161.6**	**-**	**161.6**	428.1	-	428.1
Net increase/(decrease) in cash and cash equivalents		**301.4**	**(5.0)**	**296.4**	360.0	5.0	365.0
Net cash and cash equivalents at beginning of year		**513.8**	**7.6**	**521.4**	153.8	2.6	156.4
Net cash and cash equivalents at end of year		**815.2**	**2.6**	**817.8**	513.8	7.6	521.4

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to the arrangement with BTL and therefore our underlying amounts are disclosed separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41. The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

[2] Borrowing costs of £94.2 million (2019: £102.7 million) relating to tangible assets that have been capitalised are included within "Purchase of property, plant and equipment" under investing activities. Borrowing costs of £3.4 million (2019: £6.6 million) relating to intangible assets that have been capitalised are included within "Purchase of intangible assets" under investing activities.

Company statement of cash flows
For the year ended 31 March

	Note	**2020** **£m**	2019 £m
Cash generated used in operations	40	**41.0**	79.7
Group relief received		**465.8**	-
Net cash generated by operating activities		**506.8**	79.7
Investing activities:			
New loans issued		**(249.8)**	-
Interest received		**0.3**	0.5
Dividends received		**-**	1.0
Net cash (used in)/generated by investing activities		**(249.5)**	1.5
Financing activities:			
New loans raised		**339.8**	303.9
Repayment of borrowings		**(399.3)**	(0.7)
Interest paid		**(515.9)**	(54.1)
Fees paid		**(2.4)**	(10.0)
Net cash (used in)/generated by financing activities		**(577.8)**	239.1
Net (decrease)/increase in cash and cash equivalents		**(320.5)**	320.3
Net cash and cash equivalents at beginning of the year		**349.2**	28.9
Net cash and cash equivalents at end of the year		**28.7**	349.2

The accounting policies and notes on pages 40 to 107 are an integral part of these financial statements.

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

Kemble Water Finance Limited ("the Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose principal activity is to act as the holding company for the Kemble Water Finance Limited group of companies ("the Group"). The trading address and the address of the registered office of both the Company and the Group is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Group's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers, operating in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

During 2017/18, the Group announced its decision to close down its Cayman Islands Subsidiaries, Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH"). The companies transferred the assets and liabilities to Thames Water Utilities Finance plc ("TWUF") on 31 August 2018 as a result of the above decision The Cayman Islands entities ceased to be subsidiaries of the Company on 27 September 2018. They were formally dissolved on 28 February 2019 and are no longer companies that exist within the Kemble Water Holdings Group. The results of the Cayman entities, up until they ceased to be subsidiaries of the Company, are included in the income statement for the year ended 31 March 2019.

Statement of compliance with International Financial Reporting Standards ("IFRS")

The policies applied in these consolidated financial statements for the year ended 31 March 2020 are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRS IC") interpretations issued and effective and ratified by the EU as of 29 June 2020, the date that the Board of Directors approved these financial statements. The Company only financial statements are also prepared under EU-IFRS.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using IFRS. IFRS 9 and IFRS 15 are applicable for the year ended 31 March 2020 and comparative period 31 March 2019. Financial information relating to year ended 31 March 2018 was restated to reflect IFRS 9 and IFRS 15.

Going concern

The consolidated financial statements for the year ended 31 March 2020, set out on pages 32 to 39, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

The Group has considerable financial resources, a strong liquidity position, ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

As a consequence of these factors and having accepted the five year plan for 2020-2025 (the Final Determination), the Directors believe that the Group is well placed to manage its business risks successfully and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future..

Basis of consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and incorporate the results of its share of joint ventures using equity accounting. Associates are accounted for on an equity basis either where the Group's holding exceeds 20% or the Group has the power to exercise significant influence. Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments have been made to the financial statements of subsidiaries to align the accounting policies used under the relevant local GAAP in line with those used by the Group.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Bazalgette Tunnel Limited ("BTL") arrangement

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

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the 'pay when paid' principle.

Accounting standards require the Group to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable. This non-appointed revenue, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, a prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete, against which this prepayment will be utilised.

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, non-household retailers and other Water Only Companies ("WOCs").

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 based on historical experience, is excluded from revenue, as it does not fall within the IFRS 15 criteria, to ensure that revenue is recorded at the amount which the Group 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.

The Company considers the performance obligation associated with Service Connections, Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. As such this income will be recognised on an individual basis in accordance with the delivery profile of each scheme. Typically amounts received in respect of service connections will be fully recognised within a year following receipt, however Requisitions & Diversions 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.

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.

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 bill relates.

When the Group identifies the occupants the bill is billed in the customer's name. If the Group has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Revenue includes amounts that the Group billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the BTL arrangement section above (on page 41).

Refer to page 54 for significant judgements around revenue.

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 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.

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. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the "Trade and other receivables" below for more information.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects.

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 losses / gains on financial instruments. The following are also recognised in the income statement as net losses / gains 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 48 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. As at 31 March 2020, there are no uncertain tax positions (2019: none).

Investment in subsidiary undertakings and joint ventures

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Investment in joint ventures are accounted for using the equity method. Impairment reviews are performed on an annual basis.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, the carrying value of goodwill acquired in a business combination is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense within the income statement and is not subsequently reversed.

Non-current intangible assets (excluding goodwill)

Separately acquired intangible assets are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement 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 under 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.

Other intangible assets include concessions, licences and similar rights and assets. Assets under development are not depreciated until they are commissioned.

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 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.

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 property, plant and equipment 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 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 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 and refer to non-current assets disclosed in note 12:

	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

Leased assets

Refer to pages 49 to 51 for the impact of new accounting standards on leases.

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 fair value, being the BTL prepayment (refer to BTL arrangement section on page 41) plus 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, other than inventories and deferred tax 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.

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.

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. The Group’s assessment for calculating expected credit losses is made by reference to its historical collection experience, including comparisons of the relative age of the individual balance and the consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management’s expectation of future performance and industry trends. Management has considered the impact of COVID-19 and has increased the provision to reflect the expected adverse impact on customers’ ability to pay their water and wastewater bills.

There are three main types of customer for which an expected credit losses provision is calculated, directly billed customers, indirectly billed (such as non-household customers billed through non-household retailers) and billed through WOCs. There is also bad debt associated with the BTL arrangement.

(i) Directly billed and indirectly billed customers
An expected credit losses model is used to calculate the provision for directly and indirectly 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 performance in the year. The amount that remains will be uncollectable and therefore needs to be covered by an expected credit losses provision. Debt that is older than 4 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling.

(ii) WOCs
A provision is also made against debts due from Water Only Companies (WOCs) who bill their customers for sewerage services provided by the Group. As the bills relate to services provided by the Group, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Group. As detailed information about the debt, including the ageing, is not readily available, the level of provision is therefore based on write offs covering a three-year period – prior year, current year and forecast for the year ahead.

(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 recognizing revenue within the Group and associated bad debt. Refer to page 41 for more information on the BTL arrangement.

Impact of COVID-19
COVID-19 is predicted to have an impact on cash collection as employment rates worsen and people find themselves unable to pay their water and wastewater bills. To help assess the implications on debtors and level of additional provision required, a range of outcomes impacting billing and collections performance were developed using available data. Subsequently, management has increased the provision by £15.3 million across directly billed customers and WOCs. No adjustment has been made for indirectly billed non-household customers as Management have assessed the future cash flows and the risk of non-payment was considered to be low.

Intercompany loans receivable

Interest bearing loans issued 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 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. If an intercompany loan receivable continues to have an investment grade rating, then IFRS 9 permits an assumption that there has been no significant increase in credit risk. As such given the investment grade credit rating, an assessment of the 12 month expected credit loss is permitted rather than a lifetime credit loss assessment as per ‘stage 1’ of the IFRS 9 impairment model.

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.

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 includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Short-term investments

Short-term investments include term deposits which are not readily convertible into known amounts of cash.

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 are recognised as part of the gain or loss on the extinguishment. In 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 and current intangible assets

Inventories are stated at the lower of cost and net realisable value ("NRV").

Current intangible assets relate to purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) and are stated at cost, less accumulated amortisation and any provision for impairment. A provision is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement. This is no longer relevant for the 2019/20 financial year and beyond as the scheme has been closed.

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. For more information on the BTL arrangement, refer to page 41.

Retirement and other employment benefits

Defined benefit schemes

The Group operates three, independently administered, defined benefit pension schemes, both of which are closed to new employees. 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. In the prior year, following a review of the approach Management concluded that it was appropriate to recognise a surplus relating to the TWMIPS 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 statement of other comprehensive income in the period in which they arise.

Defined contribution schemes

The Group operates a Defined Contribution Pension Scheme ("DCPS") managed through Standard Life Assurance Limited. From 1 April 2011 the DCPS is the only scheme to which new employees of the Group are eligible. The assets of the DCPS 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 a closed defined contribution pension scheme. The Group has no further payment obligations, however defined funds for some former employees are held within this scheme.

Long-term incentive plans ("LTIP") and bonus

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.

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.

Share in Your Success 2020 was introduced in the 2017/18 financial year. The scheme's performance period runs from April 2017 to March 2020 and is open to all non-manager grade employees. The scheme entitles eligible employees to earn an amount of up to 5% of their salary following the end of the performance period.

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. The timing for the insurance claims are uncertain and therefore both the liability and receivable have been recognised as non-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.

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 2015 to 31 March 2020 is known as AMP6, and the period for which we have recently submitted our plan and accepted the Final Determination, 1 April 2020 to 31 March 2025 is known as AMP7.

Outcome delivery incentives ("ODIs") were introduced by Ofwat in the price determination process covering 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.

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.

There is no financial reward or penalty in the rate setting period in which the ODI is incurred, and accordingly there is no accounting required. Instead, the reward or penalty is reflected in the following AMP period by way of increased or reduced revenues respectively. Ofwat assesses companies' operational performance against agreed performance commitments. Each performance commitment contains an ODI, which can carry a financial reward or penalty or both that will be realised as part of the next price review process in the form of revenue or RCV adjustments. The Group does not recognise a provision for penalties or rewards in the financial year in which they are incurred or achieved, as the financial impact is realised in future AMPs.

Risks, opportunities and innovation ("ROI") funds

The Group has entered into certain alliance arrangements with a number of third parties. The alliance agreements include incentive mechanisms which result in the alliance partners sharing in any over or underspend on contracted works. Remuneration for services provided under the contract are also linked to TWUL's performance commitments. During the year ended 31 March 2020 there were three alliances responsible for delivering works over AMP6 (2019: 2)

A notional ROI fund for each alliance is created and built up over the AMP period and is ultimately paid to alliance partners at contractual percentages. This occurs once certain conditions are satisfied, as specified in the alliance contracts between the Group and the alliance partners.

A provision for ROI amounts is 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. Conversely, a receivable for ROI will be recognised when: the Group has a right to receive cash at a future date; the amount can be reliably estimated; and receipt is virtually certain.

ROI amounts arising from an over or underspend against the contracted cost for a capital project, where the spend is directly attributable to the asset created, are deemed to be an integral cost in bringing an asset into the condition and location for use as intended by management. They are therefore capitalised as part of the cost of the asset and depreciated over the asset's useful life.

ROI amounts arising from operating expenditure over or underspend against the contracted cost, where spend cannot be directly attributed to a capital asset, are recognised directly in operating expenses as the spend is incurred.

ROI amounts linked to an ODI or Service Incentive Mechanism ("SIM") penalty or reward are recognised in the income statement at the point the penalty has been incurred or reward has been achieved.

Dividends

Dividends unpaid at the financial reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Group. This occurs when the shareholders right to receive payment has been established. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Dividends receivable are recognised when the Company's right to receive payment is established.

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 forward starting interest rate swaps to hedge its interest rate risks. At the inception of each 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 hedge 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 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.

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. 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 when the transaction occurs. 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 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 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.

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.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS"). 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.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency, 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 except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised directly in the cash flow hedge reserve.

New accounting policies and financial reporting changes

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, with the exception of the policies noted below that have been adopted from 1 April 2019:

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 such 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 on a case-by-case basis where relevant.

Transition to new IFRSs

Restatements to the comparative periods arising from the adoption of the new accounting standard IFRS 16 Leases, have been made.

IFRS 16: Leases

Background

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and such the Group and Company has applied the new accounting standard for the year ended 31 March 2020.

The Group and Company have applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group and Company have restated both comparative periods presented in the financial statements which include the financial periods ended 31 March 2018 and the 31 March 2019.

Restatements to the prior year

On adoption of IFRS 16, the Group and Company have recognised right of use assets and associated lease liabilities in relation to certain leases which had previously been classified as 'operating leases' under the principles of the previous accounting standard, IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted at the borrowing rate applicable at inception of the lease. Please refer to note 32 for full details of the adjustments made on transition.

This restatement to the prior year impacts the following Group disclosures:

- Consolidated income statement on page 32
- Consolidated statement of comprehensive income on page 33
- Consolidated statement of financial position on page 34
- Consolidated statement of changes in equity on page 36
- Consolidated statement of cash flows on page 38
- Note 2 Operating expenses on pages 60 to 61
- Note 5 Finance income and note 6 finance expense on page 62
- Note 8 Taxation on pages 63 to 65
- Note 13 Leases on page 68
- Note 15 Trade and other receivables on pages 69 to 70
- Note 17 Trade and other payables on page 71
- Note 19 Financial Instruments on page 75 to 83
- Note 28 Statement of cash flows on page 94
- Note 32 Restatements to the prior year on page 96 to 99

Recognition of Right of use assets and lease liabilities

Refer to note 32 Restatements to the prior year.

IFRS 16 *Leases* replaces IAS 17 *Leases* and related interpretations and sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. Under the provisions of IFRS 16, most leases, including those previously classified as operating leases, will be recognised in the statement of financial position as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 *Property, Plant and Equipment* and the liability increased for the accretion of interest and reduced by lease payments.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- contracts of low value (£5,000 as determined by the Group) will not be considered as leases
- the Group is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Group has therefore only applied IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4 with the date of initial application being 1 April 2019

Recognition of leases

As a lessee
The Group's leasing activities include rentals payable for office properties and other land and buildings. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In previous years, the leasing activities of the Group consisted of solely operating leases. Payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

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

From 1 April 2019, leases are recognised as a right-of-use asset along with a corresponding liability with the date of recognition being the commencement date of the lease.

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 and the Group has the ability to mutually agree changes to the arrangement with the lessor.

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% of RCV. However, leases that would have been identified as operating leases prior to the new standard do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2% of RCV.

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.

Transition approach
The Group has applied the new accounting standard using a full retrospective approach, including the practical expedient permitted in the standard. As a result, the Group has restated the comparative information presented in the interim condensed financial statements.

As a lessor
At inception or on modification of a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

To classify each lease, the group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, certain indicators such as whether the lease is for the major part of the economic life of the asset are considered.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see the financial instruments note 19). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'. The Group has no material leases for which it is a lessor.

Other prior period restatements

Dilapidations provision

Under IFRS 16 at the inception of the lease an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease can be included in the value of the right of use asset. The obligations for these costs are accounted for under IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.* As part of the transition to IFRS 16, management identified that this liability had not been previously recognised. The liability has recognised an estimate of these costs within the right of use asset and a provision. This restatement has impacted the following items and associated disclosures:

	1 April 2018 £m	During 2018/19 £m	31 March 2019 £m
Operating expenses (note 2)	Not restated	(0.7)	-
Right of Use Asset (note 13)	2.9	-	2.6
Provisions (note 21)	(9.8)	-	(10.2)
Total	(6.9)	(0.7)	(7.6)

Deferred tax asset provided on dilapidation adjustments at 17% included within “Other restatements” on page 96 to 99:

Deferred tax asset	1.2	0.1	1.3

Leakage Capitalisation

During the year management undertook a review of the classification of costs for leakage detection. It was identified that there were enablement costs being incurred to bring our water network assets to the location and condition necessary to serve our customers. These costs were previously classified as an operating expense. This is a broadening of the policy in line with IAS 8 and the leakage was capitalised as part of reassessing the methodology. This restatement has impacted the following items and associated disclosures:

	1 April 2018 £m	During 2018/19 £m	31 March 2019 £m
Operating expenses (note 2)	Not restated	17.6	-
Property, plant and equipment (note 12)	11.9	-	29.5
Total	11.9	17.6	29.5

Deferred tax asset provided on dilapidation adjustments at 17% included within “Other restatements” on page 96 to 99:

Deferred tax asset	(2.0)	(3.0)	(5.0)

The following issued standards have not yet been adopted by the Group:

IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as the London Interbank Offer Rate (“LIBOR”) and other interbank offered rates (“IBOR”’) has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes in the various jurisdictions affected.

We cannot rely on LIBOR being published after the end of 2021. It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR as a reference rate. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a ‘term rate’, which means that it is published for a borrowing period (such as 3 months), and it is ‘forward-looking’, because it is published at the beginning of the borrowing period. SONIA is currently a ‘backward-looking’ rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

At the time of reporting, industry working groups are reviewing methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Group is establishing a project to oversee the GBP LIBOR transition plan. This transition project will include changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Group currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps.

The International Accounting Standards Board (“IASB”) has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2020, the Group / Company had no designated hedge relationship and hedge accounting was not applied.

In addition to the IBOR reform, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the financial statements of the Group.

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 Group, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 11 and 12 respectively) and capital accruals.

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 banking 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 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.

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Group needs, Ofwat 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 Group'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 Group, 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.

Credit rating

The Group 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 which has been discussed in more detail in the section below.

In accordance with our financial covenants, we are required to disclose our underlying performance separately.

BTL

BTL represents the financial performance of the Group from the arrangement with Bazalgette Tunnel Limited. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance which has been discussed above. Refer to page 41 for more information on the BTL arrangement.

EBIT

Earnings before interest and taxation ("EBIT") is a key performance metric used by management. As the Group has significant capital investment it is necessary that amounts relating to depreciation and amortisation are included in this metric. However, as interest expense and income and gains/losses on financial instruments are largely driven by external factors management deem it most appropriate to use EBIT as a key performance metric.

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 2020 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 revenue for the current year of £32.8 million (2019: £35.1 million), with a corresponding decrease in receivables as shown in note 15.

When the criteria for revenue recognition for a transaction are not met, recognition of the revenue is delayed until collectability is reasonably certain. Payments received in advance of entitlement are recorded within contract liabilities. Advance payments received from unmeasured customers for the year ended 31 March 2020 was £78.2 million (2019:£75.6 million).

Connections, requisitions and diversions

Management consider 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 Thames 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 estimate – provision for doubtful debt

Provisions are made against trade receivables based on an assessment of the recovery of debts including those which will:

- ultimately be cancelled and may or may not be rebilled; and
- of debts which have not yet been billed but are part of the metered sales accrual.

This assessment is typically made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of what might happen in the future.

Management has reassessed the provision to consider the impact of COVID-19 on customers' ability to pay their water and wastewater bills and has increased the provision by £15.2 million across directly billed customers and WOCs. No adjustment has been made for indirectly billed non-household customers as the risk of non-payment of bills sits with the non-household retailers.

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 2020 was £187.8 million (2019: £176.6 million).

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 is based on cash collection rates. The main component of the WOC bad debt model is based on historic writes offs as the Group does not have direct access to cash collection data. The sensitivity analysis is summarised below:

Directly Billed

Scenario	£m	Outcome
CY Collection rates increase by 1%	3.4	Reduction in charge
CY Collection rates reduce by 1%	-3.4	Increase in charge

WOCs

Scenario	£m	Outcome
£0.5m reduction in write offs	1.1	Reduction in charge
£0.5m increase in write offs	-1.1	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 2020 were £1,136.3 million (2019 restated: £1,135.4 million). Intangibles additions for the year ended 31 March 2020 were £86.7 million (2019: £71.2 million). Both figures include capitalised overheads and capitalised borrowing costs.

Management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently judgement is applied concerning 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 intangibles for the year ended 31 March 2020, net of commissioning, were £95.6 million (2019: £109.3 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. The total depreciation charge for the year ended 31 March 2020 was £569.0 million (restated 2019: £545.1 million) and the total amortisation charge for the year was £32.9m (2019: £22.0m). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could have a positive or negative impact on the financial statements. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome
5 year increase in average remaining useful life	71.6	Decrease in total depreciation and amortisation charge
5 year decrease in average remaining useful life	(95.3)	Increase in total depreciation and amortisation charge

Provisions for other liabilities and charges

Accounting judgement – recognition of other 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 incidental to the day-to-day operation of its business. These include contractual (including ROI funds), 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 and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 21, total £31.3 million as at the year ended 31 March 2020 (restated 2019: £25.3 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 2020 totalled £144.9 million (restated 2019: £119.9 million). There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

Retirement benefit obligations

Accounting judgement – IFRIC 14 'IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

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.

Accounting estimate – actuarial valuations

The Group operates three defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. The pension liability and net cost recognised under IAS 19 *Employee Benefits* are assessed using the advice of an independent, qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary. These assumptions are based on information supplied to the actuary by the Group, supplemented by discussions between the actuary and management and are used to estimate the present value of defined benefit obligations.

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 are a source of estimate. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- increases to pensions in payment.

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 three schemes as at 31 March 2020 was £121.6 million (2019: £285.3 million), which includes a pension deficit of £209.1 million (2019: £338.8 million) for the TWPS scheme, offset by a pension surplus of £94.5 million (2019: £45.8 million) for the TWMIPS scheme and pension deficit of £7.0 million (2019: surplus of £7.7 million) for the SUURBS 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. 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. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate. The net total of derivate financial assets and liabilities as at 31 March 2020 was a liability of £686.6 million (2019: liability of £1,101.1 million).

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 on the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative.

During the year, 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 is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. 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. See note 19 to the consolidated financial statements "Financial Instruments" for more information.

Impairment of investment in subsidiaries and goodwill

Determining whether the Company's investments in subsidiaries or the carrying value of goodwill have been impaired requires estimations of the investment or cash generating unit's net realisable value. An enterprise valuation is derived through the application of an observable market multiplier uplift to the underlying entities Regulatory Capital Value ("RCV"). The recoverable amount is thus most sensitive to the uplift multiplier used in the valuation model. See notes 9 and 33 for the net carrying value of goodwill investments and associated impairment provision.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement – principal vs. agent

BTL is the independent licenced utility company appointed to construct the Thames Tideway Tunnel. 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 and the BTL element will not be separately reflected in customer bills.

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 Group financial statements

1. Revenue

	2020 Underlying £m	2020 BTL £m	2020 Total £m	2019 Underlying £m	2019 BTL £m	2019 Total £m
Regulated water and wastewater services	**2,053.2**	**64.6**	**2,117.8**	2,046.5	-	2,046.5
Other services	**88.2**	**-**	**88.2**	23.8	47.7	71.5
Gross revenue	**2,141.4**	**64.6**	**2,206.0**	2,070.3	47.7	2,118.0
Charge for bad and doubtful debts	**(32.8)**	**(0.3)**	**(33.1)**	(33.2)	(0.2)	(33.4)
Net revenue	**2,108.6**	**64.3**	**2,172.9**	2,037.1	47.5	2,084.6

All revenue is derived from activities based in the UK.

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. In the current and preceding financial year, the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. Cash collected in respect of Thames Tideway Tunnel construction costs is passed over to BTL under the 'pay when paid' principle. The revenue on this arrangement, which is excluded from our key performance indicators, has been disclosed separately to the Group's underlying performance in the table above. The primary reason for the increase in revenue is driven by the phasing of construction works.

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	2020 £m	2019 £m
Contract assets		
Current		
Accrued revenue for services provided to metered customers	**173.5**	144.3
Accrued income for other activities[1]	**63.4**	74.1
Total current contract assets	**236.9**	218.4
Contract liabilities		
Non-current		
Deferred revenue from infrastructure charges	**511.9**	497.0
Deferred revenue from other activities[2]	**195.4**	139.1
Total non-current contract liabilities	**707.3**	636.1
Current		
Advance payments received from unmeasured customers	**78.2**	75.6
Deferred revenue from infrastructure charges	**5.3**	5.1
Deferred revenue from other activities[2]	**40.6**	33.3
Total current contract liabilities	**124.1**	114.0
Total contract liabilities	**831.4**	750.1

[1] Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 41).
[2] Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

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 and how much relates to performance obligations that were satisfied in a prior period.

	2020 £m	2019 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Advance payments received from unmeasured customers	**75.6**	75.6
Deferred revenue from infrastructure charges	**5.1**	4.9
Deferred revenue from other activities	**33.3**	48.9
Total	**114.0**	129.4

Notes to the Group financial statements (continued)

1. Revenue (continued)

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.

	2020 £m	2019 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Developer services		
Service connections	**7.4**	8.0
Requisitions and diversions	**16.4**	12.5
Infrastructure charges	**517.1**	502.1
Other	**3.6**	3.5
Eight2o		
High speed 2	**7.7**	21.1
Total	**552.2**	547.2

The Group considers the performance commitment associated with Service Connections, Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Thus the amounts disclosed in the table above represent amounts received for schemes which have either not started on site or which are part way through construction at the balance sheet date. As such this income will be recognised on an individual basis in accordance with the delivery profile of each scheme. Typically amounts received in respect of service connections will be fully recognised within a year following receipt, however 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 Group considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate.

Remaining performance obligations (unsatisfied or partially unsatisfied) at the year end all relate to customer contracts that have an original expected duration of not more than one year. Therefore, as permitted under IFRS 15, the transaction price allocated to these remaining performance obligations is not disclosed.

Notes to the Group financial statements (continued)

2. Operating expenses

	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated[1] 2019 Underlying £m	Restated[1] 2019 BTL £m	Restated[1] 2019 Total £m
Wages and salaries	**280.2**	**-**	**280.2**	253.4	-	253.4
Social security costs	**30.7**	**-**	**30.7**	28.2	-	28.2
Pension costs – defined benefit schemes	**26.8**	**-**	**26.8**	34.7	-	34.7
Pension costs – defined contribution schemes	**13.1**	**-**	**13.1**	11.0	-	11.0
Apprenticeship Levy	**1.3**	**-**	**1.3**	1.9	-	1.9
Total employee costs	**352.1**	**-**	**352.1**	329.2	-	329.2
Power	**129.0**	**-**	**129.0**	124.7	-	124.7
Carbon reduction commitment	**(1.1)**	**-**	**(1.1)**	4.5	-	4.5
Raw materials and consumables	**53.9**	**-**	**53.9**	59.3	-	59.3
Rates[3]	**98.2**	**-**	**98.2**	117.3	-	117.3
Research and development expenditure	**3.8**	**-**	**3.8**	3.9	-	3.9
Insurance	**39.8**	**-**	**39.8**	34.6	-	34.6
Legal and professional fees	**28.2**	**-**	**28.2**	31.0	-	31.0
Other operating costs	**495.6**	**-**	**495.6**	546.7	-	546.7
Own work capitalised	**(183.0)**	**-**	**(183.0)**	(189.4)	-	(189.4)
Net operating expenses before depreciation and amortisation	**1,016.5**	**-**	**1,016.5**	1,061.8	-	1,061.8
Depreciation of property, plant and equipment	**569.0**	**-**	**569.0**	545.1	-	545.1
Depreciation of right-of use assets	**8.2**	**-**	**8.2**	7.8	-	7.8
Amortisation of intangible assets	**32.9**	**-**	**32.9**	22.0	-	22.0
Net operating expenses excluding exceptional items	**1,626.6**	**-**	**1,626.6**	1,636.7	-	1,636.7
Exceptional costs[4]						
Company reorganisation - severance	**12.2**	**-**	**12.2**	-	-	-
Associated programme management costs	**15.5**	**-**	**15.5**	-	-	-
Operating expenses excluding impairment losses on financial and contract assets	**1,654.3**	**-**	**1,654.3**	1,636.7	-	1,636.7
Impairment losses on financial and contract assets[2]	**40.6**	**0.2**	**40.8**	28.9	0.3	29.2
Total operating expenses	**1,694.9**	**0.2**	**1,695.1**	1,665.6	0.3	1,665.9

Other operating costs primarily relate to costs for hired and contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditures under IAS16: Property Plant and equipment.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements, which are discussed on page 51.

[2] Impairment loss for the year is net of £5.1 million relating to excess payments received from customers in the past and recognised during the year (2019: £11.8 million).

[3] Rates expense includes a rebate of £23.0 million year (31 March 2019: £nil) relating to reassessment of the business rates expense in the period 2005-2015.

[4] Exceptional costs relate to significant restructuring of the business 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 that has occurred in the year is one-off in nature and involved significant changes in the way that the Company operates and therefore this is deemed exceptional by nature.

Notes to the Group financial statements (continued)

2. Operating expenses (continued)

Auditors remuneration

Amounts payable to the Group's auditor are shown below in respect of the following services to the Group:

	2020 £'000	2019 £'000
Fees payable to the Group's auditor:		
Fees payable for the audit of the Company's financial statements	**41**	23
Fees payable for the audit of the financial statements of subsidiaries pursuant to legislation	**1,215**	678
Fees payable to the Group's auditor for other services:		
Audit related assurance services	**823**	292
PR19 assurance services	**-**	330
Other	**146**	728
Net operating expenses	**2,225**	2,051

All costs of consolidation were borne by the ultimate parent company Kemble Water Holdings Limited for both the current and preceding financial year. Total aggregate remuneration has increased due to the new standard IFRS 16 'Leases' and additional work relating to COVID-19.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements to Ofwat.

No fees, other than those disclosed, were payable to PricewaterhouseCoopers LLP in respect of the Company, or Group, in the current or preceding financial year.

3. Employees and Directors

Employees

All Group employees are based in the United Kingdom. The average number of persons employed by the Group during the year (including Executive Directors), analysed by category, was as follows:

	2020 Number	2019 Number
Employed by Thames Water Utilities Limited:		
Operations	**3,313**	3,489
Customer experience	**1,456**	1,135
Support services	**1,099**	1,101
Digital, strategy and transformation	**300**	189
Delivery office	**128**	149
	6,296	6,063
Employed by other group companies:		
Property services	**5**	5
Total	**6,301**	6,068

The Company has no employees (2019: none).

Directors

The Directors' emoluments were as follows:

	2020 £'000	2019 Restated[1] £'000
Salary and fees	**566**	841
Pension and pension allowances	**35**	94
Bonus	**234**	238
Long-term incentive plan	**-**	-
Payment on loss of office	**787**	-
Other benefits	**5**	14
Total	**1,627**	1,187

[1] Prior year figures have been restated in order to correct a prior year error whereby not all directors' emoluments were correctly disclosed.

In the current and preceding financial years no amounts were accruing to any Directors under the Group's defined benefit scheme in respect of services to the Group.

Notes to the Group financial statements (continued)

3. Employees and Directors (continued)

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 Group during the year were £743,000 (2019: £275,000).

4. Other operating income

	2020 £m	Restated 2019 £m
Power income	**12.1**	13.2
Requisitions and diversions charges	**29.4**	31.5
Service connection charges	**18.9**	21.1
Amortisation of deferred income recognised on adoption of assets at nil cost	**3.1**	4.0
Release from deferred income – infrastructure charges	**5.1**	4.9
Loss on sale of PPE	**(4.1)**	(7.0)
Rental income	**5.9**	2.7
Other income	**9.0**	23.0
Total	**79.4**	93.4

Power income comprises of income from the sale of internally generated electricity.

5. Finance income

	2020 £m	2019 £m
Interest income on bank deposits	**2.2**	1.5
Interest income on swaps	**65.2**	8.9
Other finance income on swaps	**0.2**	7.5
External trading interest income	**5.6**	0.9
Total	**73.2**	18.8

6. Finance expense

	2020 £m	2019 Restated[1] £m
Interest in relation to bank and other loans:		
Interest expense	**(467.3)**	(458.2)
RPI accretion on loans	**(105.1)**	(110.1)
Interest in relation to leases:		
Leases	**(3.7)**	(3.9)
Interest in relation to intercompany borrowings:		
Interest expense	**(613.2)**	(561.0)
Interest in relation to defined benefit obligation:		
Net interest expense on defined benefit obligation	**(6.3)**	(6.4)
Fees:		
Fees credited / (incurred) in relation to liquidation of the Cayman Islands entities[2]	**0.8**	(5.9)
Gross finance expense	**(1,194.8)**	(1,145.5)
Amortisation	**11.6**	11.6
Capitalised borrowing costs	**97.6**	109.3
Total finance expense	**(1,085.6)**	(1,024.6)

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 ‘Leases’ on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements, which are discussed on page 51.

[2] Finance expense for the prior year ended 31 March 2019 included £5.9 million of fees incurred for the liquidation of the Cayman Island entities. No fees in relation to the liquidation were incurred for the year ended 31 March 2020. A credit of £0.8 million was recognised for the year ended 31 March 2020 in respect of these fees.

Notes to the Group financial statements (continued)

7. Net gains/(losses) on financial instruments

	2020 £m	2019 £m
Exchange losses on foreign currency borrowings	**(52.1)**	(68.0)
Gains arising on swaps where hedge accounting is not applied [1]	**277.8**	64.5
Loss on cash flow hedge transferred from equity [2]	**(34.9)**	(34.2)
Total	**190.8**	(37.7)

[1] Gain arising on swaps where hedge accounting is not applied primarily reflects lower RPI and interest rate expectations. This excludes accrued interest which is disclosed within note 5 Finance income and note 6 Finance expense.

[2] Refer to note 19 Financial Instruments on pages 75 to 83 for more information on the loss on cash flow hedge transferred from equity.

8. Taxation

Tax charge/(credit) in the income statement

		2020		2019 Restated[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Current tax:						
Current year amounts due in respect of group relief	**(125.9)**	**6.1**	**(119.8)**	(111.5)	2.8	(108.7)
Overseas tax payable	**1.7**	**-**	**1.7**	-	-	-
Adjustment in respect of prior periods	**(0.6)**	**-**	**(0.6)**	(2.2)	-	(2.2)
	(124.8)	**6.1**	**(118.7)**	(113.7)	2.8	(110.9)
Deferred tax[1]:						
Origination and reversal of timing differences	**68.1**	**-**	**68.1**	7.2	-	7.2
Adjustment in respect of corporation tax rate change	**117.1**	**-**	**117.1**	-	-	-
Adjustment in respect of prior periods	**0.8**	**-**	**0.8**	10.5	-	10.5
	186.0	**-**	**186.0**	17.7	-	17.7
Tax (credit)/charge on (loss)/profit on ordinary activities	**61.2**	**6.1**	**67.3**	(96.0)	2.8	(93.2)

The total tax for the year ended 31 March 2020 is higher (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

		2020			2019 Restated[1]			
	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	**(328.5)**	**64.1**	**(264.4)**		(578.6)	47.2	(531.4)	
Current tax at 19% (2019: 19%)[1]	**(62.4)**	**12.2**	**(50.2)**	**19.0%**	(109.9)	9.0	(100.9)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.3**	**-**	**4.3**		4.2	-	4.2	
Disallowable expenditure [2]	**0.5**	**-**	**0.5**		2.4	-	2.4	
Non-taxable income [3]	**(4.6)**	**-**	**(4.6)**		(5.4)	-	(5.4)	
Property disposals [4]	**(0.1)**	**-**	**(0.1)**		-	-	-	
Tax differential on profits and losses of overseas subsidiaries	**0.1**	**-**	**0.1**		(0.1)	-	(0.1)	
Group relief not paid at standard rate [5]	**6.1**	**(6.1)**	**-**		6.2	(6.2)	-	
Tax as adjusted for recurring items	**(56.1)**	**6.1**	**(50.0)**	**18.9%**	(102.6)	2.8	(99.8)	19.3%
Non-recurring items:								
Tax rate change on temporary timing differences[6]	**117.1**	**-**	**117.1**		(1.7)	-	(1.7)	
Adjustments to tax charge in respect of prior periods – group relief [7]	**(0.6)**	**-**	**(0.6)**		(2.2)	-	(2.2)	
Adjustments to tax charge in respect of prior periods – deferred tax	**0.8**	**-**	**0.8**		10.5	-	10.5	
Total tax charge/(credit)	**61.2**	**6.1**	**67.3**	**(25.5%)**	(96.0)	2.8	(93.2)	18.6%

Notes to the Group financial statements (continued)

8. Taxation (continued)

[1]The restatement relates to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and other restatements, which have been disclosed on pages 49 to 51.

[2]Disallowable expenditure includes fines included in operating expenses.

[3] Non-taxable income relates to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while cost of the new service connections fixed assets is not eligible for capital allowances.

[4] Tax arising on property disposals is lower than the accounting profits recognised for these disposals because of additional deductions available for tax purposes.

[5] Thames Water Utilities Limited ("TWUL") has decided to utilise tax losses available in its immediate parent company for the year ended 31 March 2020. TWUL will pay £5.8 million to its parent Company for the tax losses, of which £6.1 million arises on the profits of BTL (which are included within TWUL) and accordingly is shown in the income statement as a current year current tax charge. TWUL is paying for the tax losses at a rate which is lower than the standard rate of corporation tax, which reflects the value of the tax losses to TWUL. Utilising tax losses in this way should ultimately benefit customers through lower costs being recovered through bills in future regulatory settlements.

[6] A reduction in the UK corporation tax rate 19% from to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. However, this reduction was reversed in the March 2020 Budget and substantively enacted on 17th March 2020. Therefore, with effect from 1 April 2020 the corporation tax rate remains at 19% and the deferred tax assets and liabilities shown above as at 31 March 2020 have been calculated based on this rate, except the deferred tax liability on the pension surplus which is provided at 35%.

[7] The prior year current tax credit of £0.6 million is in respect of group relief receivable from the Company's immediate parent company.

The effective tax rate, as adjusted for recurring tax items, of 18.9% is slightly lower than the standard rate of corporation tax for the year of 19.0%.

The Group is not currently in a tax paying position with HMRC (although companies within the group do pay for group relief), primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs. The differences between (loss)/profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below.

	2020			2019 (Restated)		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation[1]	**(328.5)**	**64.1**	**(264.4)**	(578.6)	47.2	(531.4)
Tax at 19% (2019: 19%)	**(62.4)**	**12.2**	**(50.2)**	(109.9)	9.0	(100.9)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.3**	**-**	**4.3**	4.2	-	4.2
Disallowable expenditure	**0.5**	**-**	**0.5**	2.4	-	2.4
Non-taxable income	**(4.6)**	**-**	**(4.6)**	(5.4)	-	(5.4)
Property disposals	**(0.1)**	**-**	**(0.1)**	-	-	-
Tax differential on profits and losses of overseas subsidiaries	**0.1**	**-**	**0.1**	(0.1)	-	(0.1)
Capital allowances for the year (in excess of)/less than depreciation	**(3.3)**	**-**	**(3.3)**	45.2	-	45.2
Capitalised borrowing costs allowable for tax [9]	**(18.5)**	**-**	**(18.5)**	(20.8)	-	(20.8)
Tax deduction available on restatement for IFRS 15 [10]	**-**	**-**	**-**	(25.1)		(25.1)
Taxable profit on IFRS 16 and other restatements[11]	**5.5**	**-**	**5.5**	-	-	-
Losses/(profits) on financial derivatives [12]	**(48.8)**	**-**	**(48.8)**	(3.6)	-	(3.6)
Pension cost charge higher than (lower than) pension contributions	**(1.9)**	**-**	**(1.9)**	3.7	-	3.7
Other short term timing differences	**(1.1)**	**-**	**(1.1)**	(8.3)	-	(8.3)
Group relief not paid at standard rate	**6.1**	**(6.1)**	**-**	6.2	(6.2)	-
Adjustments in respect of prior periods	**(0.6)**	**-**	**(0.6)**	(2.2)	-	(2.2)
Current tax (credit)/charge for the year	**(124.8)**	**6.1**	**(118.7)**	(113.7)	2.8	(110.9)

[9] Capitalised borrowing costs are eligible for a full tax deduction in the year.

Notes to the Group financial statements (continued)

8. Taxation (continued)

[10] Tax relief is available on the net charge to reserves for IFRS 16, but most is available in future years, rather than this financial year. The credit to reserves arising on the Other restatements is taxable in full this financial year.

[11]The restatement relates to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and other restatements have been disclosed on pages 49 to 51. Tax relief is available on the net charge to reserves for IFRS16, but most is available in future years, rather than in this financial year. The credit to reserves arising on the Oher restatements is taxable in full this financial year.

[12]Accounting fair value profits and losses arising on our derivatives are non-taxable and non-deductible respectively, as instead they are taxed as the cash flows arise. Deferred tax is provided on these temporary differences.

Uncertain tax positions

At 31 March 2020 the total value of provisions for uncertain corporation tax positions was £nil (2019: £nil).

Tax credited/(charged) directly to other comprehensive income

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

	2020 £m	2019 £m
Deferred tax:		
Tax (charge)/credit on net actuarial (gain)/loss in year	**(34.7)**	4.3
Impact of deferred tax rate change on net actuarial (gains)/losses	**7.7**	-
	(27.0)	4.3
Deferred tax:		
Tax (charge)/credit on cash flow hedges in year	**(5.2)**	(4.3)
Impact of deferred tax rate change on cash flow hedges	**2.2**	-
	(3.0)	(4.3)
Total (charged)/credited directly to other comprehensive income	**(30.0)**	-

9. Goodwill

The Directors have reviewed the carrying value of goodwill in line with the accounting policy on page 43 and do not consider there to be any impairment to this carrying value for the year ended 31 March 2020 (2019: £nil).

All purchased goodwill, which arose on acquisition of the Thames Water Utilities Limited group in 2006, has been allocated to the regulated water and wastewater business. Impairment of this purchased goodwill occurs where the carrying value is in excess of the net realisable value, the expected sales value of the regulated business.

An equity valuation model has been used which takes an external, observable, market multiplier uplift to the Regulatory Capital Value ("RCV") of the regulated business. This model has also been informed by recent equity transactions, involving the sale of shares in KWH by existing shareholders. Ofwat, an external regulator, have developed the RCV as a measure of the capital value of the business, and the use of a multiplier reflects any premium to which the equity of publicly listed water utilities is being traded.

The critical assumption is thus the multiple of RCV used. As at 31 March 2020, for the carrying amount of goodwill to exceed the recoverable amount, a reduction of 14.8% (2019: 14.8%) to the multiplier used would be required.

10. Interests in joint venture

Thames Water Limited, a wholly owned subsidiary of the Group, controls 50% of the share capital of Foudry Properties Limited ("Foudry"), a property company incorporated in the United Kingdom. Foudry made a loss in 2020 of £0.5 million (2019: £1.2m) and has net liabilities of £12.1 million (2019: £11.6m). The Group's share of these losses relate solely to loan and associated interest balances owed to the Group, which have been fully provided for, and consequently no separate provision in respect of these losses has been recognised.

As at 31 March 2020 the joint venture did not have any significant contingent liabilities to which the Group was exposed and the Group did not have any significant contingent liabilities in relation to its interests in the joint venture (2019: £nil). The Group had no capital commitments in relation to its interests in the joint venture as at 31 March 2020 (2019: £nil).

Notes to the Group financial statements (continued)

11. Intangible assets

	Software £m	Other £m	Assets in development £m	**Total £m**
Cost:				
At 1 April 2018	214.4	1.3	109.7	**325.4**
Additions	-	-	71.2	**71.2**
Transfers	26.5	-	(26.5)	**-**
At 31 March 2019	240.9	1.3	154.4	**396.6**
Additions	-	-	86.7	**86.7**
Write-offs	(4.1)	-	-	**(4.1)**
Transfers between categories and from PPE	222.5	-	(214.3)	**8.2**
Disposals	(0.6)	-	-	**(0.6)**
At 31 March 2020	458.7	1.3	26.8	**486.8**
Amortisation:				
At 1 April 2018	(155.5)	(0.9)	-	**(156.4)**
Amortisation charge	(21.9)	(0.1)	-	**(22.0)**
At 31 March 2019	(177.4)	(1.0)	-	**(178.4)**
Amortisation charge	(32.8)	(0.1)	-	**(32.9)**
Transfers from PPE	(2.2)	-	-	**(2.2)**
Disposals	0.4	-	-	**0.4**
At 31 March 2020	(212.0)	(1.1)	-	**(213.1)**
Net book value:				
At 31 March 2020	246.7	0.2	26.8	**273.7**
At 31 March 2019	63.5	0.3	154.4	**218.2**

Additions relate to IT projects undertaken including the implementation of new customer relationship management and billing ("CRMB") system and a new meter data management system. £3.4 million borrowing costs were capitalised during the year (2019: £6.6 million). The write offs are included under operating expenses in the income statement. The effective rate of borrowing costs for the year was 4.55% (2019: 4.91%).

During the year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangibles. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

The gross carrying amount of intangible assets that was fully depreciated at 31 March 2020 amounted to £141.4 million (31 March 2019: £127.4 million).

Notes to the Group financial statements (continued)

12. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets (restated[1]) £m	Assets under construction £m	**Total (restated[1]) £m**
Cost:					
At 1 April 2018	3,681.5	7,709.0	7,094.0	2,437.6	**20,922.1**
Additions	-	0.5	36.7	1,098.2	**1,135.4**
Transfers between categories	170.7	504.2	233.1	(908.0)	**-**
Disposals	(1.5)	(22.6)	-	-	**(24.1)**
At 31 March 2019	3,850.7	8,191.1	7,363.8	2,627.8	**22,033.4**
Additions	-	0.4	30.9	1,105.0	**1,136.3**
Transfers between categories and to IA	62.3	379.8	428.5	(878.8)	**(8.2)**
Write-offs	-	(5.1)	-	(0.7)	**(5.8)**
Disposals	(2.0)	(8.2)	(0.1)	-	**(10.3)**
At 31 March 2020	3,911.0	8,558.0	7,823.1	2,853.3	**23,145.4**
Depreciation:					
At 1 April 2018	(1,018.5)	(4,214.4)	(493.3)	-	**(5,726.2)**
Depreciation charge	(60.3)	(350.2)	(134.4)	-	**(544.9)**
Disposals	0.7	13.8	-	-	**14.5**
At 31 March 2019	(1,078.1)	(4,550.8)	(627.7)	-	**(6,256.6)**
Depreciation charge	(59.1)	(371.5)	(138.4)	-	**(569.0)**
Transfers to IA	-	2.2	-	-	**2.2**
Disposals	0.5	6.2	-	-	**6.7**
At 31 March 2020	**(1,136.7)**	**(4,913.9)**	**(766.1)**	**-**	**(6,816.7)**
Net book value:					
At 31 March 2020	2,774.3	3,644.1	7,057.0	2,853.3	**16,328.7**
At 31 March 2019	2,772.6	3,640.3	6,736.1	2,627.8	**15,776.8**

[1] The prior year results have been restated due to the capitalisation of leakage detection costs, which are discussed on page 51.

£94.2 million of borrowing costs were capitalised in the period (2019: £102.7 million). The effective annual capitalisation rate for borrowing costs was 4.55% (2019: 4.91%).

During the year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangibles. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2020 amounted to £2,485.1 million (31 March 2019: £2,359.6 million).

Assets under construction include amounts in respect of land and building purchases made in relation to the TTT project; an element of which will not be capitalised when the asset is brought into use. 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.

Notes to the Group financial statements (continued)

13. Leases

(i) Amounts recognised in the statement of financial position

Right-of-use assets		Restated[1]
As at	**31 March 2020**	31 March 2019
	£m	£m
Land and buildings	**52.3**	54.2
Total	**52.3**	54.2

Additions to right-of-use assets during the year ended 31 March 2020 were £nil million (31 March 2019: £3.9 million).

Lease liabilities		Restated[1]
As at	**31 March 2020**	31 March 2019
	£m	£m
Current	**(7.9)**	(7.4)
Non-current	**(62.4)**	(65.1)
Total	**(70.3)**	(72.5)

(ii) Amounts recognised in the income statement

		Restated[1]
For the year ended	**31 March 2020**	31 March 2019
	£m	£m
Depreciation charge of right-of-use assets	**8.2**	7.8
Interest expense included in finance costs	**3.7**	3.9
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	**5.0**	7.7
Total	**16.9**	19.4

The total cash outflow for leases during the year ended 31 March 2020 was £11.0 million (31 March 2019: £10.1 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

[1]The restatement relates solely to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and has been discussed on pages 49 to 51.

14. Inventories and current intangible assets

	2020	2019
	£m	£m
Raw materials and consumables	**13.6**	9.1
Current intangible assets – emissions allowances	**-**	4.4
Total	**13.6**	13.5

Emission allowances represent purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK). A provision (see note 21) is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement. This scheme was discontinued by the government as at 31 March 2019 and therefore this balance is £nil at 31 March 2020.

Notes to the Group financial statements (continued)

15. Trade and other receivables

	2020			Restated[1] 2019		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments and accrued income	**-**	**159.0**	**159.0**	-	101.9	101.9
Insurance claims receivable	**64.4**	**-**	**64.4**	30.8	-	30.8
Other receivables	**6.7**	**-**	**6.7**	13.4	-	13.4
	71.1	**159.0**	**230.1**	44.2	101.9	146.1
Current:						
Gross trade receivables	**475.9**	**13.5**	**489.4**	454.9	9.5	464.4
Less doubtful debt provision	**(185.1)**	**(2.7)**	**(187.8)**	(174.4)	(2.2)	(176.6)
Net trade receivables	**290.8**	**10.8**	**301.6**	280.5	7.3	287.8
Amounts owed by associated undertakings	**0.1**	**-**	**0.1**	0.5	-	0.5
Amounts receivable/(payable) in respect of group relief	**126.4**	**(6.1)**	**120.3**	455.7	(4.4)	451.3
Prepayments and accrued income	**32.0**	**-**	**32.0**	31.6	-	31.6
Other receivables	**35.6**	**0.8**	**36.4**	32.6	1.2	33.8
	484.9	**5.5**	**490.4**	800.9	4.1	805.0
Current:						
Contract assets[1]	**235.4**	**1.5**	**236.9**	217.5	0.9	218.4
Total	**791.4**	**166.0**	**957.4**	1,062.6	106.9	1,169.5

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 in the economy as a result of COVID-19.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51.

Non-current prepayments at 31 March 2020 includes £159.0 million (2019: £101.9 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. The prepayment relates to use of the tunnel which will occur once construction is complete.

Contract assets at 31 March 2020 includes £173.5 million (2019: £144.3 million) of services provided to metered customers. The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

Expected credit loss provision

Movements in the expected credit losses provision were as follows:

	2020 £m	2019 £m
At 1 April	**(176.6)**	(174.3)
Charge for bad and doubtful debts – charged against revenue	**(33.1)**	(33.4)
Charge for bad and doubtful debts – included within operating expenses	**(40.8)**	(29.2)
Excess credits recognised during the year	**(5.1)**	(11.8)
Amounts directly charged to revenue and not included in bad debt expense	**-**	(3.9)
Amounts written off	**67.8**	76.0
Total at 31 March	**(187.8)**	(176.6)

Ageing of gross receivables is as follows:

	2020 £m	2019 £m
Up to 365 days	**274.3**	243.9
1 – 2 years	**78.5**	131.7
2 – 3 years	**94.4**	38.1
More than 3 years	**42.2**	50.7
Total	**489.4**	464.4

Notes to the Group financial statements (continued)

15. Trade receivables (continued)

The ageing of gross BTL receivables[1] is as follows:

	2020 £m	2019 £m
Up to 365 days	**8.3**	4.7
1 – 2 years	**2.4**	4.8
2 – 3 years	**2.8**	-
Total	**13.5**	9.5

[1] This relates to the amount of receivables collected from other partied 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 what might happen in the future.

Expected credit loss split by ageing is as follows:

	2020 £m	2019 £m
Up to 365 days	**82.1**	66.2
1 – 2 years	**32.4**	40.6
2 – 3 years	**44.4**	34.9
More than 3 years	**28.9**	34.9
Total	**187.8**	176.6

The ageing of impaired BTL receivables[1] is as follows:

	2020 £m	2019 £m
Up to 365 days	**1.4**	0.8
1 – 2 years	**0.6**	1.4
2 – 3 years	**0.7**	-
Total	**2.7**	2.2

[1] This relates to the amount of receivables collected from other partied and passed on to BTL.

Trade and other receivables are part of the Group's financial exposure to credit risk as explained on page 15.

16. Cash and cash equivalents

	2020			2019		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Cash at bank and in hand[1]	**16.7**	**-**	**16.7**	2.6	0.3	2.9
Short-term deposits	**798.5**	**2.6**	**801.1**	511.2	7.3	518.5
Total	**815.2**	**2.6**	**817.8**	513.8	7.6	521.4

[1] The total cash and cash equivalents balance includes £2.6m (31 March 2019: £2.6 million) which is held as a security for the SUURBS defined benefit pension scheme. The use of the cash is restricted to this purpose only.

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid at the reporting date.

Notes to the Group financial statements (continued)

17. Trade and other payables

	2020 Underlying £m	**2020 BTL £m**	**2020 Total £m**	Restated[1] 2019 Underlying £m	Restated[1] 2019 BTL £m	Restated[1] 2019 Total £m
Non-current:						
Contract liabilities	**707.3**	**-**	**707.3**	636.1	-	636.1
Current:						
Trade payables - operating	**229.7**	**-**	**229.7**	255.8	-	255.8
Amounts owed (from) / to group undertakings	**-**	**-**	**-**	0.4	-	0.4
Amounts owed to Bazalgette Tunnel Limited	**-**	**10.3**	**10.3**	-	11.1	11.1
Accruals[1]	**341.4**	**-**	**341.4**	337.7	-	337.7
Other taxation and social security	**7.2**	**-**	**7.2**	7.5	-	7.5
Other payables	**82.8**	**-**	**82.8**	85.8	-	85.8
	661.1	**10.3**	**671.4**	687.2	11.1	698.3
Current:						
Contract liabilities[1]	**123.8**	**0.3**	**124.1**	110.6	3.4	114.0
Total	**1,492.2**	**10.6**	**1,502.8**	1,433.9	14.5	1,448.4

Current contract liabilities at 31 March 2020 includes £78.2 million (2019: £75.6 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2020 includes £511.9 million (2019: £497.0 million) of deferred infrastructure charges, £166.0 million of deferred income for nil cost "adopted" assets (2019: £121.4 million) with the remaining amount relating to payments received in advance for compensation for operating costs.

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.

[1] The restatement relates solely to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and has been discussed on pages 49 to 51.

18. Borrowings

	2020 £m	2019 £m
Secured bank loans and private placements	**5,563.5**	3,973.8
Bonds	**8,642.5**	8,970.8
Amounts owed to group undertakings	**3,100.6**	3,100.6
	17,306.6	16,045.2
Interest payable on secured bank loans and other financing	**183.0**	186.1
Interest payable on amounts owed to group undertakings	**3,232.0**	3,069.9
	3,415.0	3,256.0
Total	**20,721.6**	19,301.2
Disclosed within current liabilities	**1,814.9**	1,550.8
Disclosed within non-current liabilities	**18,906.7**	17,750.4

Secured bank loans refers to 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, Thames Water Utilities Limited, and its wholly owned subsidiary, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Notes to the Group financial statements (continued)

18. Borrowings (continued)

Breakdown of secured bank loans and private placements:

	2020 £m	2019 £m
Thames Water Utilities Limited:		
£60.0m 1.230% index-linked loan due 2019 (h)	**-**	78.8
£60.0m 1.415% index-linked loan due 2020 (h)	**-**	78.5
£60.0m 1.513% index-linked loan due 2020 (h)	**-**	78.1
£60.0m 1.380% index-linked loan due 2020 (h)	**-**	77.9
£60.0m 1.356% index linked loan due 2020 (h)	**-**	77.9
£100.0m floating rate loan due 2020 (a), (c)	**-**	99.9
£75.0m 1.350% index linked loan due 2021 (e), (h)	**91.6**	89.2
£215.0m 0.460% index-linked loan due 2023 (a), (h)	**254.8**	248.1
£215.0m 0.380% index-linked loan due 2032 (a), (b), (h)	**209.5**	218.9
£100.0m 3.280% index-linked loan due 2043 (a), (d), (h)	**133.1**	129.6
£100.0m 0.790% index-linked loan due 2025 (a), (e), (h)	**112.8**	109.9
£125.0m 0.598% index-linked loan due 2026 (a), (e), (h)	**140.4**	136.7
£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
£20.0m Class B floating rate loan due 2026 (a)	**20.0**	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.5**	38.4
$55.0m 3.380% private placement due 2023 (a), (f)	**44.2**	42.3
$285.0m 3.570% private placement due 2025 (a), (f)	**229.0**	218.9
£216.0m 2.450% private placement due 2028 (a)	**215.4**	215.4
£210m 2.550% private placement due 2030 (a)	**209.3**	209.3
£40m 2.620% private placement due 2033 (a)	**39.8**	39.8
£150.0m floating rate loan due 2024 (a)	**149.7**	149.5
£125.0m floating rate loan due 2024 (a)	**124.4**	-
£50.0m floating rate loan due 2022 (a)	**49.9**	-
£63.1m floating rate loan due 2027 (a)	**62.9**	-
£63.1m floating rate loan due 2029 (a)	**62.9**	-
£63.1m floating rate loan due 2031 (a)	**62.8**	-
Thames Water Utilities Limited total	**2,371.0**	2,477.1
Thames Water Utilities Finance plc		
£245.0m 1.031% floating rate loan due 2019 (c), (g)	**-**	245.0
£214.3m 1.397% Class B floating rate loan due 2019 (c), (g)	**-**	214.3
£600.0m 1.029% floating rate loan due 2020 (c), (g)	**600.0**	-
£300.0m 1.029% floating rate loan due 2020 (c), (g)	**300.0**	-
£300.0m 1.001% floating rate loan due 2020 (c), (g)	**300.0**	-
£214.3m 1.082% Class B floating rate loan due 2020 (c), (g)	**214.3**	-
£150.0m 2.329% Class B floating rate loan due 2023 (c), (g)	**150.0**	-
$106.0m 4.070% private placement due 2026 (f)	**85.1**	-
$131.0m 4.270% private placement 2029 (f)	**105.1**	-
€50.0m 2.100% private placement due 2030 (f)	**44.1**	-
$150.0m 3.870% private placement due 2022 (f)	**120.7**	115.5
$200.0m 4.020% private placement 2024 (f)	**161.0**	153.9
$250.0m 4.220% private placement due 2027 (f)	**201.2**	192.4
Thames Water Utilities Finance plc total	**2,281.5**	921.1
Kemble Water Finance Limited:		
£75.0m floating rate loan due 2022 (a)	**74.5**	74.0
£200.0m floating rate loan due 2025 (a)	**198.1**	197.6
£4.5m fixed rate due 2025 (a)	**4.4**	4.4
£5.5m fixed rate due 2025 (a)	**5.4**	5.4
£100.0m fixed rate due 2025 (a)	**98.3**	98.1
£200.0m fixed rate due 2025 (a)	**196.6**	196.1
£40.0m 5.39% fixed rate due 2026 (a)	**39.3**	
£3.3m 5.39% fixed rate due 2026 (a)	**3.2**	
£30.5m 5.39% fixed rate due 2026 (a)	**30.0**	
£58.0m 5.39% fixed rate due 2026 (a)	**57.0**	
£18.0m 5.39% fixed rate due 2026 (a)	**17.7**	
£190.0m floating rate loan due 2024 (a)	**186.5**	
Kemble Water Finance Limited total	**911.0**	575.6
Total secured bank loans and private placements	**5,563.5**	3,973.8

Notes to the Group financial statements (continued)

18. Borrowings (continued)

All loans are Class A except where highlighted.

(a) These loans and private placements are shown net of issue costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margins of these loans are based on a ratings grid and will increase should the securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.
(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 2020 £1,200 million out of the £1,432.1 million Class A revolving credit facility was drawn, £214.3 million out of the £214.3 million Class B revolving credit facility was drawn and £150.0 million out of the £300.0m Class B term loan facility was drawn. In April 2020, £350.0 million of the Cass A drawdown and the £214.3 million Class B drawdown were repaid in May 2020, a further £40.0 million of the Class A drawdown was 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").

Breakdown of bonds:	2020 £m	2019 £m
Thames Water Utilities Finance plc		
£200.0m 5.050% fixed rate due 2020 (c), (g)	**200.3**	201.0
£225.0m 6.590% fixed rate due 2021 (k)	**233.7**	237.1
£175.0m 3.375% index-linked due 2021 (b), (d)	**290.4**	282.4
£330.0m 6.750% fixed rate due 2028 (b), (h)	**382.1**	385.5
£200.0m 6.500% fixed rate due 2032 (b), (c), (i)	**242.4**	244.4
£600.0m 5.125% fixed rate due 2037 (b), (c), (j)	**653.7**	655.2
£300.0m 1.680% index-linked due 2053 (b), (d)	**447.4**	435.3
£300.0m 1.681% index-linked due 2055 (b), (d)	**447.4**	435.3
€113.0m 2.300% CPI index-linked bond due 2022 (a), (c)	**108.0**	104.1
£300.0m 5.750% class B Fixed rate bond due 2030 (b), (e)	**298.5**	298.1
£300.0m 4.375% fixed rate bond due 2034 (b)	**295.9**	295.6
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	**149.4**	139.0
£50.0m 3.853% index-linked bond due 2040 (d)	**66.6**	64.9
£500.0m 5.500% fixed rate bond due 2041 (b)	**490.0**	489.8
£50.0m 1.980% index-linked bond due 2042 (d)	**70.4**	68.9
£55.0m 2.091% index-linked bond due 2042 (b), (d)	**74.7**	72.8
£40.0m 1.974% index-linked bond due 2045 (b), (d)	**46.3**	46.3
£300.0m 4.625% fixed rate bond due 2046 (b)	**293.4**	293.3
£100.0m 1.846% index-linked bond due 2047 (d)	**140.9**	137.8
£200.0m 1.819% index-linked bond due 2049 (b), (d)	**281.3**	275.2
£200.0m 1.771% index-linked bond due 2057 (b), (d)	**281.3**	275.2
£350.0m 1.760% index-linked due 2062 (b), (d)	**492.1**	481.5
£500.0m 4.000% fixed rate due 2025 (b)	**496.5**	495.9
£40.0m 0.750% index-linked loan due 2034 (b), (d)	**44.7**	43.5
£45.0m 0.721% index-linked loan due 2027 (b), (d)	**50.2**	48.9
£300.0m 3.500% fixed rate loan due 2028 ((b)	**297.0**	296.6
£400.0m 7.738% fixed rate bond due 2058 (b)	**419.3**	419.9
£250.0m 1.875% fixed rate bond due 2024 (b)	**248.5**	248.1
£250.0m 2.625% fixed rate bond due 2032 (b)	**247.6**	247.4
£300.0m 2.375% class B Fixed rate bond due 2023 (b)	**299.1**	298.8
£250.0m 2.875% class B Fixed rate bond due 2027 (b)	**247.3**	246.9
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**141.1**	142.3
Fees (f)	**(9.3)**	(9.5)
Thames Water Utilities Finance Limited total	**8,468.2**	8,397.5
Thames Water (Kemble) Finance plc		
£400m 7.75% fixed rate bond due 2019 (b)	**-**	399.3
£175m 5.75% fixed rate bond due 2022 (b)	**174.3**	174.0
Thames Water (Kemble) Finance plc total	**174.3**	573.3
Total bonds	**8,642.5**	8,970.8

Notes to the Group financial statements (continued)

18. Borrowings (continued)

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 issue costs.
(c) The Group has entered into swap agreements that convert this debt into £ index-linked debt.
(d) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(e) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
(f) These fees have been shown within bonds to reflect that they relate to index linked debt issued in 2007.
(g) This bond includes £0.3 million (2019: £1.0 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(h) This bond includes £54.3 million (2019: £58.0 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(i) This bond includes £44.5 million (2019: £46.6 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(j) This bond includes £57.1 million (2019: £58.7 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(k) This bond includes £8.7 million (2019: £12.1 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.

The total carrying value of the fair value adjustment to the debt on acquisition of the Thames Water Group by Kemble Water Holdings Group is £166.5 million (2019: £178.1 million). Capitalised debt issuance costs in relation to the debt portfolio are £87.0 million (2019: £86.0 million).

Breakdown of amounts owed to group undertakings:

Kemble Water Eurobond plc	**2020 £m**	2019 £m
£3,100.6 fixed rate due on demand	**3,100.6**	**3,100.6**
Total owed to group undertakings	**3,100.6**	**3,100.6**

Notes to the Group financial statements (continued)

19. Financial instruments

Categories of financial instruments

The carrying values of the primary financial assets and liabilities are as follows:	2020 £m	2019 £m
Financial assets:		
Fair value through profit and loss		
Cross currency swaps	**177.2**	73.1
Interest rate swaps	**87.7**	10.7
Index-linked swaps	**109.4**	78.5
	374.3	162.3
Amortised cost		
Trade and other receivables (excluding prepayments)	**522.7**	804.2
Short-term investments	**300.0**	-
Cash and cash equivalents	**817.8**	521.4
Total	**2,014.8**	1,487.9

	2020 £m	2019 Restated[1] £m
Financial liabilities:		
Fair value through profit and loss		
Cross currency swaps	**(51.3)**	(60.0)
Interest rate swaps	**(252.1)**	(180.7)
Index-linked swaps	**(757.5)**	(995.5)
Derivatives designated as hedging instruments		
Forward starting interest rate swaps – cash flow hedges	**-**	(26.2)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(664.3)**	(597.3)
Borrowings	**(20,721.6)**	(19,301.2)
Lease liabilities	**(70.3)**	(72.5)
Total	**(22,517.1)**	(21,233.4)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 which are discussed on page 51.

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 one to three based on the degree to which the fair value is observable. Unless otherwise stated all of the Group's inputs to valuation techniques are level two – 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 values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level two. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2020:

	Level 2[1]	
	2020 £m	2019 £m
Financial assets - derivative financial instruments:		
Cross currency swaps	**177.2**	73.1
Interest rate swaps	**87.7**	10.7
Index-linked swaps	**109.4**	78.5
	374.3	162.3
Financial liabilities - derivative financial instruments:		
Cross currency swaps	**(51.3)**	(60.0)
Interest rate swaps	**(252.1)**	(180.7)
Index-linked swaps	**(757.5)**	(995.5)
Forward starting interest rate swaps	**-**	(26.2)
	(1,060.9)	(1,262.4)
Net total	**(686.6)**	(1,100.1)

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

[1] The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index-linked swaps and options, are measured using discounted cash flows. The future cash flows are estimated based on forward inflation rates and interest rates from observable yield curves at the period end and discounted at a rate that reflects the credit risk of the Group and the counterparties. Currency cash flows are translated at spot rate

During November 2019, the maturity dates of three index-linked swaps, with a total notional of £400.0 million, was extended. These swaps are measured at fair value through the income statement. 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 is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. 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 2020, £37.3 million (31 March 2019: £nil) remained capitalised and £0.7 million had been recognised in the income statement.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Group's trade and other receivables, lease liabilities, cash equivalents, short-term investments and trade and other payables are considered to be approximate to their fair values. The fair values and carrying values of the Group's other financial assets and financial liabilities are set out in the table below:

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Derivative financial instruments				
Cross currency swaps	**177.2**	**177.2**	73.1	73.1
Interest rate swaps	**87.7**	**87.7**	10.7	10.7
Index-linked swaps	**109.4**	**109.4**	78.5	78.5
	374.3	**374.3**	162.3	162.3
Current				
Short-term investments	**300.0**	**300.0**	-	-
Cash and cash equivalents	**817.8**	**817.8**	521.4	521.4
Total	**1,492.1**	**1,492.1**	683.7	683.7

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

	2020		2019 restated[1]	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(4,133.2)**	**(4,322.8)**	(3,009.4)	(3,291.1)
Bonds	**(8,440.9)**	**(10,402.1)**	(8,570.5)	(10,738.4)
Amounts owed to group undertakings	**(3,100.6)**	**(3,100.6)**	(3,100.6)	(3,100.6)
Interest payable	**(3,232.0)**	**(3,232.0)**	(3,069.9)	(3,069.9)
Derivative financial instruments:				
Cross currency swaps	**(51.3)**	**(51.3)**	(60.0)	(60.0)
Interest rate swaps	**(252.1)**	**(252.1)**	(180.7)	(180.7)
Index-linked swaps	**(742.5)**	**(742.5)**	(956.9)	(956.9)
Forward starting interest rate swaps	**-**	**-**	(26.2)	(26.2)
Current				
Borrowings:				
Secured bank loans and private placements	**(1,430.3)**	**(1,436.5)**	(964.4)	(977.7)
Bonds	**(201.6)**	**(200.4)**	(400.3)	(400.3)
Interest payable	**(183.0)**	**(183.0)**	(186.1)	(186.1)
Derivative financial instruments:			-	-
Index-linked swaps	**(15.0)**	**(15.0)**	(38.6)	(38.6)
Lease liabilities	**(7.9)**	**(7.9)**	(7.4)	(7.4)
Total	**(21,790.4)**	**(23,946.2)**	(20,571.0)	(23,033.9)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 which are discussed on page 51.

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds and associated derivatives. 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.

The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and 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 expected to accrue to maturity. Amounts owed by group entities include floating rate loans, the fair value of these loans is assumed to be the nominal value of the primary loan.

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 overseas 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 Group guarantees the funding activity of Thames Water Utilities Finance plc which raises debt finance in external debt markets through the issuance of secured bonds and the issue of 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.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

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

	2020 **£m**	2019 Restated[1] £m
Secured bank loans, private placements and other financing	**(14,206.0)**	(12,944.6)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and other financing	**(183.0)**	(186.1)
Interest payable on amounts owed to group undertakings	**(3,232.0)**	(3,069.9)
Lease liability[1]	**(70.3)**	(67.4)
Cash and cash equivalents[2]	**815.2**	521.4
Short-term investments	**300.0**	-
Net debt (statutory basis)	**(19,676.7)**	(18,847.2)
Amounts owed to group undertakings	**3,100.6**	3,100.6
Interest payable on secured bank loans, private placements and other financing	**183.0**	186.1
Interest payable on amounts owed to group undertakings	**3,232.0**	3,069.9
Unamortised debt issuance costs and discount	**(87.0)**	(86.0)
Derivative financial liabilities	**(110.6)**	(222.0)
Fair value adjustment on acquisition to loans	**166.5**	178.1
Unamortised IFRS9 adjustment	**25.1**	25.8
Cash held by non-covenant entities	**(29.3)**	(26.6)
Net debt (covenant basis)	**(13,196.4)**	(12,621.3)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 which are discussed on page 51. The restatement has resulted in an adjustment of £5.8m to the equity disclosed.

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, fair value adjustment made to the Thames Water Group's borrowing on acquisition by Kemble Water consortium, cash held by non-covenant entities, unamortised IFRS 9 adjustment and includes derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate to cross currency swaps.

[2] The cash and cash equivalents balance excludes £2.6m (31 March 2019: £2.6 million) which is held as security for the SUURBS defined benefit pension scheme. The use of the cash is restricted for this purpose only.

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

	2020 **£m**	2019 £m
Securitised Class A debt	**(11,718.9)**	(10,646.1)
Securitised Class B debt	**(1,393.3)**	(1,243.3)
Subordinated debt	**(1,099.8)**	(1,159.3)
Cash net of cash held by non-covenant entities	**1,085.9**	494.8
Lease liability[1]	**(70.3)**	(67.4)
Net debt (covenant basis)	**(13,196.4)**	(12,621.3)

[1] The impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 is discussed on pages 49 to 51.

Notes to the Group 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 both changes arising from cash flow and non-cash changes.

	2020			2019		
	Borrowings	**Net derivative financial liabilities**	**Lease liabilities [4]**	Borrowings	Net derivative financial liabilities[3]	Lease liabilities [4]
	£m	**£m**		£m	£m	
Opening balance	**(19,301.2)**	**(1,100.1)**	**(72.5)**	(17,753.2)	(1,153.3)	(75.3)
Non-Current	**(17,750.4)**	**(1,061.5)**	**(65.1)**	(17,451.1)	(1,149.5)	(72.5)
Current	**(1,550.8)**	**(38.6)**	**(7.4)**	(302.1)	(3.8)	(2.8)
Cash flows						
New loans raised	**(3,474.4)**	**-**	**-**	(1,452.7)	-	-
Repayment of borrowings	**2,366.5**	**-**	**-**	670.2	-	-
Repayment of lease principal	**-**	**-**	**11.0**			10.1
Derivative paydown [1]	**-**	**123.2**	**-**	-	(2.8)	-
Interest paid[2]	**905.1**	**-**	**-**	436.8		-
Interest received	**-**	**(48.7)**	**-**	-	(8.5)	-
	(202.8)	**74.5**	**11.0**	(345.7)	(11.3)	10.1
Non-cash changes						
Interest accrued / Fees amortised	**(1,072.7)**	**65.2**	**-**	(1,010.0)	8.9	-
Foreign exchange movement	**(52.1)**	**-**	**-**	(68.0)	-	-
Accretion	**(105.1)**	**-**	**-**	(110.1)	-	-
Unamortised IFRS9 adjustment	**0.7**	**-**	**-**	(25.8)	-	-
Lease additions	**-**	**-**	**(5.1)**			(3.4)
Interest accrued on IFRS 16 leases	**-**	**-**	**(3.7)**			(3.9)
Fair value changes	**-**	**273.8**	**-**	-	55.6	-
Fair value amortisation	**11.6**	**-**	**-**	11.6	-	-
	(1,217.6)	**339.0**	**(8.8)**	(1,202.3)	64.5	(7.3)
Closing balance	**(20,721.6)**	**(686.6)**	**(70.3)**	(19,301.2)	(1.100.1)	(72.5)
Non-Current	**(18,906.7)**	**(671.6)**	**(62.4)**	(17,750.4)	(1,061.5)	(65.1)
Current	**(1,814.9)**	**(15.0)**	**(7.9)**	(1,550.8)	(38.6)	(7.4)

[1] Derivative paydown of £123.2 million (2019: £13.4 million) relates to index-linked swaps where accretion is payable periodically.

[2] Interest paid of £905.1 million (2019: £436.8 million) includes £97.6 million of capitalised borrowing costs (2019: £109.3 million) and excludes £0.2 million of bank charges (2019: £0.5 million).

[3] The reconciliation of liabilities from financing activities in respect of derivative financial liabilities includes a net derivative financial liability position, prior year numbers have been updated accordingly.

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 2020:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	7,777.3	2,206.9	7,241.5	17,225.7
Total	7,777.3	2,206.9	7,241.5	17,225.7

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

As at 31 March 2019:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	9,637.4	901.2	5,524.7	16,063.3
Total	9,637.4	901.2	5,524.7	16,063.3

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

	Weighted average interest rate		Weighted average period until maturity	
	2020	2019	**2020**	2019
	%	%	**Years**	Years
Fixed	**7.2**	6.7	**13.4**	13.0
Index-Linked	**3.6**	4.4	**18.1**	20.9

(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 83.

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2020. This analysis considers the effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2020		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**294.1**	**(344.3)**	275.0	(338.0)
Equity	**294.1**	**(344.3)**	287.7	(350.9)

(ii) Exchange rate risk 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 hedge the foreign currency exposure of bonds issued in a foreign currency. All 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 2020. This analysis assumes that all other variables in the valuation remain constant.

	2020		2019	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
Profit	**(28.4)**	**24.5**	(20.9)	8.4
Equity	**(28.4)**	**24.5**	(20.9)	8.4

(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.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2020. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2020		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(740.1)**	**699.1**	(635.7)	511.4
Equity	**(740.1)**	**699.1**	(635.7)	511.4

(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, 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. 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 15. For non-household customers, the credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to conditions that exist within the non-household market.

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 amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral cash held under the terms of the whole business securitisation agreement. No collateral was held as at 31 March 2020 (2019: nil).

The following table summarises amounts held on short-term investments by credit rating of counterparties.

	2020	2019
	£m	£m
A+	**150.0**	-
A	**150.0**	-
Total	**300.0**	-

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

	2020	2019
	£m	£m
A+	**228.2**	88.1
A	**43.3**	36.0
A-	**9.4**	-
AA-	**93.4**	38.2
Total	**374.3**	162.3

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

(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 nature and management of the Group's liquidity risk is provided on page 15.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

	2020 £m	2019 £m
Within one year	**1,632.0**	1,364.7
Between one and two years	**753.8**	215.9
Between two and three years	**468.3**	739.1
Between three and four years	**1,130.4**	409.3
Between four and five years	**961.3**	1,113.4
After more than five years	**12,360.8**	12,202.8
Total	**17,306.6**	16,045.2

(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:

Undiscounted amounts payable	**2020 £m**	2019 £m
Within one year	**(2,750.4)**	(2,416.3)
Between one and two years	**(1,206.4)**	(627.3)
Between two and three years	**(893.3)**	(1,175.1)
Between three and four years	**(1,568.4)**	(795.0)
Between four and five years	**(1,360.6)**	(1,540.6)
After more than five years	**(21,591.3)**	(23,831.5)
Total	**(29,370.4)**	(30,385.8)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps and cross currency swaps), based on undiscounted cash flows, is as follows:

Undiscounted amounts payable	**2020 £m**	2019 £m
Within one year	**168.0**	(46.9)
Between one and two years	**150.1**	(19.5)
Between two and three years	**77.8**	24.9
Between three and four years	**(13.8)**	(68.6)
Between four and five years	**(86.1)**	(137.4)
After more than five years	**(1,238.4)**	(1,521.5)
Total	**(942.4)**	(1,769.0)

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Cash flow hedges

The Group 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 48.

In mid-2014 the Group executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions. At inception the swaps were designated as a cash flow hedge of the future interest cost of debt to be issued from 2017 to 2020. The effective portion of the fair value movements on these swaps was recognised in the cash flow hedge reserve, to be reclassified to the income statement over the life of the underlying hedged debt.

As of the start of this year £2.0 billion of these swaps had already commenced. The remaining £250.0 million, due to commence in September 2019, were restructured in July 2019. The cash flow hedge relationship was terminated at the restructuring date because changes in the expected cash flows would result in significant ineffectiveness. The fair value movements prior to termination were recognised in the cash flow hedge reserve and will be reclassified to the income statement over the life of the underlying hedged debt which, although delayed, was still expected to be issued. Fair value movements subsequent to termination were recognised in the income statement. In September 2019, on commencement, the £250 million swaps were reclassified from forward starting swaps to interest rate swaps.

During the year a £4.1 million loss (2019: loss of £8.9 million) was recognised in the cash flow hedge reserve and a £34.9 million loss (2019: £34.2 million loss) was reclassified from the cash flow hedge reserve to the income statement, see statement of changes in equity. The amount reclassified of £34.9 million consisted of a £31.6 million loss related to hedged exposure that crystallised during the year and a £3.3 million loss due to ineffectiveness relating to the swaps that were restructured during the year due to the delay in issuance of the related debt.

The Group's cash flow hedge reserve disclosed on the statement of changes in equity on page 36 relate to forward starting interest rate swaps.

	£m
At 1 April 2018	**(139.0)**
Loss on cash flow hedge	**(8.9)**
Cash flow hedge transferred to income statement	**34.2**
Deferred tax	**(4.3)**
At 31 March 2019	**(118.0)**
Loss on cash flow hedge	**(4.1)**
Cash flow hedge transferred to income statement	**34.9**
Deferred tax charge on cash flow hedge gains including impact of deferred tax rate change	**(3.0)**
At 31 March 2020	**(90.2)**

Following are the effects of forward starting interest rate swaps on the Group's financial position and performance:

	2020 £m	2019 £m
Carrying amount	**-**	26.2
Notional amount	**-**	250.0
Change in fair value during the year	**4.1**	5.5
Change in the value of hedged item used to determine hedge effectiveness	**4.1**	5.6
Maturity date	**-**	September 2024
Hedge ratio	**-**	1:1

Undiscounted amounts payable	**2020 £m**	2019 £m
The expected cash flows of the Group's cash flow hedging instruments are as follows:		
Within one year	**-**	(2.4)
Between one and two years	**-**	(4.9)
Between two and three years	**-**	(4.9)
Between three and four years	**-**	(4.9)
Between four and five years	**-**	(4.9)
After more than five years	**-**	(2.4)
Total	**-**	(24.4)

Notes to the Group financial statements (continued)

20. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Cash flow hedge £m	Other £m	**Total £m**
At 31 March 2018	(1,159.0)	32.2	158.8	79.3	**(888.7)**
Restatement for IFRS 16[1]	-	-	-	1.6	**1.6**
At 1 April 2018 (Restated)	(1,159.0)	32.2	158.8	80.9	**(887.1)**
Credit/(charge) to income	15.0	3.7	(3.4)	(33.0)	**(17.7)**
Credit/(charge) to other comprehensive income	-	4.3	(4.3)	-	**-**
At 31 March 2019	(1,144.0)	40.2	151.1	47.9	**(904.8)**
Credit/(charge) to income	(153.2)	(5.2)	(33.9)	6.3	**(186.0)**
Charge to other comprehensive income	-	(27.0)	(3.0)	-	**(30.0)**
At 31 March 2020	(1,297.2)	8.0	114.2	54.2	**(1,120.8)**

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' and other restatements on 1 April 2019, which have been discussed on pages 49 and 51.

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 our 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 TWUL mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A deferred tax asset is provided on the net retirement benefit obligations booked in the accounts. The £8.0M deferred tax asset carried forward is the net of an asset of £39.7m (19% of the deficit on the TWPS pension scheme of £209.1m) less a liability of £33.0m (35% of the surplus on the MIPS pension scheme of £94.5m) and an asset of £1.3m (19% of the SUURBS surplus of £7.0m). 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 hedge: 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.

- 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 relief is available in accordance with the legislation. A deferred tax asset is also provided on fair values on loans booked on consolidation; there will be no current tax impact in future but deferred tax charges will arise as these fair values are amortised in the accounts.

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered / settled after more than 12 months are as follows:

	2020 £m	2019 £m
Deferred tax asset	**176.4**	239.2
Deferred tax liability	**(1,297.2)**	(1,144.0)
Total	**(1,120.8)**	(904.8)

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset not recognised at 19% (2019: 17%) is:

	2020 £m	2019 £m
Deferred tax asset not recognised in respect of tax losses	**7.4**	6.6

Notes to the Group financial statements (continued)

21. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Capital Infrastructure provision £m	Dilapidations £m	Other provisions £m	**Total £m**
At 1 April 2019 (restated[1])	4.6	59.3	20.5	10.2	25.3	**119.9**
Utilised during the period	(4.6)	(25.9)	(4.1)	-	(11.2)	**(45.8)**
Charge/(credit) to income statement	-	51.7	-	0.8	18.9	**71.4**
Charge/(credit) to capital project	-	-	-	-	(1.0)	**(1.0)**
Transfer from current liabilities	-	-	1.1	-	-	**1.1**
At 31 March 2020	**-**	**85.1**	**17.5**	**11.0**	**32.0**	**145.6**

[1] The prior year results have been restated due to the impact of the recording of a provision for property dilapidations which is discussed on page 51.

At 1 April 2019, emissions provisions relate to the obligation to purchase carbon emissions allowances. This scheme was discontinued by the government as at 31 March 2019 and therefore this amount has been utilised during the period.

The insured liability provision arises from insurance claims from third parties received by the Group, and represents the estimated cost of settlement. Where we have insurance cover for these claims, we recognise the reimbursement value from captive and third party insurance companies net of retentions. The increase in insured liabilities in current year to £85.1 million (2019: £59.3 million) relates to an incident in Finsbury Park that occurred in October 2019. The receivable is disclosed in note 15. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The capital infrastructure provision is to cover various potential third party costs arising from the construction of infrastructure assets. Due to the uncertain timing of these costs the Group considers it appropriate to classify these as non-current.

Other provisions principally relate to a number of contractual and legal claims against the Group and potential fines for non-compliance with various regulations the Group is obliged to meet. The amount recorded represents management's best estimate of the value of settlement (either before or following court proceedings) and associated costs. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The Group needs to determine the merit of any litigation against it and the chances of a claim successfully being made, the likelihood of 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.

There are claims against the Group arising in the normal course of business, which are subject to early stage correspondence between the parties and/or litigation. 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 an inherent risk that the final outcome of legal claims will be different to amounts provided.

The Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

Notes to the Group financial statements (continued)

22. Share capital and other reserves

Share capital

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
1,000,001 ordinary shares of £1 each	**1.0**	1.0

The Group 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 Group.

Other reserves

	2020 £m	Restated[1] 2019 £m
Cash flow hedge reserve	**(90.2)**	(118.0)
Retained earnings	**(4,068.5)**	(3,878.1)
Total	**(4,158.7)**	(3,996.1)

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.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements which are discussed on page 51.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations

Background

The Group operates four material pension schemes, one of which is a defined contribution scheme and the other three are defined benefit schemes.

	What are they?	**How do they impact the Group's financial statements?**
Defined Contribution Scheme This scheme was set up in April 2011, is managed through Standard Life, and is open to all new employees of the Group.	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 £13.1 million (2019: £11.0 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 £1.6 million (2019: £1.5 million) of outstanding contributions at the year-end recognised in the statement of financial position. These were paid in the following financial year. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes Defined benefit arrangements for the Group's eligible employees are provided through three defined benefit pension schemes: • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Thames Water Pension Scheme ("TWPS"); • Thames Water Mirror Image Pension Scheme ("TWMIPS"); and • The SUURBS Arrangement ("SUURBS"). The SUURBS Arrangement provides retirement benefits to a previous director, and their spouse, of Thames Water Limited, a subsidiary entity in the Group. The scheme is an unfunded arrangement but is secured against assets held by Thames Water Limited 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. New entrants now join the defined contribution scheme. .	In a defined benefit pension scheme the benefits: • are defined by the scheme rules • depend on a number of factors including age, years of service and pensionable pay; and • do not depend on contributions made by the members or the Group	A charge was recognised in the income statement of £33.2 million (2019: £41.3 million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; • the net interest expense on pension scheme assets and liabilities; and • the effect of restriction in the surplus. A gain of £168.9 million (2019: loss of £23.4 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 £94.5 million (2019: £45.8 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £209.1 million (2019: £338.8 million) is recognised in the statement of financial position for the TWPS scheme. A pension deficit of £7.0 million (2019: surplus of £7.7 million) is recognised in the statement of financial position for the SUURBS scheme As at 31 March 2020, the net pension deficit is £121.6 million (2019:£285.3 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.

During the year ended 31 March 2020, pension assets in SUURBS valued at £12.8 million were disposed of with a fair value loss on disposal of £0.6 million. Additionally, £2.6 million of cash, previously held as an asset of the pension scheme was reclassified as restricted cash. This, along with other income statement and actuarial movements resulted in a movement of the scheme to an overall deficit of £7.0 million (2019: surplus of £7.7 million).

In addition to the cost of the UK 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 2020 these related payments amounted to £0.3 million (2019: £0.1 million).

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

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

The 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 2020. The 2019 funding valuation has been updated to an accounting valuation as at 31 March 2020 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.

The most recent full valuation of the SUURBS Arrangement was carried out at 28 February 2018 on behalf of the pension Trustees by Hymans Robertson LLP, the independent and professionally qualified consulting actuaries to the scheme. This resulted in a funding surplus of £1.2 million.

This funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from the time of the most recent valuation to 31 March 2018. The 2016 funding valuation has been updated to an accounting valuation as at 31 March 2019 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 included in the financial statements

Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Current service cost	**19.5**	**2.7**	**-**	18.1	3.6	-
Past service cost including curtailments[1]	**-**	**-**	**-**	6.8	2.2	-
Scheme administration expenses	**3.1**	**1.5**	**-**	2.7	1.3	-
Net interest cost/(income)	**7.4**	**(1.2)**	**0.2**	7.9	(1.3)	(0.2)
Total	**30.0**	**3.0**	**0.2**	35.5	5.8	(0.2)

[1] Refer to the GMP equalisation section below for information on the past service costs including curtailments.

The net expense is recognised in the following captions within the income statement:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Operating expenses	**22.6**	**4.2**	**-**	27.6	7.1	-
Net finance expense/(income)	**7.4**	**(1.2)**	**0.2**	7.9	(1.3)	(0.2)
Total	**30.0**	**3.0**	**0.2**	35.5	5.8	(0.2)

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:

	2020 £m	2019 £m
Cumulative actuarial gains recognised at 1 April	**(495.1)**	(471.7)
Actual return less expected return on pension scheme assets	**88.4**	76.5
Experience gain /(loss) arising on scheme liabilities	**19.0**	1.3
(Loss)/gain arising due to change in assumptions	**145.5**	(158.0)
Gain arising due to change in demographic assumption	**(84.0)**	56.8
Total actuarial (loss)/gain	**168.9**	(23.4)
Cumulative actuarial losses recognised at 31 March	**(326.2)**	(495.1)

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Statement of financial position

The net pension (liability)/asset recognised within the statement of financial position is as follows:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Fair value of scheme assets	**1,595.3**	**805.8**	**-**	1,508.2	805.2	15.4
Present value of defined benefit obligations	**(1,804.4)**	**(711.3)**	**(7.0)**	(1,847.0)	(759.4)	(7.7)
(Deficit)/surplus	**(209.1)**	**94.5**	**(7.0)**	(338.8)	45.8	7.7
Net pension deficit			**(121.6)**			(285.3)

Reconciliation of defined benefit plan assets and liabilities

The movement in the present value of the defined benefit obligations were as follows:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,847.0**	**759.4**	**7.7**	1,743.7	755.0	7.5
Current service cost	**19.5**	**2.7**	**-**	18.1	3.6	-
Past service cost including curtailments	**-**	**-**	**-**	6.8	2.2	
Interest cost	**43.9**	**17.4**	**0.2**	45.7	19.1	0.2
Contributions from scheme members	**0.1**	**-**	**-**	0.1	-	-
Benefits paid	**(51.5)**	**(44.5)**	**(0.4)**	(47.9)	(40.0)	(0.4)
Termination benefits	**1.4**	**0.3**	**-**	0.1	-	-
Actuarial gains	**(56.0)**	**(24.0)**	**(0.5)**	80.4	19.5	0.4
At 31 March	**1,804.4**	**711.3**	**7.0**	1,847.0	759.4	7.7

The movements in the fair value of scheme assets were as follows:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,508.2**	**805.2**	**15.4**	1,442.9	805.6	14.6
Interest income on scheme assets	**36.5**	**18.6**	**-**	37.8	20.4	0.4
Disposal of assets	**-**	**-**	**(12.2)**	-	-	-
Fair value loss on disposal of assets	**-**	**-**	**(0.6)**	-	-	-
Reclassification of cash[1]	**-**	**-**	**(2.6)**	-	-	-
Contributions by sponsoring employers	**39.8**	**3.2**	**0.4**	18.8	3.1	0.4
Contributions from scheme members	**0.1**	**-**	**-**	0.1	-	-
Administration costs paid from scheme assets	**(3.1)**	**(1.5)**	**-**	(2.7)	(1.3)	-
Benefits paid	**(51.5)**	**(44.5)**	**(0.4)**	(47.9)	(40.0)	(0.4)
Contributions for termination benefits	**1.4**	**0.3**	**-**	0.1	-	-
Gains on assets above interest	**63.9**	**24.5**	**-**	59.1	17.4	0.4
At 31 March	**1,595.3**	**805.8**	**-**	1,508.2	805.2	15.4

[1] £2.6 million of cash, previously held as an asset of the pension scheme was reclassified as restricted cash

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Analysis of assets

	2020				2019			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total (%)**	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	**29.7**	**-**	**29.7**	**1.1**	33.5	-	33.5	1.4
Rest of World	**358.2**	**1.1**	**359.3**	**12.7**	335.9	2.2	338.1	14.6
Bonds								
Government – UK	**16.2**	**-**	**16.2**	**1.0**	21.2	-	21.2	0.9
Government – Rest of World	**116.2**	**1.1**	**117.3**	**4.8**	203.8	-	203.8	8.8
Corporates – UK	**48.4**	**3.4**	**51.8**	**3.2**	10.0	-	10.0	0.4
Corporates – Rest of World	**166.3**	**2.0**	**168.3**	**6.3**	215.5	-	215.5	9.3
Property								
UK	**4.5**	**-**	**4.5**	**0.2**	6.2	1.4	7.6	0.3
Rest of world	**1.9**	**-**	**1.9**	**0.1**	4.4	-	4.4	0.2
Alternative assets								
Liability driven instruments	**1,433.1**	**-**	**1,433.1**	**62.3**	1,262.4	-	1,262.4	54.6
Other (including derivatives)	**109.7**	**3.5**	**113.2**	**0.0**	113.1	2.4	115.5	5.0
Cash	**105.8**	**-**	**105.8**	**4.6**	101.4	-	101.4	4.4
Total market value of assets	**2,390.0**	**11.1**	**2,401.1**	**100.0**	2,307.4	6.0	2,313.4	99.9

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, Willis Towers Watson. 62.3% 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.

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.

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 discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2020.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows 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 TWPS and TWMIPS provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

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

	2020			2019		
	TWPS	**TWMIPS**	**SUURBS**	TWPS	TWMIPS	SUURBS
Price inflation – RPI	**2.55%**	**2.65%**	**2.65%**	3.25%	3.30%	3.30%
Price inflation – CPI	**1.75%**	**1.85%**	**1.85%**	2.25%	2.30%	2.30%
Rate of increase to pensions in payment – RPI	**1.75%**	**1.85%**	**1.85%**	3.25%	3.30%	3.30%
Rate of increase to pensions in payment – CPI	**2.35%**	**2.35%**	**2.35%**	2.25%	2.30%	2.30%
Discount rate	**2.55%**	**2.65%**	**2.65%**	2.40%	2.35%	2.35%

Both the TWPS and TWMIPS 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.

In valuing the liabilities of the pension schemes, mortality assumptions have been made as indicated below, however in respect of the SUURBS Arrangement as mortality assumptions have been made regarding the schemes only member and their spouse they have not been disclosed. These 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.

	2020		2019	
	TWPS Years	**TWMIPS Years**	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**27.6**	**26.8**	26.9	26.0
Female	**29.7**	**28.9**	28.9	28.5
Life expectancy from age 60 currently age 40:				
Male	**28.3**	**27.9**	28.4	27.6
Female	**30.8**	**30.1**	30.5	30.1

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk.

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

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

	Reduction in liability					
	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Change in discount rate (+ 1% p.a.)	**320.0**	**90.0**	**0.7**	325.0	90.0	0.8
Change in rate of inflation (-1% p.a.)	**210.0**	**70.0**	**0.7**	210.0	75.0	0.8
Change in life expectancy (-1 year)	**70.0**	**40.0**	**0.3**	75.0	30.0	0.3

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Future expected cash flows

The Group made a pension deficit repair payment of £28.5 million on 1 April 2019 in relation to 2019/20 having made a similar payment of £22.7 million on 31 March 2019 in relation to 2018/19. The average duration of the benefit obligation at the end of the year is 20 years for TWPS and 13 years for TWMIPS (2019: 20 years for TWPS and 13 years for TWMIPS).

In June 2017, the funding valuation as at 31 March 2016 for TWMIPS and TWPS 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	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Deficit contribution (£m)	24.1	24.1	24.7	10.7	10.2	17.9	17.9	17.9

The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2016. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

24. Capital commitments

	2020 £m	2019 £m
Property, plant and equipment	**281.7**	395.7
Intangible assets	**7.5**	17.2
Contracted for but not provided	**289.2**	412.9

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.

25. Contingent liabilities

As at 31 March 2020, there was an ongoing legal claim in respect of a non-appointed activity. At the time of reporting, the Group is unaware of the amount of claim against them, nor has certainty over the number of claimants and is yet to prepare their defence. As such no further information can be provided. At present the Directors consider an outflow of economic benefit is possible, however, cannot be reliably estimated. The outcome is contingent on future developments and will only become known on conclusion of this claim. The outcome could result in an economic outflow.

As at 31 March 2020, there were ongoing commercial negotiations arising in the ordinary course of business in respect of closing out AMP6 contracts. At present the Directors consider an outflow of economic benefit is possible, however, cannot be reliably estimated. The outcome is contingent on future discussions and will only become known on conclusion of the negotiation. The outcome could result in either an economic outflow, inflow or neither. In respect of these negotiations, the Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

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 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.

Notes to the Group financial statements (continued)

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:

- operating leases not in the scope of IFRS 16;
- 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 IT support, legal services, supply chain, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Group.

The Group is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary, Thames Water Utilities Finance plc are Obligators under the whole business securitisation entered into in 2007. The Obligators have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligator will guarantee the obligations of each other Obligator with their future cash flows. The guaranteed debt as at 31 March 2020 was £13.1 billion (2019: £11.9 billion).

27. Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and 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. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt at 31 March 2020 was £13.1 billion (2019: £11.9 billion).

At 31 March 2020 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20.0m million (2019: £20.0 million). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8 million (2019: £0.8 million).

Kemble Water Finance Limited and its subsidiary, Thames Water (Kemble) Finance plc (the “Kemble Financing Group”) have provided security by way of a debenture over each of their assets in relation to monies owed by the Kemble Financing Group under certain financing arrangements which accede from time to time as secured debt pursuant to an intercreditor agreement. Pursuant to the intercreditor agreement, Kemble Water Finance Limited also guarantees the obligations of its subsidiary, Thames Water (Kemble) Finance plc pursuant to any secured indebtedness it may raise. The total amount outstanding at the Kemble Water Finance Limited level at 31 March 2020 amounts to £924.8 million (2019: £585.0 million). The total amount of guaranteed secured debt raised at the Thames Water (Kemble) Finance plc level outstanding at 31 March 2020 is £175.0 million (2019: £574.0 million).

In addition there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No un-provided loss is expected to arise under these arrangements.

Notes to the Group financial statements (continued)

28. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated[1] 2019 Underlying £m	Restated[1] 2019 BTL £m	Restated[1] 2019 Total £m
(Loss)/profit for the financial year	**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)
Less finance income	**(73.2)**	**-**	**(73.2)**	(18.8)	-	(18.8)
Add finance expense	**1,081.9**	**-**	**1,081.9**	1,020.7	-	1,020.7
Add interest paid on lease liability	**3.7**	**-**	**3.7**	3.9	-	3.9
Less net gains/(add net losses) on fair value of financial instruments	**(190.8)**	**-**	**(190.8)**	37.7	-	37.7
Taxation on (loss)/profit on ordinary activities	**61.2**	**6.1**	**67.3**	(96.0)	2.8	(93.2)
Operating profit	**493.1**	**64.1**	**557.2**	464.9	47.2	512.1
Depreciation on property, plant and equipment	**569.0**	**-**	**569.0**	545.0	-	545.0
Depreciation on right of use assets	**8.2**	**-**	**8.2**	7.6	-	7.6
Amortisation of intangible assets	**32.9**	**-**	**32.9**	22.0	-	22.0
Write off of property, plant and equipment and intangible assets	**9.9**	**-**	**9.9**	-	-	-
Loss on sale of property, plant and equipment	**4.1**	**-**	**4.1**	7.0	-	7.0
Difference between pension charge and cash contribution	**(1.8)**	**-**	**(1.8)**	12.4	-	12.4
(Increase)/decrease in inventory	**(0.1)**	**-**	**(0.1)**	5.9	-	5.9
(Increase)/decrease in trade and other receivables	**(46.5)**	**(60.2)**	**(106.7)**	10.2	(48.3)	(38.1)
Increase in contract assets	**(17.9)**	**(0.6)**	**(18.5)**	(30.9)	(0.9)	(31.8)
(Decrease)/Increase in trade and other payables	**(8.0)**	**(0.8)**	**(8.8)**	72.0	7.6	79.6
Decrease/(increase) in contract liabilities	**84.5**	**(3.1)**	**81.4**	33.6	(0.6)	33.0
Increase/(decrease) in provisions	**25.7**	**-**	**25.7**	(24.2)	-	(24.2)
Cash generated from/(used in) operations	**1,153.1**	**(0.6)**	**1,152.5**	1,125.5	5.0	1,130.5

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Non-cash transactions

Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Movement in cash and cash equivalents

	2020 £m	2019 £m
Unrestricted cash movement	**11.2**	(14.6)
Movement in short-term deposits	**282.6**	379.5
Total	**293.8**	364.9

The restricted cash above relates to collateral posted by derivative counterparties that have failed to meet minimum credit rating criteria assigned by Moody's.

29. Ultimate parent company and controlling party

Kemble Water Eurobond plc, a company incorporated in the United Kingdom, is the immediate parent company. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the only group to consolidate these financial statements.

Copies of the accounts of the above companies may be obtained from The Company Secretary's Office, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Notes to the Group financial statements (continued)

30. Related party transactions

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Group

Transactions between subsidiaries within the Group, which are related parties, have been eliminated on consolidation and are not included in this note.

Key management personnel

Key management personnel comprise the members of the Board of Directors and the Executive Committee of the Group's principal trading subsidiary Thames Water Utilities Limited during the year. Information regarding transactions with post-employment benefits plans is included in note 23.

	2020 £'000	2019 £'000
Short term employee benefits	**9,255**	6,485
Post-employment benefits	**507**	542
Other long-term benefits	**-**	-
Termination benefits	**3,249**	282
Other	**124**	202
Total	**13,135**	7,511

Company

During the year, the Company paid interest of £613.2 million (2019: £561.0 million) on a loan from Kemble Water Eurobond plc ("KWE"), the Company's immediate parent. As at 31 March 2020, the amount payable to KWE, including loan principal and interest thereon, was £6.2 billion (2019: £5.6 billion).

The Company receives dividend income, in some cases passing it on the immediate and ultimate parent. It also pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £nil million (2019: £1.0 million) and total net interest payable during the year was £625.9 million (2019: £605.6 million).

As at 31 March 2020 net amounts owed by the Company to parent and subsidiary undertakings were £6,581.3 million (2019: £6,393.2 million). As at 31 March 2020 and 31 March 2019, no related party receivables and payables were secured and no guarantees were issued. Balances will be settled in accordance with normal credit terms.

The Company's borrowings include a £100.0 million fixed rate note due 2025 with a book value of £98.1 million. The noteholder is OCM Credit Portfolio LP. OCM Credit Portfolio LP is a member of the Ontario Municipal Employees Retirement System ("OMERS") group which, via a separately managed group of companies within the OMERS group owns, indirectly, 31.8% of the Company. The terms of the notes, including the coupon payable, are the same market rates as all fixed rate notes issued by the Company in 2018 and due in 2025, a total of £310.0 million.

31. Post balance sheet events

As at the time of reporting, the developing and uncertain situation in respect of the COVID-19 pandemic continues to be closely monitored. The impact of COVID-19 on the Group's ability to provide essential water and wastewater services and improve operational performance has been mitigated through Government's recognition that these services are essential. The Group responded quickly to enable effective working practices in the challenging operational environment.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme and predicts a significant reduction in cash receipts over a prolonged period following the virus spread and a deferral of a reasonable portion of the capital programme into future AMP7 years. To mitigate the impact to operating cashflows and related covenant tests, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance.

Financing

In April 2020, £350.0 million Class A sterling bonds were issued by Thames Water Utilities Finance plc, with a maturity of 2040. In May 2020, £40.0 million Class A sterling bonds were issued by Thames Water Utilities Finance plc, with a maturity of 2050. The proceeds from both bonds were used to repay drawdowns from the Class A revolving credit facility. In May 2020, Thames Water Utilities Finance plc signed a new £110 million Class A term loan facility maturing in November 2023.

Notes to the Group financial statements (continued)

32. Restatements to the prior year

This is the first reporting year that the Group has presented its financial statements under IFRS 16 'Leases', with the date of transition being 1 April 2019. These accounting policies replace IAS 17 'Leases.

The Group's accounting policies under IFRS 16 have been applied retrospectively at the date of transition and therefore the Group's "as previously stated" results have been restated. In addition, the Group has restated the prior years as a result of changes in accounting policies and amendments to its account approach. Refer to pages 49 to 51 for more information on adjustments that have impacted prior years.

Reconciliation of consolidated profit and loss for the year ended 31 March 2019

		As previously stated			*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Revenue	1	2,037.1	47.5	2,084.6	-	-	**2,037.1**	**47.5**	**2,084.6**
Operating expenses	2	(1,685.7)	(0.3)	(1,686.0)	3.2	16.9	**(1,665.6)**	**(0.3)**	**(1,665.9)**
Other operating income	4	93.4	-	93.4	-	-	**93.4**	**-**	**93.4**
Operating profit		444.8	47.2	492.0	3.2	16.9	**464.9**	**47.2**	**512.1**
Finance income	5	18.8	-	18.8	-	-	**18.8**	**-**	**18.8**
Finance expense	6	(1,020.7)	-	(1,020.7)	(3.9)	-	**(1,024.6)**	**-**	**(1,024.6)**
Net gain on financial instruments	7	(37.7)	-	(37.7)	-	-	**(37.7)**	**-**	**(37.7)**
Profit on ordinary activities before taxation		(594.8)	47.2	(547.6)	(0.7)	16.9	**(578.6)**	**47.2**	**(531.4)**
Taxation on (profit) / loss on ordinary activities	8	98.8	(2.8)	96.0	0.1	(2.9)	**96.0**	**(2.8)**	**93.2**
Profit for the period		(496.0)	44.4	(451.6)	(0.6)	14.0	**(482.6)**	**44.4**	**(438.2)**

Reconciliation of consolidated statement of comprehensive income for the year ended 31 March 2019

		As previously stated			*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Profit for the period		(496.0)	44.4	(451.6)	(0.6)	14.0	**(482.6)**	**44.4**	**(438.2)**
Other comprehensive income									
Will not be reclassified to the income statement:									
Net actuarial gain on pension schemes	23	(23.4)	-	(23.4)	-	-	**(23.4)**	**-**	**(23.4)**
Deferred tax on net actuarial (gains)	20	4.3	-	4.3	-	-	**4.3**	**-**	**4.3**
May be reclassified to the income statement:									
Gains on cash flow hedges		(8.9)	-	(8.9)	-	-	**(8.9)**	**-**	**(8.9)**
Cash flow hedges transferred to income statement		34.2	-	34.2	-	-	**34.2**	**-**	**34.2**
Deferred tax (charge) on cash flow hedges	20	(4.3)	-	(4.3)	-	-	**(4.3)**	**-**	**(4.3)**
Other comprehensive income for the period		1.9	-	1.9	-	-	**1.9**	**-**	**1.9**
Total comprehensive income / (loss) for the period		(494.1)	44.4	(449.7)	(0.6)	14.0	**(480.7)**	**44.4**	**(436.3)**

Notes to the Group financial statements (continued)

32. Restatements to the prior year (continued)

Reconciliation of consolidated statement of financial position as at 1 April 2018

		IAS 17			*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £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	11	169.0	-	169.0	-	-	**169.0**	**-**	**169.0**
Property, plant and equipment	12	15,184.1	-	15,184.1	-	11.9	**15,196.0**	**-**	**15,196.0**
Right-of-use assets	13	-	-	-	54.9	2.9	**57.8**	**-**	**57.8**
Derivative financial assets	19	76.4	-	76.4	-	-	**76.4**	**-**	**76.4**
Trade and other receivables	15	35.7	56.7	92.4	-	-	**35.7**	**56.7**	**92.4**
Retirement benefit surplus SUURBS		7.1	-	7.1	-	-	**7.1**		**7.1**
Retirement benefit surplus TWMIPS	23	50.6	-	50.6	-	-	**50.6**	**-**	**50.6**
		16,991.0	56.7	17,047.7	54.9	14.8	**17,060.7**	**56.7**	**17,117.4**
Current assets									
Inventories and current intangible assets	14	18.1	-	18.1	-	-	**18.1**	**-**	**18.1**
Contract assets	13	186.2	0.4	186.6	-	-	**186.2**	**0.4**	**186.6**
Derivative financial assets	19	8.5	-	8.5	-	-	**8.5**	**-**	**8.5**
Trade and other receivables	15	706.2	3.4	709.6	(1.8)	-	**704.4**	**3.4**	**707.8**
Cash and cash equivalents	16	153.8	2.6	156.4	-	-	**153.8**	**2.6**	**156.4**
Short-term investments		-		-	-	-	**-**	**-**	**-**
		1,072.8	6.4	1,079.2	(1.8)	-	**1,071.0**	**6.4**	**1,077.4**
Current liabilities									
Contract liabilities	17	(123.1)	(4.1)	(127.2)	-	-	**(123.1)**	**(4.1)**	**(127.2)**
Trade and other payables	17	(613.2)	(3.5)	(616.7)	8.0	-	**(605.2)**	**(3.5)**	**(608.7)**
Borrowings	18	(302.1)	-	(302.1)	-	-	**(302.1)**	**-**	**(302.1)**
Lease liabilities	13	-	-	-	(2.8)	-	**(2.8)**	**-**	**(2.8)**
Derivative financial liabilities	19	(12.3)	-	(12.3)	-	-	**(12.3)**	**-**	**(12.3)**
		(1,050.7)	(7.6)	(1,058.3)	5.2	-	**(1,045.5)**	**(7.6)**	**(1,053.1)**
Net current (liabilities) / assets		22.1	(1.2)	20.9	3.4	-	**25.5**	**(1.2)**	**24.3**
Non-current liabilities									
Contract liabilities	17	(589.8)	-	(589.8)	-	-	**(589.8)**	**-**	**(589.8)**
Borrowings	18	(17,480.4)	-	(17,480.4)	-	-	**(17,480.4)**	**-**	**(17,480.4)**
Lease liabilities	13	-	-	-	(72.5)	-	**(72.5)**	**-**	**(72.5)**
Derivative financial liabilities	19	(1,225.9)	-	(1,225.9)	-	-	**(1,225.9)**	**-**	**(1,225.9)**
Deferred tax	20	(888.7)	-	(888.7)	2.4	(0.8)	**(887.1)**	**-**	**(887.1)**
Provisions for liabilities and charges	21	(134.2)	-	(134.2)	-	(9.8)	**(144.0)**	**-**	**(144.0)**
Pension deficit	23	(300.8)	-	(300.8)	-	-	**(300.8)**	**-**	**(300.8)**
		(20,619.8)	-	(20,619.8)	(70.1)	(10.6)	**(20,700.5)**	**-**	**(20,700.5)**
Net assets		(3,606.7)	55.5	(3,551.2)	(11.8)	4.2	**(3,614.3)**	**55.5**	**(3,558.8)**
Equity									
Called-up share capital		1.0	-	1.0	-	-	**1.0**	**-**	**1.0**
Cash flow hedge reserve		(139.0)	-	(139.0)	-	-	**(139.0)**	**-**	**(139.0)**
Retained earnings		(3,468.7)	55.5	(3,413.2)	(11.8)	4.2	**(3,476.3)**	**55.5**	**(3,420.8)**
Total equity		(3,606.7)	55.5	(3,551.2)	(11.8)	4.2	**(3,614.3)**	**55.5**	**(3,558.8)**

Notes to the Group financial statements (continued)

32. Restatements to the prior year (continued)

Reconciliation of consolidated statement of financial position as at 31 March 2019

		IAS 17			*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £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	9	218.2	-	218.2	-	-	**218.2**	-	**218.2**
Property, plant and equipment	12	15,747.3	-	15,747.3	-	29.5	**15,776.8**	-	**15,776.8**
Right-of-use assets	13	-	-	-	51.6	2.6	**54.2**	-	**54.2**
Derivative financial assets	19	162.3	-	162.3	-	-	**162.3**	-	**162.3**
Trade and other receivables	15	44.2	101.9	146.1	-	-	**44.2**	**101.9**	**146.1**
Retirement benefit surplus SUURBS	23	7.7		7.7	-	-	**7.7**	-	**7.7**
Retirement benefit surplus TWMIPS	23	45.8	-	45.8	-	-	**45.8**	-	**45.8**
		17,693.6	101.9	17,795.5	51.6	32.1	**17,777.3**	**101.9**	**17,879.2**
Current assets									
Inventories and current intangible assets	14	13.5	-	13.5	-	-	**13.5**	-	**13.5**
Contract assets	15	217.5	0.9	218.4	-	-	**217.5**	**0.9**	**218.4**
Trade and other receivables	15	802.6	4.1	806.7	(1.7)	-	**800.9**	**4.1**	**805.0**
Cash and cash equivalents	16	513.8	7.6	521.4	-	-	**513.8**	**7.6**	**521.4**
Short-term investments	19	-	-	-	-	-	-	-	-
		1,547.4	12.6	1,560.0	(1.7)	-	**1,545.7**	**12.6**	**1,558.3**
Current liabilities									
Contract liabilities	17	(110.6)	(3.4)	(114.0)	-	-	**(110.6)**	**(3.4)**	**(114.0)**
Trade and other payables	17	(679.5)	(11.1)	(690.6)	7.7	-	**(671.8)**	**(11.1)**	**(682.9)**
Borrowings	18	(1,550.8)	-	(1,550.8)	-	-	**(1,550.8)**	-	**(1,550.8)**
Lease liabilities	13	-	-	-	(7.4)	-	**(7.4)**	-	**(7.4)**
Derivative financial liabilities	19	(38.6)	-	(38.6)	-	-	**(38.6)**	-	**(38.6)**
		(2,379.5)	(14.5)	(2,394.0)	0.3	-	**(2,379.2)**	**(14.5)**	**(2,393.7)**
Net current (liabilities) / assets		(832.1)	(1.9)	(834.0)	(1.4)	-	**(833.5)**	**(1.9)**	**(835.4)**
Non-current liabilities									
Contract liabilities	17	(636.1)	-	(636.1)	-	-	**(636.1)**	-	**(636.1)**
Borrowings	18	(17,750.4)	-	(17,750.4)	-	-	**(17,750.4)**	-	**(17,750.4)**
Lease liabilities	13	-	-	-	(65.1)	-	**(65.1)**	-	**(65.1)**
Trade and other payables	17	-	-	-	-	-	-	-	-
Derivative financial liabilities	19	(1,223.8)	-	(1,223.8)	-	-	**(1,223.8)**	-	**(1,223.8)**
Deferred tax	20	(903.6)	-	(903.6)	2.5	**(3.7)**	**(904.8)**	-	**(904.8)**
Provisions for liabilities and charges	21	(109.7)	-	(109.7)	-	**(10.2)**	**(119.9)**	-	**(119.9)**
Pension deficit	23	(338.8)	-	(338.8)	-	-	**(338.8)**	-	**(338.8)**
		(20,962.4)	-	(20,962.4)	(62.6)	**(13.9)**	**(21,038.9)**	-	**(21,038.9)**
Net assets		(4,100.9)	100.0	(4,000.9)	(12.4)	18.2	**(4,095.1)**	**100.0**	**(3,995.1)**
Equity									
Called-up share capital		1.0	-	1.0	-	-	**1.0**	-	**1.0**
Cash flow hedge reserve		(118.0)	-	(118.0)	-	-	**(118.0)**	-	**(118.0)**
Retained earnings		(3,983.9)	100.0	(3,883.9)	(12.4)	18.2	**(3,978.1)**	**100.0**	**(3,878.1)**
Total equity		(4,100.9)	100.0	(4,000.9)	(12.4)	18.2	**(4,095.1)**	**100.0**	**(3,995.1)**

Notes to the Group financial statements (continued)

32. Restatements to the prior year (continued)

Reconciliation of consolidated statement of cash flows as at 31 March 2019

	IAS 17			*IFRS 16* Transition	Restatement	**Restated**		
	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Operating activities:								
Profit / (loss) on ordinary activities before taxation	(496.0)	44.4	(451.6)	(0.6)	14.0	**(482.6)**	**44.4**	**(438.2)**
Less finance income	(18.8)	-	(18.8)	-	-	**(18.8)**	**-**	**(18.8)**
Add finance expense	1,020.7	-	1,020.7	-	-	**1,020.7**	**-**	**1,020.7**
Add interest paid on lease liabilities	-	-	-	3.9	-	**3.9**	**-**	**3.9**
Add loss on fair value of financial instruments	37.7	-	37.7	-	-	**37.7**	**-**	**37.7**
Add/(less) taxation on profit / (loss) on ordinary activities	(98.8)	2.8	(96.0)	(0.1)	2.9	**(96.0)**	**2.8**	**(93.2)**
Operating profit	444.8	47.2	492.0	3.2	16.9	**464.9**	**47.2**	**512.1**
Depreciation on property, plant and equipment	544.8	-	544.8	-	0.2	**545.0**	**-**	**545.0**
Amortisation of intangible assets	22.0	-	22.0			**22.0**	**-**	**22.0**
Depreciation of right of use asset	-	-	-	7.3	**0.3**	**7.6**	**-**	**7.6**
Profit on sale of property, plant and equipment	7.0	-	7.0	-	**-**	**7.0**	**-**	**7.0**
Difference in pension charge and cash contribution	12.4	-	12.4	-	**-**	**12.4**	**-**	**12.4**
Decrease in inventory	5.9	-	5.9	-	**-**	**5.9**	**-**	**5.9**
Decrease in contract assets	(30.9)	(0.9)	(31.8)			**(30.9)**	**(0.9)**	**(31.8)**
Decrease/(Increase) in trade and other receivables	10.3	(48.3)	(38.0)	(0.1)	**-**	**10.2**	**(48.3)**	**(38.1)**
Increase in contract liabilities	33.6	(0.6)	33.0		**-**	**33.6**	**(0.6)**	**33.0**
Increase / (decrease) in trade and other payables	72.3	7.6	79.9	(0.3)	**-**	**72.0**	**7.6**	**79.6**
Decrease in provisions	(24.6)	-	(24.6)	-	**0.4**	**(24.2)**	**-**	**(24.2)**
Cash generated from operations	1,097.6	5.0	1,102.6	10.1	17.8	**1,125.5**	**5.0**	**1,130.5**
Payments for group relief	(0.1)	-	(0.1)	-	-	**(0.1)**	**-**	**(0.1)**
Net cash generated by operating activities	1,097.5	5.0	1,102.5	10.1	17.8	**1,125.4**	**5.0**	**1,130.4**
Investing activities:								
Increase in current asset investments	-	-	-	-	**-**	**-**	**-**	**-**
Purchase of property, plant and equipment	(1,117.8)	-	(1,117.8)	-	(17.8)	**(1,135.6)**	**-**	**(1,135.6)**
Purchase of intangible assets	(71.2)	-	(71.2)	-	**-**	**(71.2)**	**-**	**(71.2)**
Proceeds from sale of property, plant and equipment	2.6	-	2.6	-	**-**	**2.6**	**-**	**2.6**
Interest received	10.7	-	10.7	-	**-**	**10.7**	**-**	**10.7**
Net cash used in investing activities	(1,175.7)	-	(1,175.7)	-	(17.8)	**(1,193.5)**	**-**	**(1,193.5)**
Financing activities:								
New loans raised	1,452.7	-	1,452.7	-	**-**	**1,452.7**	**-**	**1,452.7**
Repayment of borrowings	(670.2)	-	(670.2)	-	**-**	**(670.2)**	**-**	**(670.2)**
Repayment of lease principal	-	-	-	(10.1)	**-**	**(10.1)**	**-**	**(10.1)**
Derivative paydown	2.8	-	2.8	-	**-**	**2.8**	**-**	**2.8**
Interest paid	(328.0)	-	(328.0)	-	**-**	**(328.0)**	**-**	**(328.0)**
Fees paid	(19.1)	-	(19.1)	-	**-**	**(19.1)**	**-**	**(19.1)**
Net cash generated by/(used in) financing activities	438.2	-	438.2	(10.1)	**-**	**428.1**	**-**	**428.1**
Net increase in cash and cash equivalents	360.0	5.0	365.0	-	**-**	**360.0**	**5.0**	**365.0**
Net cash and cash equivalents at beginning of period	153.8	2.6	156.4	-	**-**	**153.8**	**2.6**	**156.4**
Net cash and cash equivalents at end of period	513.8	7.6	521.4	-	**-**	**513.8**	**7.6**	**521.4**

Notes to the Company financial statements

33. Investment in subsidiaries

	2020 **£m**	2019 £m
Cost of shares in subsidiary undertakings	**4,292.3**	4,306.7
Provision for impairment	**-**	(14.4)
Net book value	**4,292.3**	4,292.3

A full listing of direct and indirect subsidiary and associated undertakings has been included in note 41 to these financial statements.

34. Trade and other receivables

	2020 **£m**	2019 £m
Other receivables	**0.6**	8.2
Amounts owed by group undertakings	**379.1**	170.6
Amounts receivable in respect of group relief	**195.6**	534.3
	575.3	713.1
Disclosed within non-current assets	**367.0**	178.8
Disclosed within current assets	**208.3**	534.3

All amounts owed by group undertakings are unsecured, interest free and repayable on demand.

35. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Company is set out below:

	Other timing differences £m	**Total** **£m**
At 1 April 2018	10.9	10.9
(Charge) to income	(1.6)	(1.6)
At 31 March 2019	9.3	9.3
(Charge)/credit to income	(0.9)	(0.9)
At 31 March 2020	8.4	8.4

36. Cash and cash equivalents

	2020 **£m**	2019 £m
Cash at bank and in hand	**0.3**	0.3
Short term deposits	**28.4**	348.9
Total	**28.7**	349.2

Notes to the Company financial statements (continued)

37. Trade and other payables

	2020 **£m**	2019 £m
Other payables	**0.1**	1.2
Amounts owed to group undertakings	**0.3**	14.9
	0.4	16.1
Disclosed within non-current liabilities	**0.3**	14.9
Disclosed within current liabilities	**0.1**	1.2

All amounts owed to group undertakings are unsecured, interest free and repayable on demand. During the year, management have reviewed the classification of intercompany payables and have taken the decision to reclassify some balances from current to non-current.

38. Borrowings

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

	2020 **£m**	2019 £m
Secured bank loans and private placements	**911.1**	575.6
Amounts owed to group undertakings	**3,426.2**	3,825.3
	4,337.3	4,400.9
Interest payable on secured bank loans, private placements	**14.8**	9.7
Interest payable on amounts owed to group undertakings	**3,270.6**	3,121.9
Total	**7,622.7**	7,532.5
Disclosed within current liabilities	**17.0**	426.7
Disclosed within non-current liabilities	**7,605.7**	7,105.8

Amounts owed to group undertakings relate to the following:

- Loans totalling £174.3 million (2019: £572.3 million) owed to Thames Water (Kemble) Finance plc, the financing subsidiary of the Company, which on-lends all financing raised at equivalent interest rates to the external borrowing rate, plus an annual margin of £10,000 (2019: £10,000).
- A loan totalling £3,100.6 million (2019: £3,100.6 million) owed to the immediate parent company, Kemble Water Eurobond plc. This amount is repayable on demand and incurs interest at 10%.
- A loan totalling £15.0 million (2019: £15.0 million) from fellow subsidiary undertaking, Thames Water Investments Limited, which is repayable on demand and incurs interest at LIBOR + 0.5%
- A loan of £136.3 million (2019: £136.3 million) from fellow subsidiary undertaking, Thames Water Limited, which is repayable on demand and incurs interest at LIBOR + 0.5%.

Notes to the Company financial statements (continued)

39. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies. The Company does not hold any derivative financial assets or liabilities (2019: none).

Categories of financial instruments

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

	2020 £m	2019 £m
Financial assets:		
Amortised cost		
Trade and other receivables	**575.3**	713.1
Cash and cash equivalents	**28.7**	349.2
Total	**604.0**	1,062.3
Financial liabilities:		
Amortised cost		
Trade and other payables	**(0.4)**	(16.2)
Borrowings	**(7,622.7)**	(7,532.5)
Total	**(7,623.1)**	(7,548.7)

Fair value measurements

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

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's trade receivables and trade payables 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 table below:

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Current				
Cash and cash equivalent	**28.7**	**28.7**	349.2	349.2
Total	**28.7**	**28.7**	349.2	349.2
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(911.1)**	**(877.2)**	(575.6)	(620.7)
Amounts owed to group undertakings	**(3,426.2)**	**(3,426.2)**	(3,426.0)	(3,426.0)
Interest payable	**(3,268.4)**	**(3,268.4)**	(3,104.2)	(3,104.2)
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Current				
Borrowings:				
Amounts owed to group undertakings	**-**	**-**	(399.3)	(399.3)
Interest payable	**(17.0)**	**(17.0)**	(27.4)	(27.4)
Total	**(7,622.7)**	**(7,588.8)**	7,532.5	7,577.6

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Capital risk management

Details of the Group's capital risk management strategy can be found on page 14. The capital structure of the Company is as follows:

	2020 £m	2019 £m
Cash and cash equivalents	**28.7**	349.2
Secured bank loans	**(911.1)**	(575.6)
Interest payable on secured bank loans	**(14.8)**	(9.7)
Amounts owed to group undertakings	**(3,426.2)**	(3,825.2)
Interest payable on amounts owed to group undertakings	**(3,270.6)**	(3,121.9)
Net debt	**(7,594.0)**	(7,183.2)
Deficit attributable to the owners of the Group	**(2,718.4)**	(2,184.8)

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described on page 15. The Company's activities expose it to credit and liquidity risk.

(a) Market risk

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 2020:	Total at fixed rates £m	Total at floating rates £m	Total £m
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	3,726.9	610.4	4,337.3
Total	3,726.9	610.4	4,337.3

As at 31 March 2019:	Total at fixed rates £m	Total at floating rates £m	**Total £m**
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	3,977.9	422.9	4,400.8
Total	3,977.9	422.9	4,400.8

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	Weighted average interest rate for fixed rate and index-linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and index-linked debt	
	2020	2019	**2020**	2019
	%	%	**Years**	Years
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	**9.2**	9.2	**15.3**	15.0
Total	**9.2**	9.2	**15.3**	15.0

Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2020. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2020		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(4.7)**	**4.7**	(2.8)	2.8
Equity	**(4.7)**	**4.7**	(2.8)	2.8

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, therefore the maximum exposure to credit risk at the year-end date was £574.7 million (2019: £704.9 million).

(c) Liquidity risk

Details of the nature and management of the Group's liquidity risk is provided on page 15.

The maturity profile of the Company's financial liabilities disclosed in the statement of financial position are given below.

	2020	2019
	£m	£m
Within one year	**-**	399.3
Between one and two years	**-**	-
Between two and three years	**248.8**	-
Between three and four years	**-**	248.0
Between four and five years	**186.5**	-
After more than five years	**3,902.0**	3,753.5
Total	**4,337.3**	4,400.8

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

Undiscounted amounts payable	**2020**	2019
	£m	£m
Within one year	**53.3**	471.6
Between one and two years	**53.2**	40.7
Between two and three years	**296.5**	40.7
Between three and four years	**39.7**	283.7
Between four and five years	**224.9**	26.6
After more than five years	**3,940.6**	3,810.1
Total	**4,608.2**	4,673.4

Notes to the Company financial statements (continued)

40. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2020 **£m**	2019 £m
Loss for the financial year	**(533.6)**	(508.2)
Add finance expense	**674.5**	627.7
Less finance income	**(12.7)**	(0.7)
Less investment income	**-**	(1.0)
Decrease in intercompany receivables	**53.9**	80.2
Decrease in intercompany payables	**(14.6)**	-
Taxation on loss on ordinary activities	**(126.5)**	(118.3)
Cash generated in operations	**41.0**	79.7

Notes to the Company financial statements (continued)

41. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings

At 31 March 2020 the Company held the following principal interests, all of which are either wholly or jointly owned either directly or indirectly through its subsidiary investments.

	Principal undertaking	Country of incorporation	Country of tax residence	Class of shares held	Proportion of voting rights and shares held
Direct					
Thames Water (Kemble) Finance plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Indirect					
Thames Water Utilities Limited	Water & wastewater	United Kingdom	United Kingdom	Ordinary	100%
Kennet Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Finance plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Foudry Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	50%
Shapeshare Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Innova Park Management Company Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water International Service Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia Pte Limited	Non-trading Company	Singapore	Singapore	Ordinary	100%
Thames Water International (Thailand) Limited	Non-trading Company	Thailand	Thailand	Ordinary/ Preference	100%
Thames Water International Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Investments Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Property Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Subsidiaries in liquidation process					
PCI Membrance Systems Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Overseas Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Environmental Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Nominees Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Developments Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Liquidations completed during the year ended 31 March 2020					
Thames Water Puerto Rico Inc	Legacy Investment	Puerto Rico	Puerto Rico	Ordinary	100%
Thames-Dick Superaqueduct Partners Inc	Joint Venture	Puerto Rico	Puerto Rico	Ordinary	50%
Stella Meta-Filters Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Portacel Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Dorm 1 Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products SH Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products UPE Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Prourement Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%

Notes to the Company financial statements (continued)

41. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings (continued)

The address of the registered office of all the above companies is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB with the exception of:

- Thames Water Asia Pte Limited (80 Robinson Road #02-00, Singapore, 68898)
- Thames Water International (Thailand) Limited (999/9 The offices at Central World, 29th Floor, Unit 2973K, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok)