Registered number: 05819317 (England & Wales)

Kemble Water Finance Limited

Interim report and financial statements

For the six month period ended 30 September 2022

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 2022 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 2022 and its performance for the six month period ended 30 September 2022.

Business review

The Company acts as an intermediate holding company within the KWH Group and also acts as the borrower of funds both directly and through its direct subsidiary, Thames Water (Kemble) Finance Plc ("TW(K)F"), for use within the wider Group. Under these arrangements the Company together with TW(K)F have £1,350 million of external debt, £950 million of which has been raised directly by the Company and £400 million by TW(K)F. In July 2022, the Company repaid a £115 million intercompany loan with TW(K)F in relation to a £115 million external bond which was repaid on the same date 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 2022. These can be located on the Thames Water website at https://www.thameswater.co.uk/about-us/investors/our-results.

The Group's management structure separates the 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.

Principal risks and uncertainties

Following review our principal risks, as disclosed in the Thames Water Annual Report and Sustainability Report 2022/23, remain largely unchanged. However, the risk landscape remains challenging due to the on-going cost-of-living crisis, inflation rate increases and the summer drought event which has caused additional stress on our water and wastewater networks. Additionally, there are further challenges around the risk of damage and flooding of the wastewater network, supply interruptions and visible leakage on our water network.

We continue to invest in our infrastructure to increase our capacity and improve network resilience, as well as allocating additional funding to support our leakage detection programme, however we are facing legal and regulatory challenges including in-flight investigations by Ofwat and the EA.

Pressure remains on our financial position due to challenges in cash and debt collection. In the wake of the ongoing cost-of-living crisis with inflation and interest rate increases, we continue to support customers that face financial hardship and are unable to pay their water bill.

In addition, we are experiencing increased disruption within our supply chain, including shortage of critical chemical supplies in UK/Europe (a sector-wide issue that is being monitored at a national level) and unprecedented price increases across key components of our cost base (power and chemicals). Looking ahead, we anticipate continued rises in power prices due to market volatility. Inflationary pressures are expected to continue into FY24, impacting our cost base and our cash collection rate.

Chairman's Report (continued)

Going Concern

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

Given the dependency on TWUL, the Directors have considered the going concern assessment made by the TWUL directors as well as the actions taken by TWUL post the balance sheet date of 30 September 2022. The section below, "Summary of TWUL going concern assessment" outlines this assessment where the TWUL board has concluded it appropriate to prepare the financial statements for TWUL on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL 2022/23 Interim Report, copies of which may be obtained from the Company Secretary's Office at Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Summary of TWUL Group going concern assessment

In assessing the appropriateness of the going concern basis, the TWUL directors have considered a range of factors under both a base case and a plausible but severe downside including; liquidity, cashflow projections and covenant compliance and based on this they are satisfied that it is appropriate that the financial statements are prepared on a going concern basis.

The TWUL Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The TWUL Group has adequate liquidity headroom based on financial resources in the form of cash, committed bank facilities. As of 30 September 2022, such liquidity consisted of £263 million of cash and cash equivalents, access to £1.8 billion of revolving credit facilities of which £1.0 billion was undrawn and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). This is in addition to the £500 million equity commitment which can be drawn in March 2023, as described below. Additional loan facilities in aggregate of £1.16 billion have been put in place in over the course of November and December 2022. Furthermore during the pandemic, the TWUL Group continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the TWUL Group is subject to financial covenants, assessed based on cash interest cover and gearing ratios. With headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

In June 2022, to support Thames Water in the delivery of its updated business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the TWUL Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. Given the equity commitment of £500 million has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the TWUL directors believe it reasonable that the £500 million of equity support can be taken into account for the going concern assessment, which considers the impact of a severe but plausible downside scenario.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints, and cost of living concerns, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and to a lesser extent lower billable volumes in the non-household sector due to reduced economic activity and consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To lessen the impact on operational cashflows, various mitigations are available which include, but are not limited to, active working capital management. Under the various scenarios, the business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

The going concern assessment also takes into account inflation linked swaps with a notional value of around £1.0 billion with maturities of 10 years transacted post the balance sheet date of 30 September 2022. 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.

The TWUL directors have also considered the consequences of a temporary Trigger Event, a feature of the TWUL's Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the TWUL Group's creditworthiness as such, it does not affect the TWUL Group's continued access to its significant existing bank facilities nor would it disrupt the TWUL Group's ability to trade. The cash lockup preserves the value of the TWUL Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the TWUL Group has significant bank facilities which the TWUL directors believe are sufficient to fund its programme and meet its obligations for the duration of a temporary Trigger Event over the assessment period.

Based on the above, the Board is satisfied that the TWUL Group has adequate resources, for a period of at least 12 months from the date of approval of the condensed financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Conclusion

The conclusion from the TWUL Board helps to underpin the Directors' belief that KWF has the ability to meet its financial obligations over the assessment period.

The Directors have assessed the Company's liquidity position and ability to comply with its financial covenants which differ from that of TWUL Group. The financial covenants for KWF take into account the effects of the aggregate net debt outstanding as well as the operational cashflows and profits from KWF and its subsidiaries a consolidated basis. In addition to the cash balances available, KWF also has in place a committed undrawn working

Chairman's Report (continued)

Going Concern (continued)

Conclusion (continued)

capital facility which can fund at least 18 months of interest payments on the external debt held by KWF and its special purpose financing subsidiary TW(K)F. The Directors have considered projected cashflows and forecast compliance with the financial covenants during the assessment period. The debt facilities at KWF and TW(K)F contain an equity cure provision which allows shareholders to inject capital into KWF to remedy financial covenants which were not compliant with the required thresholds. Exercising the equity cure prior to delivery of the compliance certificate would therefore prevent an event of default taking place. An equity cure cannot be exercised in two successive periods. As of signing of the KWF Group Interim Accounts, KWE has sufficient funds which the shareholders can use as an equity cure to remedy in full KWF's financial covenants in the event the assumed severe but plausible scenario were to crystallise. In this downside, the equity cure would be exercised during the assessment period to remedy the interest cover ratio which relates to the £200 million private term loan maturing in July 2025 held with a single counterparty. As an alternative, this loan could be refinanced ahead of maturity without any make whole penalties which would remove the need to exercise the equity cure in the event the assumed downside crystallised. Other remedies include modifying or temporarily waiving the associated interest cover ratio. The Directors also performed a stress test analysis to establish the impact of a remote downside scenario, which extended the severe but plausible downside scenario analysis by modelling the impact of a temporary dividend lockup and / or Trigger Event at TWUL Group. Under such circumstances, TWUL Group would be prohibited from paying out distributions for the duration of the dividend lockup and / or 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.

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

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 2022		Six month period ended 30 September 2021	
	Underlying[1]	**Total**	Underlying	Total
Revenue (£m)	**1,093.8**	**1,136.2**	1,062.3	1,105.1
Operating expenses (£m)	**(981.5)**	**(981.6)**	(884.1)	(884.2)
Other operating income (£m)	**51.4**	**51.4**	36.7	36.7
Operating profit (£m)	**163.7**	**206.0**	214.9	257.6
Net finance expense (£m)	**(680.8)**	**(680.8)**	(542.2)	(542.2)
Net gains/(losses) on financial instruments (£m)	**580.0**	**580.0**	(455.6)	(456.6)
Profit/(Loss) before tax (£m)	**62.9**	**105.2**	(782.9)	(740.3)
Profit/(Loss) after tax (£m)	**(61.9)**	**4.0**	(955.7)	(921.3)
Capital expenditure including intangibles (£m)	**808.3**	**808.3**	627.2	627.2
Statutory net debt (£m)	**(22,948.5)**	**(22,948.5)**	(21,703.6)[2]	(21,703.6)[2]
Gearing (%)[3]	**87.0**	**n/a**	90.1	n/a
Credit rating[4]	**n/a**	**Baa2 stable / BBB stable**	n/a	Baa2 stable / BBB+ negative outlook

[1] Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"), the independent company responsible for the construction of the Thames Tideway Tunnel. As this money is not retained by us, we exclude it from our underlying results, as required by some of our financial covenants

[2] The comparative for the statutory net debt figures is the year end balance as at 31 March 2022

[3] Ratio of covenant net debt to Regulatory Capital Value ("RCV")

[4] Representing the consolidated Corporate Family Rating assigned by Moody's to Thames Water Utilities Limited / S&P Class A debt of the securitisation group

Group revenue

Underlying revenue for the six-month period ended 30 September 2022 has increased by 3.0% to £1,094 million year-on-year. The increase was driven by higher allowed revenue and a continued recovery in non-household consumption post the easing of Covid-19 restrictions, partially offset by lower consumption by household customers.

During the six-month period to 30 September 2022, the overall bad debt charge increased to £36 million (30 September 2021: £35 million). This was primarily driven by the impact of cost of living on our cash collections, offset by the benefits from our debt transformation project.

Chairman's Report (continued)

Operating expenses

Total operating expense has increased by £98 million to £982 million (30 September 2021: £884 million). The increase is driven by:

- a £33 million increase in power costs driven by the very high power price inflation that has impacted industries globally as well as our customers
- a £24 million increase in employment costs as we invested to improve our service to customers and were impacted by the temporary change in National Insurance rate
- a £17 million increase in depreciation and amortisation costs as we ramp up our capital delivery programme
- a £12 million increase in raw materials and consumables, driven by a significant increase in chemical prices due to high energy costs, and
- a £12 million increase in other expenses

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 £681 million (30 September 2021: £542 million), excluding £111 million finance expense that is directly attributable to constructing specific assets included in the cost of the asset.

Our statutory net debt, essentially our borrowings plus lease liability less cash and cash equivalents and short-term investments, has increased by £1,245 million to £22,949 million from 31 March 2022. This is primarily driven by a £373 million increase in intercompany loan interest payable to immediate parent, Kemble Water Eurobond plc and a £872 million net increase in the use of external funding 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 £11 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 gain of £580 million (30 September 2021: loss of £456 million) on financial instruments has been recognised in the income statement.

This is primarily driven by a £816 million net gain arising on swaps where hedge accounting is not applied, £11 million loss on the cash flow hedge transferred from equity and a £225 million net foreign exchange loss on foreign currency borrowings.

Taxation

The tax charge in the period arises from the movement in current and deferred tax. A current tax credit of £72 million arises on the sale of tax losses as group relief to companies in the KWH Group. There is also a deferred tax charge of £173 million in the period. The government enacted a corporation tax rate increase from 19% to 25%, with effect from 1 April 2023, which affects deferred tax balances in these accounts; a one-off tax expense of £321 million was booked for this in the income statement for the prior period. This tax rate change has increased the Group's net deferred tax liabilities and could increase future current tax charges.

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. Our tax strategy is available on our website, and we've included more tax information in "Our Finances Explained". All intercompany interest paid is due to group companies that are tax resident in the UK.

Capital expenditure

In the first six months of the year, we invested £808 million (30 September 2021: £627 million) in our assets, including £111 million related to capitalised borrowing costs. The material year on year increase reflected the planned increase in investment in our infrastructure to increase resilience in our network and help mitigate the dual impacts of climate change and population growth.

Capital expenditure for the first half of the financial year included following key projects:

- £193 million invested through our in-house Capital Delivery vehicle, including: £37 million on Water distribution mains replacement and rehabilitation in London and the Thames Valley; £21 million on the installation of new Water Trunk mains, including the Faringdon to Blunsdon route; £7m invested on our Pressure Management Programme; and £6m associated with the HS2 scheme;
- £107 million invested through our Infrastructure Alliance on our Water Network to reduce leakage and improve our trunk main network;
- £60 million on major projects, including £27 million on upgrading our major sewage treatment works at Beckton;
- £19 million on connecting our network to the Thames Tideway Tunnel, including £9 million on the Beckton Inlet works;
- £38 million on our Metering Programme

Chairman's Report (continued)

Group debt

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

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

Credit rating

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

In March 2022, Fitch affirmed KWF's senior secured debt rating at B+ (30 September 2021: B+) and KWF's Long-Term Issuer Default Rating at B+ with negative outlook (30 September 2021: B+ with negative outlook). In May 2022 Moody's completed a periodic review of Thames Water (Kemble) Finance plc's senior secured debt rating which continues at B1 with stable outlook (30 September 2021: B1 with stable outlook).

In May 2022, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating ("CFR") for TWUL continuing as Baa2 with a stable outlook (30 September 2021: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (30 September 2021: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (30 September 2021: Ba1 with stable outlook).

In September 2022, S&P lowered the ratings of the TWUL's Class A debt to BBB (30 September 2021: BBB+) and Class B debt to BB+ (30 September 2021: BBB-), with stable outlook (30 September 2021: negative outlook). The stable outlook reflects S&P's expectation that credit metrics will gradually improve through the current regulatory period.

Dividends

TWUL has paid no dividends in the six months to 30 September 2022 (six months to 30 September 2021: £nil). Dividends paid during previous periods were applied to the interest cost of third party debt at group level. The Board of Directors have not declared any interim dividends in the six months ended 30 September 2022. Consequently, the external shareholders of the KWH Group have not received any distributions for amounts relating to the current year.

Pensions

We operate four pension schemes for our employees - three defined benefit schemes and one defined contribution scheme. During the six-month period ended 30 September 2022, we contributed £14 million (30 September 2021: £13 million) to our defined contribution scheme. We have three independently administered defined benefit schemes, both of which are closed to new employees. These three schemes are the Thames Water Pension Scheme ("TWPS"), Thames Water Mirror Image Pension Scheme ("TWMIPS") and SUURBS Arrangement pension scheme ("SUURBS"). TWPS was closed to future accrual as of 31 March 2021.

In the financial year 2019/20, we completed the triennial valuation dated 31 March 2019 for our three defined benefit pension schemes. Our defined benefit schemes' accounting valuation has been updated to 30 September 2022 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net pension deficit for the three schemes as at 30 September 2022 was £168 million (31 March 2022: £253 million). The decrease in deficit was due to changes in actuarial financial assumptions occurring across all industries, including an increase in the discount rate due to higher corporate bond yields, which has resulted in an actuarial gain.

We have 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. In the FY20/21, there was an exceptional £70 million payment relating to the deficit repayment plan, which covered the remaining deficit payments agreed during AMP7. No further deficit repayment is due this financial year.

Chairman's Report (continued)

Governance Changes

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

S Deeley	
Y Deng	
J Divoky	
A Hall	
M McNicholas	
P Noble	
C Pham	
G Tucker	
M Wang	
D Wilkins	
S Lowndes	(appointed 29 April 2022)
T Mi	(appointed 30 September 2022)
R Noble	(appointed 30 September 2022)
G Merchant	(appointed 4 November 2022)
J Kim	(appointed 1 December 2022)
H Onarheim	(appointed 1 December 2022)
G Pestrak	(resigned 10 April 2022)
S Obozian	(resigned 29 April 2022)
F Sheng	(resigned 30 September 2022)
G Lambert	(resigned 1 December 2022)
M Bloch-Hansen	(resigned 1 December 2022)

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

Director	**Alternate Director**
P Noble	D Wilkins
A Hall	S Lowndes
H Onarheim	S Lowndes
C Pham	J Divoky
M McNicholas	S Lowndes
T Mi	M Wang
G Tucker	Y Deng

R Noble
Chairman
2 December 2022

Condensed income statement

For the six month period ended

	30 September 2022			30 September 2021		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**1,093.8**	**42.4**	**1,136.2**	1,062.3	42.8	1,105.1
Operating expenses excluding impairment losses on financial and contract assets	**(969.7)**	**-**	**(969.7)**	(876.1)	-	(876.1)
Impairment losses on financial and contract assets	**(11.8)**	**(0.1)**	**(11.9)**	(8.1)	(0.1)	(8.2)
Total operating expenses	**(981.5)**	**(0.1)**	**(981.6)**	(884.2)	(0.1)	(884.3)
Other operating income	**51.4**	**-**	**51.4**	36.7	-	36.7
Operating profit	**163.7**	**42.3**	**206.0**	214.8	42.7	257.5
Finance income	**56.7**	**-**	**56.7**	62.3	-	62.3
Finance expense	**(737.5)**	**-**	**(737.5)**	(604.5)	-	(604.5)
Net gains/(losses) on financial instruments	**580.0**	**-**	**580.0**	(455.6)	-	(455.6)
Profit/(loss) on ordinary activities before taxation	**62.9**	**42.3**	**105.2**	(783.0)	42.7	(740.3)
Tax (charge)/credit on profit/(loss) on ordinary activities	**(124.8)**	**23.6**	**(101.2)**	(172.9)	(8.1)	(181.0)
Profit/(loss) for the period	**(61.9)**	**65.9**	**4.0**	(955.9)	34.6	(921.3)

Condensed statement of other comprehensive income

For the six month period ended

	30 September 2022			30 September 2021		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Profit/(loss) for the period	**(61.9)**	**65.9**	**4.0**	(955.9)	34.6	(921.3)
Other comprehensive income						
Will not be reclassified to the income statement:						
Net actuarial gains/(losses) on pension schemes	**81.7**	**-**	**81.7**	(97.1)	-	(97.1)
Deferred tax (charge)/credit on net actuarial gains/(losses) including impact of tax rate change in prior period	**(19.3)**	**-**	**(19.3)**	60.3	-	60.3
May be reclassified to the income statement:						
Cash flow hedges transferred to income statement	**11.5**	**-**	**11.5**	18.3	-	18.3
Deferred tax charge on cash flow hedge less impact of tax rate change in prior period	**(2.2)**	**-**	**(2.2)**	-	-	-
Other comprehensive income	**71.7**	**-**	**71.7**	(18.5)	-	(18.5)
Total comprehensive income/(expense)	**9.8**	**65.9**	**75.7**	(974.4)	34.6	(939.8)

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 2022			31 March 2022		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Non-current assets						
Goodwill	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Intangible assets	**275.1**	**-**	**275.1**	285.0	-	285.0
Property, plant and equipment	**17,844.8**	**-**	**17,844.8**	17,372.7	-	17,372.7
Investment property	**50.0**	**-**	**50.0**	50.0	-	50.0
Right-of use asset	**42.8**	**-**	**42.8**	45.8	-	45.8
Prepayments	**10.6**	**345.3**	**355.9**	-	308.8	308.8
Insurance and other receivables	**42.0**	**-**	**42.0**	45.8	-	45.8
Pension surplus	**1.7**	**-**	**1.7**	12.0	-	12.0
Derivative financial assets	**782.0**	**-**	**782.0**	169.2	-	169.2
	20,517.1	**345.3**	**20,862.4**	19,448.6	308.8	19,757.4
Current assets						
Inventories	**17.0**	**-**	**17.0**	13.0	-	13.0
Contract assets	**250.7**	**8.3**	**259.0**	251.7	8.5	260.2
Trade receivables	**657.9**	**28.1**	**686.0**	301.9	14.0	315.9
Intercompany receivables	**224.5**	**-**	**224.5**	188.9	(36.2)	152.7
Prepayments	**55.5**	**-**	**55.5**	36.9	-	36.9
Other receivables and amounts owed by group undertakings	**35.6**	**-**	**35.6**	37.5	1.0	38.5
Cash and cash equivalents	**386.9**	**5.8**	**392.7**	697.3	5.2	702.5
Derivative financial assets	**11.0**	**-**	**11.0**	22.9	-	22.9
	1,639.1	**42.2**	**1,681.3**	1,550.1	(7.5)	1,542.6
Current liabilities						
Contract liabilities	**(501.0)**	**(15.4)**	**(516.4)**	(125.1)	(2.0)	(127.1)
Trade and other payables	**(688.3)**	**(7.3)**	**(695.6)**	(661.7)	(13.0)	(674.7)
Lease liabilities	**(6.7)**	**-**	**(6.7)**	(6.2)	-	(6.2)
Borrowings	**(1,296.4)**	**-**	**(1,296.4)**	(887.1)	-	(887.1)
Derivative financial liabilities	**(221.0)**	**-**	**(221.0)**	(103.0)	-	(103.0)
Provisions for liabilities and charges	**(7.5)**	**-**	**(7.5)**	-	-	-
	(2,720.9)	**(22.7)**	**(2,743.6)**	(1,783.1)	(15.0)	(1,798.1)
Net current liabilities	**(1,081.8)**	**19.5**	**(1,062.3)**	(233.0)	(22.5)	(255.5)
Non-current liabilities						
Contract liabilities	**(874.7)**	**-**	**(874.7)**	(831.8)	-	(831.8)
Lease liabilities	**(54.0)**	**-**	**(54.0)**	(57.1)	-	(57.1)
Borrowings	**(21,981.8)**	**-**	**(21,981.8)**	(21,453.4)	-	(21,453.4)
Derivative financial liabilities	**(1,786.5)**	**-**	**(1,786.5)**	(2,238.7)	-	(2,238.7)
Deferred tax liabilities	**(1,318.9)**	**-**	**(1,318.9)**	(1,124.2)	-	(1,124.2)
Provisions for liabilities and charges	**(192.9)**	**-**	**(192.9)**	(186.3)	-	(186.3)
Pension deficit	**(169.7)**	**-**	**(169.7)**	(264.5)	-	(264.5)
	(26,378.5)	**-**	**(26,378.5)**	(26,156.0)	-	(26,156.0)
Net (liabilities)/assets	**(6,943.2)**	**364.8**	**(6,578.4)**	(6,940.4)	286.3	(6,654.1)
Equity						
Called-up share capital	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	**(23.9)**	**-**	**(23.9)**	(33.2)	-	(33.2)
(Accumulated losses) / Retained earnings	**(6,920.3)**	**364.8**	**(6,555.5)**	(6,908.2)	286.3	(6,621.9)
Total equity	**(6,943.2)**	**364.8**	**(6,578.4)**	(6,940.4)	286.3	(6,654.1)

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 2022

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2021	**1.0**	**(59.8)**	**(4,992.6)**	**(5,051.4)**
Loss for the period	-	-	(921.3)	**(921.3)**
Cash flow hedges transferred to income statement	-	18.3	-	**18.3**
Deferred tax on cash flow hedge including impact of tax rate change	-	-	-	**-**
Actuarial loss on pension scheme	-	-	(97.1)	**(97.1)**
Deferred tax on actuarial loss including impact of tax rate change	-	-	60.3	**60.3**
At 30 September 2021	**1.0**	**(41.5)**	**(5,950.7)**	**(5,991.2)**
At 1 April 2021	**1.0**	**(59.8)**	**(4,992.6)**	**(5,051.4)**
Loss for the year	-	-	(1,649.3)	**(1,649.3)**
Cash flow hedges transferred to income statement	-	31.1	-	**31.1**
Deferred tax charge on cash flow hedges including impact of tax rate change	-	(4.5)	-	**(4.5)**
Actuarial loss on pension schemes	-	-	(22.9)	**(22.9)**
Deferred tax credit on actuarial loss	-	-	11.8	**11.8**
Impact of tax rate change in respect of net actuarial loss	-	-	31.1	**31.1**
At 31 March 2022	**1.0**	**(33.2)**	**(6,621.9)**	**(6,654.1)**
Profit for the period	-	-	4.0	**4.0**
Cash flow hedges transferred to income statement	-	11.5	-	**11.5**
Deferred tax charge on cash flow hedges	-	(2.2)	-	**(2.2)**
Actuarial gain on pension scheme	-	-	81.7	**81.7**
Deferred tax charge on actuarial gain	-	-	(19.3)	**(19.3)**
At 30 September 2022	**1.0**	**(23.9)**	**(6,555.5)**	**(6,578.4)**

Condensed statement of cash flows

For the six month period ended

	30 September 2022			30 September 2021		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Operating activities:						
Profit/(loss) for the financial year	**(61.9)**	**65.9**	**4.0**	(955.9)	34.6	(921.3)
Less finance income	**(56.7)**	**-**	**(56.7)**	(62.3)	-	(62.3)
Add finance expense	**735.9**	**-**	**735.9**	602.9	-	602.9
Add interest expense on lease liabilities	**1.6**	**-**	**1.6**	1.6	-	1.6
(Less)/add net gains/(losses) on financial instruments	**(580.0)**	**-**	**(580.0)**	455.6	-	455.6
Taxation on profit/(loss) on ordinary activities	**124.8**	**(23.6)**	**101.2**	172.9	8.1	181.0
Operating profit	**163.7**	**42.3**	**206.0**	214.8	42.7	257.5
Depreciation on property, plant and equipment	**313.8**	**-**	**313.8**	302.8	-	302.8
Depreciation on right of use asset	**3.3**	**-**	**3.3**	2.0	-	2.0
Amortisation of intangible assets	**32.3**	**-**	**32.3**	26.9	-	26.9
Gain on sale of property, plant and equipment	**-**	**-**	**-**	(0.2)	-	(0.2)
Difference between pension charge and cash contribution	**(6.1)**	**-**	**(6.1)**	(1.0)	-	(1.0)
(Increase)/decrease in inventory	**(4.0)**	**-**	**(4.0)**	1.0	-	1.0
Increase in trade and other receivables	**(380.5)**	**(49.6)**	**(430.1)**	(361.7)	(54.9)	(416.6)
Decrease/(increase) in contract assets	**1.0**	**0.2**	**1.2**	(24.2)	(2.7)	(26.9)
Increase/(decrease) in trade and other payables	**26.3**	**(5.7)**	**20.6**	(57.9)	3.3	(54.6)
Increase in contract liabilities	**418.7**	**13.4**	**432.1**	416.4	14.6	431.0
Increase in provisions	**14.1**	**-**	**14.1**	3.8	-	3.8
Net cash generated by operating activities	**582.6**	**0.6**	**583.2**	522.7	3.0	525.7
Investing activities:						
Interest received	**34.8**	**-**	**34.8**	40.5	-	40.5
Purchase of property, plant and equipment	**(786.0)**	**-**	**(786.0)**	(594.9)	-	(594.9)
Purchase of intangible assets	**(22.4)**	**-**	**(22.4)**	(32.3)	-	(32.3)
Proceeds from sale of property, plant and equipment	**-**	**-**	**-**	0.6	-	0.6
Net cash used in investing activities	**(773.6)**	**-**	**(773.6)**	(586.1)	-	(586.1)
Financing activities:						
New loans raised	**1,818.5**	**-**	**1,818.5**	1,616.6	-	1,616.6
Repayment of borrowings	**(1,685.1)**	**-**	**(1,685.1)**	(1,772.7)	-	(1,772.7)
Repayment of lease principal	**(4.7)**	**-**	**(4.7)**	(5.3)	-	(5.3)
Derivative settlement[1]	**(96.9)**	**-**	**(96.9)**	-	-	-
Interest paid	**(146.5)**	**-**	**(146.5)**	(206.7)	-	(206.7)
Net fees (paid)/received	**(4.7)**	**-**	**(4.7)**	5.8	-	5.8
Net cash used in financing activities	**(119.4)**	**-**	**(119.4)**	(362.3)	-	(362.3)
Net (decrease)/increase in cash and cash equivalents	**(310.4)**	**0.6**	**(309.8)**	(425.7)	3.0	(422.7)
Net cash and cash equivalents at beginning of period	**697.3**	**5.2**	**702.5**	803.2	3.6	806.8
Net cash and cash equivalents at end of period	**386.9**	**5.8**	**392.7**	377.5	6.6	384.1

[1] Derivative settlement of £96.9 million (30 September 2021: £nil) consists of £92.7 million relating to index-linked swaps where accretion is payable/receivable periodically and £4.2 million relating to settlement of cross currency swaps.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to arrangement with BTL and therefore our underlying amounts are disclosed separately as required by some of our financial covenants.

Analysis of net debt

	30 September 2022 £m	31 March 2022 £m
Secured bank loans and private placements	**(5,260.1)**	(4,381.5)
Bonds	**(10,041.3)**	(10,330.8)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and bonds	**(157.2)**	(182.0)
Interest payable on amounts owed to group undertakings	**(4,719.0)**	(4,345.6)
Lease liability	**(60.7)**	(63.3)
	(23,338.9)	(22,403.8)
Cash and cash equivalents[1]	**390.4**	700.2
Net debt (statutory basis)	**(22,948.5)**	(21,703.6)
Amounts owed to group undertakings[2]	**3,085.6**	3,085.6
Interest payable on secured bank loans, private placements and bonds	**157.2**	182.0
Interest payable on amounts owed to group undertakings	**4,719.0**	4,345.6
Unamortised debt issuance costs and discount	**(88.9)**	(90.5)
Relevant derivative financial liabilities (Accretion and FX)	**(591.9)**	(583.9)
Fair value adjustment on acquisition to loans	**120.9**	126.1
Unamortised IFRS 9 transition adjustment	**23.5**	23.8
Cash (not relevant)/relevant for covenant	**(24.3)**	(21.8)
Net debt (covenant basis)	**(15.547.4)**	(14,636.7)
Equity attributable to owners of the Group	**(6,578.4)**	(6,654.1)

[1] The cash and cash equivalents balance excludes £2.3 million (31 March 2022: £2.3 million) which is held as security for the SUURBS defined benefit pension scheme. The use of the cash is restricted for this purpose only.
[2] Includes £3,100.6 million payable to Kemble Water Eurobond plc which is removed for net debt (covenant) and £15.0 million payable to Thames Water Investments Limited which is included for net debt (covenant).

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 2022 £m	31 March 2022 £m
Securitised Class A debt	**(12,888.3)**	(12,172.2)
Securitised Class B debt	**(1,599.7)**	(1,599.7)
Holding company level debt	**(1,364.8)**	(1,479.9)
Cash net of covenant cash adjustment	**366.1**	678.4
Lease liability	**(60.7)**	(63.3)
Net debt (covenant basis)	**(15,547.4)**	(14,636.7)

Notes to the condensed consolidated financial statements

1. Post balance sheet events

Consistent with the period to September 2022, no dividends have been paid to external shareholders of Kemble Water Holdings Limited since 30 September 2021.

During October and November 2022, a net £300.0 million of Class A Revolving Credit Facilities drawdowns were repaid and a total of £370.7 million of Class B Revolving Credit Facilities drawdowns were repaid.

In November 2022, £622.7 million equivalent proceeds were received from privately placed Notes which were priced in August 2022. The issuance consists of a total of $432.0 million USD tranches and a total of £258.0 million GBP tranches. Cross currency swaps were entered into in August 2022 for the USD tranches, swapping USD for GBP.

In November 2022, the Group entered into a £900.0 million revolving credit facility and a £100.0 million term loan facility, both maturing in May 2026.

In November 2022, the Group entered into a total of £1.0 billion notional index-linked swaps with a 10 year maturity. 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 2022, a £60.0 million interest settlement was paid by Kemble Water Finance Limited to Kemble Water Eurobond plc on a £3.1 billion inter-company loan.

In November 2022, a £110.0 million working capital facility entered into by Kemble Water Finance Limited in 2018 was terminated early. At the same time, Kemble Water Finance Limited entered into a new £150.0 million working capital facility, maturing in November 2027.

In December 2022, the Group entered into a £98.5 million Class A term loan facility maturing in December 2029 and a £65.0 million Class B term loan facility maturing in December 2027, both of which remain undrawn.