Registered number: 05819317 (England & Wales)

Kemble Water Finance Limited

Interim report and financial statements

For the six month period ended 30 September 2020

Contents

Chairman's Report

Introduction

This report comprises a business and financial overview of Kemble Water Finance Limited for the six month period ended 30 September 2020 and constitutes unaudited key financial data and narrative review of performance over this period.

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

The Company is party to various financing agreements which require the Group to prepare unaudited consolidated financial statements. This interim report and financial overview has been prepared to meet these requirements and has been approved by the Company's Board as fairly representing the Group's consolidated financial position as at 30 September 2020 and its performance for the six month period ended 30 September 2020.

Business review

The Company acts as an intermediate holding company within the KWH Group and also acts as the borrower of funds both directly and through its direct subsidiary, Thames Water (Kemble) Finance Plc ("TW(K)F"), for use within the wider Group. Under these arrangements the Company has £1,199.8 million of external debt, £1,024.8 million of which has been raised directly by the Company and £175.0 million by TW(K)F.

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

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

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

Consequently, the Group's performance is largely dependent on the performance of TWUL and, as such, this report should be read alongside the interim financial statements for this entity which details its operating and financial performance for the six month period ended 30 September 2020. These can be located on the Thames Water website at https://corporate.thameswater.co.uk/about-us/our-investors/annual-results.

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

Principal risks and uncertainties

Following review, our principal risks, as disclosed in our 2019/20 Combined Report, remain largely unchanged. However, the risk landscape remains challenging due to the impacts of Covid-19 and continued uncertainty around our withdrawal from the EU ("Brexit").

Covid-19 has presented huge challenges. We are unclear on the sustained impact of unemployment and the general economic conditions. There has been increased pressure on our financial position, due to lower cash and debt collection and reduced non-household revenue arising from lower consumption. Our supply chain has been impacted by the reduced availability of chemicals used in water treatment - an industry-wide concern. As with all companies, the pandemic has created new cyber security threats, not least due to the large volume of our people working from home, whose mental and physical wellbeing we are focused on.

As the UK Government completes the final stages of negotiating Brexit, the potential for a deterioration in the political and regulatory environment over the next 12 months is heightened. In order to provide an uninterrupted service to our customers, we continue to identify and manage Brexit related exposures on our principal risks over the short, medium and long-term. In the short-term we are focusing on our supply chain, particularly securing key chemicals, which remains our primary concern, fuel and critical spares, as well as our ability to attract and retain talented and capable people both directly and through the supply chain.

The potential medium and long-term consequences of Covid-19 and Brexit will form part of our financial viability assessment and inform the outlook of our principal risks and uncertainties in our full year reporting.

Going Concern

Given the dependency on TWUL Group, the Directors have considered the going concern assessment made by the TWUL Group directors as well as the actions taken by TWUL Group post the balance sheet date of 30 September 2020. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL interim report for 2020/21, copies of which may be obtained from the Company Secretary's Office at Clearwater Court, Vastern Road, Reading, RG1 8DB

Chairman's Report (continued)

Going Concern (continued)

Summary of TWUL Group going concern assessment

The Group is the monopoly provider of the public water supply and wastewater treatment to areas including most of London and the Thames Valley. The regulatory regime in England and Wales provides water companies with stable and predictable revenues over an AMP. The framework ensures 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 the Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment.

The Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The potential impact of Covid-19 on the Group's financial performance has been assessed with a particular focus on operational cashflows and capital expenditure. Lower operational cashflows are expected mainly due to deferred payments and increases in bad debt from household customers and lower billable volumes in the non-household sector due to reduced consumption.

Various scenarios have been assessed, all of which show the Group having significant liquidity headroom. A severe but plausible downside case has been developed which assumes a prolonged period of lockdown due to Covid-19 in excess of the lockdown measures announced by the UK Government on 31 October 2020. In this scenario, operational cashflows would be temporarily lower in 2020/21, resulting in a Trigger Event, but would recover in subsequent years. Despite this being an undesirable outcome, the Group has material headroom against the Event of Default threshold, as such this does not impact the going concern assumption for the reasons outlined below.

The main consequences of a Trigger Event include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The Directors do not consider this scenario to cause a material uncertainty with regards to the going concern assumption. The Trigger Event is a feature of the Group's Whole Business Securitisation ("WBS") structure and acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the Group's creditworthiness as such, it does not affect the Group's continued access to its significant existing bank facilities nor would it disrupt the Group's ability to trade. The cash lockup preserves the value of the Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the Group has significant bank facilities which are sufficient to fund its programme and meet its obligations for the duration of the Trigger Event.

However, various remedial actions have been identified and could be implemented to avoid / reduce the occurrence of a Trigger Event if such a scenario were to materialise.

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

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

A severe but plausible downside case has been developed which assumes a prolonged period of lockdown which would result in operational cash flows at TWUL Group being temporarily lower in 2020/21 due to Covid-19. Under this scenario, a Trigger Event would take place at TWUL Group and it would be prohibited from paying out distributions for the duration of the Trigger Event. Such distributions would typically be used to service the interest payments on the external debt held by KWF and TW(K)F. The Directors believe that the sources of liquidity mentioned above are sufficient to allow KWF and TW(K)F to service the external debt interest for the duration of the cash lockup at TWUL Group.

Conclusion

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

Chairman's Report (continued)

Financial review

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

	Six month period ended 30 September 2020		Six month period ended 30 September 2019[1]	
	Underlying	**Total**	Underlying	Total
Revenue (£m)	**996.0**	**1,031.9**	1,065.3	1,096.5
Operating expenses (£m)	**(853.4)**	**(853.4)**	(813.0)	(813.1)
Other operating income (£m)	**31.8**	**31.8**	54.9	54.9
Operating profit (£m)	**174.4**	**210.3**	307.2	338.3
Net finance expense (£m)	**(465.1)**	**(465.1)**	(537.7)	(537.7)
Net (losses) / gains on financial instruments (£m)	**(355.8)**	**(355.8)**	(161.5)	(161.5)
Loss before tax (£m)	**(646.5)**	**(610.6)**	(392.0)	(360.9)
Loss after tax (£m)	**(525.8)**	**(496.7)**	(320.4)	(291.2)
Capital expenditure including intangibles (£m)	**498.8**	**498.8**	599.1	599.1
Statutory net debt (£m)	**(20,239.3)**	**(20,239.3)**	(19,464.3)	(19,464.3)
Gearing (%)[2]	**91.7**	**n/a**	89.1	n/a
Credit rating[3]	**n/a**	**Baa2 stable**	n/a	Baa1 neg

[1] The prior period results have been restated due to the recognition of a provision for property dilapidations and the capitalisation of leakage detection costs
[2] Ratio of covenant net debt to Regulatory Capital Value ("RCV")
[3] Representing the consolidated Corporate Family Rating assigned by Moody's to Thames Water Utilities Limited

Group revenue

Underlying revenue for the six-month period ended 30 September 2020 has decreased by 6.5% to £996.0 million year-on-year. The decrease was driven by various factors which mainly included lower allowed revenue set by our regulator Ofwat in AMP7 (5 year regulatory period from 1 April 2020 to 31 March 2025) and the adverse impact of Covid-19 on the non-household market, with many business premises being empty during lockdown. Such decreases have been partly offset by an increase in household revenue, due to the combination of more people being at, and working from home during lockdown and warm weather.

Our bills for wastewater customers include amounts relating to the construction of the Thames Tideway Tunnel. As we collect the cash, it is passed over to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the tunnel - also known as Tideway. As this money is not retained by us, we exclude it from our underlying results. The annual amounts included in our bills is driven by the phasing of construction works, which is the primary reason for the increase in revenue related to BTL, from £31.2 million for the six months ended 30 September 2019 to £35.9 million for the six months ended 30 September 2020.

Revenue is shown after a deduction of £23.8 million (30 September 2019: £13.9 million) relating to amounts that were deemed to be irrecoverable at the point of recognition.

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

Operating expenses

Total operating expense has increased by £40.3 million (5.0%) to £853.4 million (30 September 2019 restated: £813.1 million). The increase is driven mainly by:

- a £22.9 million increase in our rates costs, as we received a rebate in the prior period;
- an increase in employee costs of £15.1 million arising from increased resources to improve our service to customers and pay rises for non-manager grades;
- a £27.3 million increase in depreciation and amortisation, as we continue with our significant investment programme; offset by
- a decrease in 'exceptional' costs of £8.2 million relating to a significant restructuring of the business that primarily occurred in the previous period; and
- a decrease of £16.8 in other operating expenses as we insource more of the delivery of our capital programme leading to more of our costs being capitalised.

Chairman's Report (continued)

Net finance expense

To keep our investment programme affordable for our customers, and to protect them from volatility in bills, we borrow from external institutions and through external debt capital markets. We are required to pay interest on these borrowings leading to a net finance expense. Our net finance expense for the first six months of the year was £465.1 million (30 September 2019: £537.7 million). This is made up of £544.3 million interest expense offset by £79.2 million of interest income. £33.9 million finance expense that is directly attributable to constructing specific assets is included in the cost of the asset.

Our statutory net debt, essentially our borrowings plus lease liability less cash and cash equivalates and short-term investments, has increased by £562.6 million to £20,239.3 million as we continue to use external funding in order to deliver our capital investment programme in the most affordable way for our customers.

Financial instruments

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

We have approximately £9.1 billion of derivative financial instruments (face value). For the purposes of our financial statements, we are required to "fair value" our portfolio as at the reporting date. We report these non-cash value movements within our Income Statement creating volatility in our reported profit before tax. During the six month period a net loss of £355.8 million (30 September 2019: loss of £161.5 million) on financial instruments has been recognised in the income statement.

This is primarily driven by a £369.1 million fair value loss, £18.8 million loss on the cash flow hedge transferred from reserves, partially offset by a £32.1 million net foreign exchange gain on foreign currency loans.

Taxation

The tax credit in the period arises from the movement in current and deferred tax. Current tax arises on the sale of tax losses as group relief to other group companies. The movement in deferred tax is predominantly a result of movement in cash flow hedges. Deferred tax for the six months ended 30 September 2020 has been calculated at a rate of 19% (2019: 19%). This has reduced the Group's deferred tax liability (and will reduce any future current tax charges) accordingly, this benefit will eventually flow through to customers in the form of lower bills.

Any taxable profits in any of the Group's UK subsidiaries in the current year are expected to be offset by tax losses claimed from other companies in the KWH Group as group relief. All intercompany interest paid is due to group companies that are tax resident in the UK.

Our tax position remains an area of focus for many. We continue to be transparent about our finances and seek to describe these in a simple and straightforward way and have recently published our sixth edition of 'Our finances explained' on our website.

Capital expenditure

During the first six months we invested a total of £498.8 million (30 September 2019: £599.1 million) in our assets, across tangible and intangible assets. Our investment is down on last year due to delays driven by Covid-19. Excluding capitalised borrowing costs of £33.9 million, we invested the following:

Segment	Above ground assets (£m)	Below ground assets (£m)	Total (£m)
Water (£m)	176.8	82.2	259.0
Waste (£m)	150.4	55.5	205.9
Total (£m)	327.2	137.7	464.9

Some examples of projects within the above capital expenditure include:

- £76.4 million on improving and replacing our water network;
- £16.7 million on our metering programme (Water);
- £12.0 million on connecting our network to the Thames Tideway Tunnel (Waste);

Group debt

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

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

Chairman's Report (continued)

Credit rating

In July 2020, Moody's completed its periodic review and re-affirmed their March 2020 assignment of Thames Water Utilities Limited's Corporate Family Rating ("CFR") as Baa2 with stable outlook (30 September 2019: Baa1 with negative outlook). Moody's also re-affirmed their March 2020 assignment of Thames Water Utilities Limited's senior secured (Class A) debt rating as Baa1 with stable outlook (30 September 2019: A3 with negative outlook) and subordinated (Class B) debt rating as Ba1 with stable outlook (30 September 2019: Baa3 with negative outlook).

In February 2020, S&P affirmed Thames Water Utilities Limited's credit rating of BBB+ and BBB- (30 September 2019: BBB+ and BBB-) in respect of senior secured (Class A) debt and subordinated (Class B) debt respectively, with negative outlook (30 September 2019: negative outlook).

These investment grade credit ratings continue to enable Thames Water to access efficiently priced debt to fund the investment programme, which is an important factor in 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 from BB- to B+ (negative outlook). The directors do not consider that the change in rating reflects a material change in credit risk or impacts the ability of KWF or the company to issue debt via the capital markets.

Dividends

TWUL has paid no dividends in the six months to 30 September 2020 (six months to 30 September 2019: £28.0 million). Dividends paid during previous periods were applied to the interest cost of third party interest cost at group level. The Board of Directors have not declared any interim dividends in the six months ended 30 September 2020. Consequently, the external shareholders of the KWH Group have not received any distributions for amounts relating to the current year.

Pensions

We run three pension schemes for our employees - two defined benefit schemes and one defined contribution scheme. During the six-month period ended 30 September 2020, we contributed £7.1 million (30 September 2019: £6.6 million) to our defined contribution scheme.

In December 2019, we completed the triennial valuation dated 31 March 2019 for our two defined benefit pension schemes. Our defined benefit schemes' valuation has been updated to 30 September 2020 on our behalf by independent and professionally qualified consulting actuary, Hymans Robertson LLP.

The net deficit on our defined benefit schemes has increased by £331.3 million to £452.9 million as at 30 September 2020 (31 March 2020: £121.6m), as a result of changes in actuarial assumptions. The increase in the deficit is mostly driven by a decrease in the discount rate for both schemes due to falls in corporate bond yields over the half-year due to the economic impact of Covid-19, resulting in an actuarial loss. This has been partly offset by the deficit reduction contributions paid by the company over the half-year. We are not unique in facing an increased net deficit, as other companies with large defined benefit pension schemes are similarly affected by the economic impact of Covid-19.

We've been taking measures to reduce the overall deficit by making regular contributions and deficit repair payments and, as part of the last triennial valuation dated 31 March 2019, a recovery plan was agreed with the trustees aimed at reducing the deficit to zero by 2027.

Governance Changes

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

M McNicholas
S Deeley
J Divoky
A Hall
G Lambert
P Noble
G Pestrak
G Tucker (appointed 21 May 2020)
M Bloch-Hansen
E Howell (resigned 8 April 2020)
C Pham
F Sheng
J Cogley
B Moncik
I Grund (resigned 16 November 2020)
P McCosker
M Wang
H De Run (appointed 8 April 2020)
Y Deng (appointed 21 May 2020)
S Obozian (appointed 16 November 2020)

Chairman's Report (continued)

Governance Changes (continued)

The following Directors were 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	S Obozian
M Bloch-Hansen	S Obozian
G Lambert	P McCosker
M McNicholas	S Obozian
G Tucker	Y Deng

P Noble
Chairman

30 November 2020

Condensed income statement

For the six month period ended

	30 September 2020			30 September 2019[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue	**996.0**	**35.9**	**1,031.9**	1,065.3	31.2	1,096.5
Operating expenses excluding impairment losses on financial and contract assets[2]	**(842.3)**	**-**	**(842.3)**	(799.6)	-	(799.6)
Impairment losses on financial and contract assets	**(11.1)**	**-**	**(11.1)**	(13.4)	(0.1)	(13.5)
Total operating expenses	**(853.4)**	**-**	**(853.4)**	(813.0)	(0.1)	(813.1)
Other operating income	**31.8**	**-**	**31.8**	54.9	-	54.9
Operating profit	**174.4**	**35.9**	**210.3**	307.2	31.1	338.3
Finance income	**79.2**	**-**	**79.2**	5.3	-	5.3
Finance expense	**(544.3)**	**-**	**(544.3)**	(543.0)	-	(543.0)
Net losses on financial instruments	**(355.8)**	**-**	**(355.8)**	(161.5)	-	(161.5)
(Loss)/profit on ordinary activities before taxation	**(646.5)**	**35.9**	**(610.6)**	(392.0)	31.1	(360.9)
Taxation on profit on ordinary activities	**120.7**	**(6.8)**	**113.9**	71.6	(1.9)	69.7
(Loss)/profit for the period	**(525.8)**	**29.1**	**(496.7)**	(320.4)	29.2	(291.2)

Condensed statement of other comprehensive income

For the six month period ended

	30 September 2020			30 September 2019[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the period	**(525.8)**	**29.1**	**(496.7)**	(320.4)	29.2	(291.2)
Other comprehensive income						
Will not be reclassified to the income statement:						
Net actuarial losses on pension schemes	**(353.7)**	**-**	**(353.7)**	(48.1)	-	(48.1)
Deferred tax on net actuarial losses	**81.0**	**-**	**81.0**	9.8	-	9.8
May be reclassified to the income statement:						
Loss on cash flow hedges	**-**	**-**	**-**	(4.1)	-	(4.1)
Cash flow hedges transferred to income statement	**18.8**	**-**	**18.8**	15.9	-	15.9
Deferred tax charge on cash flow hedges	**(3.5)**	**-**	**(3.5)**	(2.0)	-	(2.0)
Other comprehensive income	**(257.4)**	**-**	**(257.4)**	(28.5)	-	(28.5)
Total comprehensive (expense)/income	**(783.2)**	**29.1**	**(754.1)**	(348.9)	29.2	(319.7)

[1] The prior period results have been restated due to the recognition of a provision for property dilapidations and the capitalisation of leakage detection costs, which are disclosed in note 2.
[2] Operating expenses for the six months ended 30 September 2020 includes £8.2 million (30 September 2019: £16.4 million) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 1.

All of the Group's activities above are derived from continuing activities.

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

Condensed statement of financial position

As at

	30 September 2020			31 March 2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current assets						
Goodwill	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Interest in Joint Venture	**-**	**-**	**-**	-	-	-
Intangible assets	**267.7**	**-**	**267.7**	273.7	-	273.7
Property, plant and equipment	**16,516.4**	**-**	**16,516.4**	16,328.7	-	16,328.7
Right-of use asset	**45.3**	**-**	**45.3**	52.3	-	52.3
Trade and other receivables	**59.9**	**195.9**	**255.8**	71.1	159.0	230.1
Retirement benefit surplus TWMIPS	**9.0**	**-**	**9.0**	94.5	-	94.5
Derivative financial assets	**364.8**	**-**	**364.8**	374.3	-	374.3
	18,731.2	**195.9**	**18,927.1**	18,662.7	159.0	18,821.7
Current assets						
Inventories and current intangible assets	**14.7**	**-**	**14.7**	13.6	-	13.6
Contract assets	**224.6**	**1.0**	**225.6**	235.4	1.5	236.9
Trade and other receivables	**984.9**	**10.0**	**994.9**	484.9	5.5	490.4
Cash and cash equivalents	**533.8**	**13.5**	**547.3**	815.2	2.6	817.8
Short term investments	**-**	**-**	**-**	300.0	-	300.0
	1,758.0	**24.5**	**1,782.5**	1,849.1	9.6	1,858.7
Current liabilities						
Contract liabilities	**(513.7)**	**(10.9)**	**(524.6)**	(123.8)	(0.3)	(124.1)
Trade and other payables	**(593.8)**	**(22.4)**	**(616.2)**	(661.1)	(10.3)	(671.4)
Lease liabilities	**(7.5)**	**-**	**(7.5)**	(7.9)	-	(7.9)
Borrowings	**(1,395.5)**	**-**	**(1,395.5)**	(1,814.9)	-	(1,814.9)
Derivative financial liabilities	**-**	**-**	**-**	(15.0)	-	(15.0)
	(2,510.5)	**(33.3)**	**(2,543.8)**	(2,622.7)	(10.6)	(2,633.3)
Net current (liabilities)/assets	**(752.5)**	**(8.8)**	**(761.3)**	(773.6)	(1.0)	(774.6)
Non-current liabilities						
Contract liabilities	**(725.9)**	**-**	**(725.9)**	(707.3)	-	(707.3)
Lease liabilities	**(56.5)**	**-**	**(56.5)**	(62.4)	-	(62.4)
Borrowings	**(19,324.5)**	**-**	**(19,324.5)**	(18,906.7)	-	(18,906.7)
Derivative financial liabilities	**(1,371.2)**	**-**	**(1,371.2)**	(1,045.9)	-	(1,045.9)
Deferred tax	**(992.2)**	**-**	**(992.2)**	(1,120.8)	-	(1,120.8)
Provisions for liabilities and charges	**(145.4)**	**-**	**(145.4)**	(145.6)	-	(145.6)
Retirement benefit obligations TWPS	**(461.9)**	**-**	**(461.9)**	(216.1)	-	(216.1)
	(23,077.6)	**-**	**(23,077.6)**	(22,204.8)	-	(22,204.8)
Net (liabilities)/assets	**(5,098.9)**	**187.1**	**(4,911.8)**	(4,315.7)	158.0	(4,157.7)
Equity						
Called up share capital	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	**(74.9)**	**-**	**(74.9)**	(90.2)	-	(90.2)
Retained earnings	**(5,025.0)**	**187.1**	**(4,837.9)**	(4,226.5)	158.0	(4,068.5)
Total equity	**(5,098.9)**	**187.1**	**(4,911.8)**	(4,315.7)	158.0	(4,157.7)

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

Condensed statement of changes in equity

For the six month period ended 30 September 2020

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
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)**
Restated loss for the period	-	-	(291.2)	**(291.2)**
Gain on cash flow hedge	-	(4.1)	-	**(4.1)**
Cash flow hedges transferred to income statement	-	15.9	-	**15.9**
Deferred tax on cash flow hedge	-	(2.0)	-	**(2.0)**
Actuarial loss on pension scheme	-	-	(48.1)	**(48.1)**
Deferred tax on actuarial loss	-	-	9.8	**9.8**
Restated 30 September 2019	**1.0**	**(108.2)**	**(4,207.6)**	**(4,314.8)**
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)**
Restated 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)**
Loss for the period	-	-	(496.7)	**(496.7)**
Cash flow hedges transferred to income statement	-	18.8	-	**18.8**
Deferred tax on cash flow hedge	-	(3.5)	-	**(3.5)**
Actuarial loss on pension scheme	-	-	(353.7)	**(353.7)**
Deferred tax on actuarial loss	-	-	81.0	**81.0**
30 September 2020	**1.0**	**(74.9)**	**(4,837.9)**	**(4,911.8)**

[1] The prior period results have been restated due to the recognition of a provision for property dilapidations and the capitalisation of leakage detection costs, which are disclosed in note 2.

Condensed statement of cash flows

For the six month period ended

	30 September 2020			30 September 2019[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Operating activities:						
(Loss)/profit for the financial year	**(525.8)**	**29.1**	**(496.7)**	(320.4)	29.2	(291.2)
Less finance income	**(79.2)**	**-**	**(79.2)**	(5.3)	-	(5.3)
Add finance expense	**542.6**	**-**	**542.6**	540.7	-	540.7
Add interest expense on lease liabilities	**1.7**	**-**	**1.7**	2.3	-	2.3
Add net losses on fair value of financial instruments	**355.8**	**-**	**355.8**	161.5	-	161.5
Taxation on (loss)/profit on ordinary activities	**(120.7)**	**6.8**	**(113.9)**	(71.6)	1.9	(69.7)
Operating profit	**174.4**	**35.9**	**210.3**	307.2	31.1	338.3
Depreciation on property, plant and equipment	**290.5**	**-**	**290.5**	278.4	-	278.4
Depreciation on right of use asset	**5.6**	**-**	**5.6**	4.0	-	4.0
Amortisation of intangible assets	**26.3**	**-**	**26.3**	13.2	-	13.2
Loss on sale of property, plant and equipment	**0.5**	**-**	**0.5**	0.4	-	0.4
Difference between pension charge and cash contribution	**(23.4)**	**-**	**(23.4)**	(20.6)	-	(20.6)
(Increase)/decrease in inventory	**(1.1)**	**-**	**(1.1)**	2.8	-	2.8
Increase in trade and other receivables	**(419.2)**	**(48.2)**	**(467.4)**	(421.1)	(40.9)	(462.0)
Decrease/(increase) in contract assets	**10.8**	**0.5**	**11.3**	(16.9)	(0.1)	(17.0)
(Decrease)/increase in trade and other payables	**(61.4)**	**12.1**	**(49.3)**	(83.2)	(1.0)	(84.2)
Increase in contract liabilities	**408.5**	**10.6**	**419.1**	446.2	10.1	456.3
(Decrease)/increase in provisions	**(0.2)**	**-**	**(0.2)**	11.7	-	11.7
Cash generated from operations	**411.3**	**10.9**	**422.2**	522.1	(0.8)	521.3
Amounts paid in respect of group relief	**(0.4)**	**-**	**(0.4)**	(1.7)	-	(1.7)
Net cash generated by operating activities	**410.9**	**10.9**	**421.8**	520.4	(0.8)	519.6
Investing activities:						
Interest received	**45.1**	**-**	**45.1**	15.9	-	15.9
Decrease in current asset investments	**300.0**	**-**	**300.0**	-	-	-
Purchase of property, plant and equipment	**(484.3)**	**-**	**(484.3)**	(585.8)	-	(585.8)
Purchase of intangible assets	**(20.3)**	**-**	**(20.3)**	(21.4)	-	(21.4)
Proceeds from sale of property, plant and equipment	**-**	**-**	**-**	(0.3)	-	(0.3)
Net cash used in investing activities	**(159.5)**	**-**	**(159.5)**	(591.6)	-	(591.6)
Financing activities:						
New loans raised	**848.9**	**-**	**848.9**	1,128.9	-	1,128.9
Repayment of borrowings	**(1,123.0)**	**-**	**(1,123.0)**	(1,041.1)	-	(1,041.1)
Repayment of lease principal	**(6.6)**	**-**	**(6.6)**	(5.5)	-	(5.5)
Interest paid	**(230.9)**	**-**	**(230.9)**	(207.5)	-	(207.5)
Fees paid	**(5.9)**	**-**	**(5.9)**	(5.1)	-	(5.1)
Derivative accretion settlement[2]	**(15.3)**	**-**	**(15.3)**	-	-	-
Net cash used in financing activities	**(532.8)**	**-**	**(532.8)**	(130.3)	-	(130.3)
Net (decrease)/increase in cash and cash equivalents	**(281.4)**	**10.9**	**(270.5)**	(201.5)	(0.8)	(202.3)
Net cash and cash equivalents at beginning of period	**815.2**	**2.6**	**817.8**	513.8	7.6	521.4
Net cash and cash equivalents at end of period	**533.8**	**13.5**	**547.3**	312.3	6.8	319.1

[1] The prior period results have been restated due to the recognition of a provision for property dilapidations and the capitalisation of leakage detection costs, which are disclosed in note 2.
[2] Derivative accretion settlement of £15.3 million (30 September 2019: £nil) relates to index-linked swaps where accretion is payable periodically

Bazalgette Tunnel Limited ("BTL") is an independent company that was appointed in 2015 to construct the Thames Tideway Tunnel. BTL is responsible for the construction of the Thames Tideway Tunnel. For the period ended 30 September 2020 the Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. These amounts are subsequently paid to BTL. The revenue and profit on this arrangement, which is excluded from our key performance indicators, as required by some of our financial covenants, has been disclosed separately to the Group's underlying performance in the statements above. The cash balance included above reflects amounts collected and not paid over at the balance sheet date.

Analysis of net debt

	30 September 2020 £m	31 March 2020 £m
Secured bank loans, private placements and other financing	**(13,922.8)**	(14,206.0)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and other financing	**(147.1)**	(183.0)
Interest payable on amounts owed to group undertakings	**(3,549.5)**	(3,232.0)
Lease liability	**(64.0)**	(70.3)
	(20,784.0)	(20,791.9)
Cash and cash equivalents[1]	**544.7**	815.2
Short-term investments	**-**	300.0
Net debt (statutory basis)	**(20,239.3)**	(19,676.7)
Amounts owed to group undertakings	**3,100.6**	3,100.6
Interest payable on secured bank loans, private placements and other financing	**147.1**	183.0
Interest payable on amounts owed to group undertakings	**3,549.5**	3,232.0
Unamortised debt issuance costs and discount	**(87.7)**	(87.0)
Relevant derivative financial liabilities (Accretion and FX)	**(152.4)**	(110.6)
Fair value adjustments on acquisition to loans	**160.7**	166.5
IFRS 9 unamortised transition adjustment	**24.8**	25.1
Cash not relevant for covenant	**(30.9)**	(29.3)
Net debt (covenant basis)	**(13,527.6)**	(13,196.4)

[1]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.

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment, cash not relevant for covenant based on covenant definitions, fair value adjustment made to the Thames Water Group's borrowing on acquisition by Kemble Water consortium; includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rates on cross currency swaps.

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

	30 September 2020 £m	31 March 2020 £m
Securitised Class A debt	**(11,234.3)**	(11,718.9)
Securitised Class B debt	**(1,543.3)**	(1,393.3)
Subordinated debt	**(1,199.8)**	(1,099.8)
Cash net of covenant cash adjustment	**513.8**	1,085.9
Lease liability	**(64.0)**	(70.3)
Net debt (covenant basis)	**(13,527.6)**	(13,196.4)

Notes to the condensed consolidated financial statements

1. Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered unusual by nature and/or scale, the following costs are classified as exceptional for the six month period ended 30 September 2020.

For the six month period ended	30 September 2020			30 September 2019		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Company reorganisation - severance	0.2	-	0.2	12.4	-	12.4
Transformation and change set-up	8.0	-	8.0	4.0	-	4.0
Total net operating expenses	8.2	-	8.2	16.4	-	16.4

2. Restatements to the prior period

The Group has restated the prior periods as a result of provision for dilapidation and broadening of accounting policy regarding capitalisation of leakage detection costs.

Reconciliation of consolidated profit and loss for the six month period ended 30 September 2019

	As previously stated			Other restatements	Restated		
	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	BTL £m	Total £m
Revenue	1,065.3	31.2	1,096.5	-	1,065.3	31.2	1,096.5
Operating expenses excluding impairment losses on financial and contract assets	(808.9)	-	(808.9)	9.3	(799.6)	-	(799.6)
Impairment losses on financial and contract assets	(13.4)	(0.1)	(13.5)	-	(13.4)	(0.1)	(13.5)
Total operating expenses	(822.3)	(0.1)	(822.4)	9.3	(813.0)	(0.1)	(813.1)
Other operating income	54.9	-	54.9	-	54.9	-	54.9
Operating profit	297.9	31.1	329.0	9.3	307.2	31.1	338.3
Finance income	5.3	-	5.3	-	5.3	-	5.3
Finance expense	(543.0)	-	(543.0)	-	(543.0)	-	(543.0)
Net (losses) / gains on financial instruments	(161.5)	-	(161.5)	-	(161.5)	-	(161.5)
(Loss) on ordinary activities before taxation	(401.3)	31.1	(370.2)	9.3	(392.0)	31.1	(360.9)
Tax credit on (loss) on ordinary activities	73.1	(1.9)	71.2	(1.5)	71.6	(1.9)	69.7
(Loss) for the period	(328.2)	29.2	(299.0)	7.8	(320.4)	29.2	(291.2)

Notes to the consolidated financial statements (continued)

2. Restatements to the prior period (continued)

Reconciliation of consolidated statement of cash flows as at 30 September 2019

	Previously stated			Other restatements	**Restated**		
	Underlying £m	BTL £m	Total £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Operating activities:							
(Loss)/profit on ordinary activities before taxation	(328.2)	29.2	(299.0)	7.8	(320.4)	29.2	(291.2)
Less finance income	(5.3)	-	(5.3)	-	(5.3)	-	(5.3)
Add finance expense	540.7	-	540.7	-	540.7	-	540.7
Add interest expense on lease liabilities	2.3	-	2.3	-	2.3	-	2.3
Add loss on fair value of financial instruments	161.5	-	161.5	-	161.5	-	161.5
Add/(less) taxation on profit / (loss) on ordinary activities	(73.1)	1.9	(71.2)	1.5	(71.6)	1.9	(69.7)
Operating profit	297.9	31.1	329.0	9.3	307.2	31.1	338.3
Depreciation on property, plant and equipment	278.3	-	278.3	0.1	278.4	-	278.4
Depreciation of right of use assets	3.7	-	3.7	0.3	4.0	-	4.0
Amortisation of intangible assets	13.2	-	13.2	-	13.2	-	13.2
Loss on sale of property, plant and equipment	0.4	-	0.4	-	0.4	-	0.4
Difference in pension charge and cash contribution	(20.6)	-	(20.6)	-	(20.6)	-	(20.6)
Decrease in inventory	2.8	-	2.8	-	2.8	-	2.8
Increase in trade and other receivables	(421.1)	(40.9)	(462.0)	-	(421.1)	(40.9)	(462.0)
Increase in contract assets	(16.9)	(0.1)	(17.0)	-	(16.9)	(0.1)	(17.0)
Decrease in trade and other payables	(83.2)	(1.0)	(84.2)	-	(83.2)	(1.0)	(84.2)
Increase in contract liabilities	446.2	10.1	456.3	-	446.2	10.1	456.3
Increase in provisions	11.2	-	11.2	0.5	11.7	-	11.7
Cash generated from operations	511.9	(0.8)	511.1	10.2	522.1	(0.8)	521.3
Payments for group relief	(1.7)	-	(1.7)	-	(1.7)	-	(1.7)
Net cash generated by operating activities	510.2	(0.8)	509.4	10.2	520.4	(0.8)	519.6
Investing activities:							
Interest received	15.9	-	15.9	-	15.9	-	15.9
Purchase of property, plant and equipment	(575.6)	-	(575.6)	(10.2)	(585.8)	-	(585.8)
Purchase of intangible assets	(21.4)	-	(21.4)	-	(21.4)	-	(21.4)
Proceeds from sale of property, plant and equipment	(0.3)	-	(0.3)	-	(0.3)	-	(0.3)
Net cash used in investing activities	(581.4)	-	(581.4)	(10.2)	(591.6)	-	(591.6)
Financing activities:							
New loans raised	1,128.9	-	1,128.9	-	1,128.9	-	1,128.9
Repayment of borrowings	(1,041.1)	-	(1,041.1)	-	(1,041.1)	-	(1,041.1)
Repayment of lease principal	(5.5)	-	(5.5)	-	(5.5)	-	(5.5)
Interest paid	(207.5)	-	(207.5)	-	(207.5)	-	(207.5)
Fees paid	(5.1)	-	(5.1)	-	(5.1)	-	(5.1)
Derivative settlements	-	-	-	-	-	-	-
Net cash used in financing activities	(130.3)	-	(130.3)	-	(130.3)	-	(130.3)
Net decrease in cash and cash equivalents	(201.5)	(0.8)	(202.3)	-	(201.5)	(0.8)	(202.3)
Net cash and cash equivalents at beginning of period	513.8	7.6	521.4	-	513.8	7.6	521.4
Net cash and cash equivalents at end of period	312.3	6.8	319.1	-	312.3	6.8	319.1

Notes to the consolidated financial statements (continued)

3. Post balance sheet events

Financing

In October 2020, Thames Water Utilities Finance issued £84.7 million Class A bonds with a maturity of 2023 and EUR 400.0 million (equivalent to £362.8 million) Class A bonds with a maturity of 2023.

In November 2020, Thames Water Utilities Finance issued EUR 100.0 million (equivalent to £90.4 million) Class A bonds with a maturity of 2023 and USD 57.0 million (equivalent to £44.2 million) Class A bonds with a maturity of 2030.

The proceeds from the bonds were partially used to repay drawdowns from the Class A revolving credit facility, recognised within current liabilities - borrowings at 30 September 2020.

In November 2020, the Company's financing subsidiary Thames Water (Kemble) Finance Plc ("TWKF") issued £250.0 million Notes with a maturity of 2026. The proceeds were on lent to the Company at a margin of 0.10%. The Company used the proceeds from this intercompany loan to repay £62.5 million plus accrued interest to TWKF towards repayment of £59.9 million principal of the £175.0 million intercompany loan at a re-purchase price of 104.5. These proceeds were then used by TWKF to repay £59.9 million principal of the £175.0 million external Notes due in 2022 at a re-purchase price of 104.5% plus accrued interest. The Company has also given notice to prepay (in December 2020), a £75.0m external term loan that was due in 2022.

In November 2020 the UK Government announced that RPI reform will not take place until after February 2030, and the UK Statistics Authority's preferred method of amending the calculation of RPI is to align with CPIH. The reform of RPI is expected to impact certain long-term financial assets and liabilities held by the Group including borrowings, swaps, pension assets, pension liabilities as well as certain regulatory mechanisms. Management will continue to monitor the financial impact of this and any further announcements.

In November 2020 as part of the latest instalment of the Lloyds Banking Group litigation, the judge on that case concluded that trustees must top-up past transfer payments if no provision was made for the need to equalise benefits for differences attributed to guaranteed minimum pensions. Management will reflect this conclusion in the accounting of pension liabilities for the Group's year end accounts.

In November 2020 the Group announced that the Thames Water Pension Scheme (TWPS), which is one of two defined benefit schemes operated by the Group, will be closing to future accrual from 31 March 2021. All benefits earned by employees in this scheme up to 31 March 2021 are the responsibility of the Company to fund. The financial impact of this announcement will be reflected in the Group's year end accounts.