IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to this base prospectus ("**Base Prospectus**") attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Base Prospectus. In accessing this Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE BASE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER RELEVANT JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE FOLLOWING BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

PRIIPS / IMPORTANT – EEA AND UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (the "**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared, and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Notes (or Drawdown Prospectus) will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

In the United Kingdom, this electronic transmission and the Base Prospectus are addressed to and directed only at: (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (ii) persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iii) other persons to whom they may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This electronic transmission and the Base Prospectus must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. Any investment or investment activity to which this electronic transmission and the Base Prospectus relate is available only to relevant persons in the United Kingdom and will be engaged in only with such persons.

Confirmation of your representation – By accessing this e-mail and by accepting this Base Prospectus, you shall be deemed to have confirmed and represented to each of Thames Water (Kemble) Finance PLC (the "**Issuer**"), Kemble Water Finance Limited (the "**Guarantor**") and Banco Santander, S.A., BNP Paribas, HSBC Bank plc, Morgan Stanley & Co. International plc, NatWest Markets Plc and RBC Europe Limited (together, the "**Dealers**") that: (i) you have understood and agree to the terms set out herein; (ii) you consent (and, if you are acting on behalf of another person, such person consents) to delivery of this Base Prospectus by electronic transmission; (iii) you are not (or, if you are acting for or on behalf of another person, such person is not) a retail investor; (iv) you are not (or, if you are acting for or on behalf of another person, such person is not) a U.S. person; (v) if you are a person in the United Kingdom, you are a relevant person and/or a relevant person acting on behalf of relevant persons; and (vi) you are not (or, if you are acting on behalf of another person, such person is not) located in the United States of America, its territories or possessions, any State of the United States or the District of Columbia (where "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands).

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of the Issuer, the Guarantor, the Dealers or any person who controls any of them, nor any director, officer, employee, agent or affiliates of it (or parties of any such person), accepts any liability or responsibility whatsoever in respect of any difference between this Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Guarantor or the Dealers.

You are reminded that this electronic transmission and this Base Prospectus have been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation to subscribe for or purchase any Notes by any person in any jurisdiction where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer or the Guarantor in such jurisdiction.

Prospectus dated 2 September 2020

THAMES WATER (KEMBLE) FINANCE PLC

(incorporated with limited liability in England and Wales with registered number 07516930)
(Legal Entity Identifier: 213800S7UU2MQXYJQO60)

£1,000,000,000

Guaranteed Secured Medium Term Note Programme

unconditionally and irrevocably guaranteed by Kemble Water Finance Limited

(incorporated with limited liability in England and Wales with registered number 05819317)

Under the Guaranteed Secured Medium Term Note Programme described in this Base Prospectus (the "Programme"), Thames Water (Kemble) Finance PLC (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time on or after the date of this Base Prospectus issue Guaranteed Secured Medium Term Notes guaranteed unconditionally and irrevocably by Kemble Water Finance Limited (the "Guarantee" and the "Guarantor", respectively) (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed £1,000,000,000 (or the equivalent in other currencies).

This Base Prospectus has been approved by the Central Bank of Ireland (the "Central Bank") in its capacity as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the quality of the Notes that are the subject of this Base Prospectus and investors should make their own assessment as to the suitability of investing in the Notes. Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the Notes issued under the Programme for the period of 12 months from the date of this Base Prospectus to be admitted to the official list (the "Official List") and trading on its regulated market (the "Regulated Market"). Except where the context provides otherwise, references in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "MiFID II") of the European Parliament and of the Council on markets in financial instruments.

Each Series (as defined in "*Overview of the Programme – Method of Issue*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "temporary Global Note") or a permanent global note in bearer form (each a "permanent Global Note"). If the Global Notes are stated in the applicable Final Terms or Drawdown Prospectus (subject to approval from the Central Bank) to be issued in new global note ("NGN") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "Common Safekeeper") for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg"). Notes in registered form will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates ("Global Certificates"). If a Global Certificate is held under the New Safekeeping Structure (the "NSS") the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership.

Global notes which are not issued in NGN form ("Classic Global Notes" or "CGNs") and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "Common Depositary").

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £1,000,000,000 (or the equivalent in other currencies at the date of issue).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under the section entitled "*Overview of the Programme*" and any additional Dealers appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes (as defined in "*Overview of the Programme – Method of Issue*") will be set out in the Final Terms or Drawdown Prospectus (subject to approval from the Central Bank) which will be delivered to the Central Bank and filed with Euronext Dublin on or before the date of issue of the Notes of such Tranche.

Each purchaser of a Note will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Note, as described in this Base Prospectus, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases (see "*Subscription and Sale*").

Tranches of Notes to be issued under the Programme will be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Each Tranche of Notes is expected on issue to have the following credit ratings from the respective credit rating agencies below. The credit ratings will be specified in the applicable Final Terms or Drawdown Prospectus (subject to approval from the Central Bank).

Fitch	Moody's
B+	B1

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on rating agencies as amended (the "CRA Regulation"). The credit ratings included or referred to in this Base Prospectus will be treated for the purposes of the CRA Regulation as having been issued by Fitch Ratings Ltd ("Fitch") and Moody's Investors Service Limited ("Moody's", and together with Fitch, the "Rating Agencies"). Each of the Rating Agencies is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union (the "EU") and registered under the CRA Regulation will be disclosed in the relevant Final Terms or Drawdown Prospectus (subject to approval from the Central Bank).

An investment in Notes under the Programme involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Base Prospectus.

Arranger and Dealer

NatWest Markets

Dealers

BNP PARIBAS	**HSBC**	**Morgan Stanley**	**RBC Capital Markets**	**Santander Corporate & Investment Banking**

This Base Prospectus comprises a base prospectus for the purposes of Article 8 of Regulation (EU) 2017/1129 (the "Prospectus Regulation") and for the purpose of giving information with regard to the Issuer, the Guarantor and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor.

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the "EEA") and/or offered to the public in the EEA other than in circumstances where any exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

The Issuer and the Guarantor (the "Responsible Person(s)") accept responsibility for the information contained in this Base Prospectus and each Final Terms or Drawdown Prospectus for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer and the Guarantor, the information contained in this Base Prospectus is in accordance with the facts and this Base Prospectus makes no omission likely to affect its import.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*" and the applicable Final Terms or Drawdown Prospectus).

Copies of the Final Terms or Drawdown Prospectus will be available from the registered office of the Issuer and the specified office set out below of the Paying Agents and (in the case of Notes listed on the Official List and admitted to trading on the Regulated Market) will be available on the website of the Irish Stock Exchange, trading as Euronext Dublin at: https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=833&uID=7172&FIELDSORT=docId.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers or the Arranger (as defined in "*Overview of the Programme*"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

MiFID II product governance / target market – The Final Terms in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 as amended (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION OF SALES TO EEA AND UK Retail Investors - The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (the "EEA") or in the United Kingdom (the "UK"). For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared, and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

In the case of any Notes which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Guarantor, the Dealers and the Arranger to inform themselves about and to observe any such restriction.

THE NOTES AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) IN THE CASE OF REGISTERED NOTES, OR AS DEFINED IN THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER IN THE CASE OF BEARER NOTES).

THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S. FOR A DESCRIPTION OF THESE AND CERTAIN

FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF NOTES AND DISTRIBUTION OF THIS BASE PROSPECTUS SEE "*SUBSCRIPTION AND SALE*".

THE NOTES AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

None of the Issuer, the Guarantor, the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent accept responsibility to investors for the regulatory treatment of their investment in the Notes (including (but not limited to) whether any transaction or transactions pursuant to which Notes are issued from time to time is or will be regarded as constituting a "securitisation" for the purpose of Regulation (EU) 2017/2404 (the "Securitisation Regulation") by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Notes is relevant to any investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the "*Risk Factors – Legal, Regulatory and Competition Considerations*" section of this Base Prospectus for further information.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Dealers or the Arranger to subscribe for, or purchase, any Notes.

No representation, warranty or undertaking, express or implied, is made and, to the fullest extent permitted by law, none of the Dealers, the Arranger, the Security Trustee, the Note Trustee or the Issuing and Paying Agent accepts any responsibility for the contents of this Base Prospectus or for any other statement made or purported to be made by the Dealers, the Arranger, the Security Trustee, the Note Trustee or the Issuing and Paying Agent or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Notes. Each of the Dealers, the Arranger, the Security Trustee, the Note Trustee and the Issuing and Paying Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement.

No person is or has been authorised by any of the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent.

Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Dealers, the Arranger, the Security Trustee, the Note Trustee or the Issuing and Paying Agent that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers, the Arranger, the Security Trustee, the Note Trustee or the Issuing and Paying Agent undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Base Prospectus nor to advise any

investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Arranger, the Security Trustee, the Note Trustee or the Issuing and Paying Agent.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and the Guarantor is correct at any time subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent expressly undertakes to review the financial condition or affairs of any of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Notes.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent represents that this Base Prospectus may be lawfully distributed, nor that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent which would permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area and the United Kingdom. See the section entitled "*Subscription and Sale*".

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes being offered, including the merits and risks involved. None of the Dealers, the Arranger, the Note Trustee, the Security Trustee or the Issuing and Paying Agent makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche (as defined in "*Overview of the Programme – Method of Issue*"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms or Drawdown Prospectus may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which

adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "£", "Pounds", "pounds", "Sterling", "sterling" or "GBP" are to the lawful currency of the United Kingdom, references to "$", "U.S. Dollars" or "U.S.$" are to the lawful currency of the United States and to "€", "euro", "Euro" or "EUR" are to the currency introduced at the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Base Prospectus.

Issuer	Thames Water (Kemble) Finance PLC (LEI: 213800S7UU2MQXYJQO60)
Guarantor	Kemble Water Finance Limited (LEI: 2138003A8GC5KL85UR35)
Description	Guaranteed Secured Medium Term Note Programme pursuant to which the Issuer may issue Notes.
Size	Up to £1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. From time to time the Issuer and the Guarantor may increase the Programme Limit in accordance with the Dealership Agreement.
Source of Funds for Required Payments by the Issuer and the Guarantor	The payment by the Guarantor of interest, principal and other amounts to the Issuer under the Issuer/Guarantor Loan Agreement and payments under the guarantee by the Guarantor will be the principal sources of funds for the Issuer to make its required payments in respect of the Notes outstanding from time to time. The Guarantor will be reliant upon the payment by its subsidiaries (including TWUL) of dividends and certain other distributions to meet its payment obligations in respect of interest and principal due to the Issuer under the Issuer/Guarantor Loan Agreement. The Guarantor (and, in turn, the Issuer) will therefore be substantially reliant on the cashflow of TWUL in fulfilling their respective obligations under the Notes.
Arranger	NatWest Markets Plc
Dealers	Banco Santander, S.A. BNP Paribas HSBC Bank plc Morgan Stanley & Co. International plc NatWest Markets Plc RBC Europe Limited The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

Note Trustee	Deutsche Trustee Company Limited will act as note trustee (the "**Note Trustee**") for and on behalf of the holders of the Notes (each a "**Noteholder**").
Security Trustee	Deutsche Trustee Company Limited will act as security trustee (the "**Security Trustee**"), for itself and on behalf of the Secured Creditors, and will hold, and will be entitled to enforce the Transaction Security (as described below) on behalf of the Secured Creditors subject to the terms of the Intercreditor Agreement and the Security Agreement.
Secured Creditors	The Secured Creditors will comprise any person who from time to time is a party to, or has acceded to, the Intercreditor Agreement as a Secured Creditor, and includes, as at the date of this Base Prospectus, the Security Trustee, the Note Trustee (for itself and on behalf of the Noteholders) and the Noteholders, the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar and the Working Capital Finance Parties. Other parties may become Secured Creditors from time to time by acceding to the Intercreditor Agreement.
Lenders	The Working Capital Lenders and any other lenders which accede to the Intercreditor Agreement and become Secured Creditors in respect of any bank facilities entered into by the Guarantor or the Issuer.
Issuing and Paying Agent and Calculation Agent	Deutsche Bank AG, London Branch
Transfer Agent and Registrar	Deutsche Bank Luxembourg, S.A.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis and, in each case, by way of private or public placement. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest or their issue price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the "**Final Terms**") or a drawdown prospectus (the "**Drawdown Prospectus**").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Notes with a maturity of less than one year	Notes issued on terms that they must be redeemed before their first anniversary will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the

	FSMA, unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale*".
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the following restrictions applicable at the date of this Base Prospectus. See "*Subscription and Sale*".
Form of Notes	The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if: (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date; or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with TEFRA D (as defined in "*Selling Restrictions*" below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**".
Clearing Systems	Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Tranche, if the relevant Global Note is an NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a Common Depositary. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealer.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantor and the relevant Dealer.
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms or Drawdown Prospectus save that: (i) in the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in an EEA Member State in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Drawdown Prospectus.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc; or (ii) amounts payable under the Notes may be calculated by reference to: (i) LIBOR, which is provided by ICE Benchmark Administration Limited ("**IBA**"); (ii) SONIA, which is provided by the Bank of England, (iii) EURIBOR, which is provided by the European Money Markets Institute (the "**EMMI**"); (iv) RPI, which is provided by the Office for National Statistics; (v) CPI, which is provided by the Office for National Statistics; or (vi) HICP, which is provided by Eurostat. As at the date of this Base Prospectus, the IBA and the EMMI appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**BMR**"). As far as the Issuer is aware, SONIA, RPI, CPI and HICP do not fall within the scope of the BMR by virtue of Article 2 of that regulation.

	Interest periods will be specified in the relevant Final Terms or Drawdown Prospectus.
Zero Coupon Notes	Zero Coupon Notes (as defined in "*Terms and Conditions of the Notes*") may be issued at their nominal amount or at a discount to it and will not bear interest.
Index Linked Notes	Index Linked Notes may only be issued following publication of a Drawdown Prospectus. Payments of principal in respect of Index Linked Redemption Notes (as defined in the relevant Drawdown Prospectus) or of interest in respect of Index Linked Interest Notes (as defined in the relevant Drawdown Prospectus) will be calculated by reference to such index and/or formula as may be specified in the relevant Drawdown Prospectus.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms or Drawdown Prospectus.
Redemption	The relevant Final Terms or Drawdown Prospectus will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments	The Final Terms or Drawdown Prospectus issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Optional Redemption	The Final Terms or Drawdown Prospectus issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Early Redemption	Except as provided in "*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Put Option	If the Initial Investors and/or any Initial Investor Affiliates cease to control directly or indirectly the Guarantor, the Notes may be redeemed in full. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes and any other type of Note that the

	Issuer, the Note Trustee and any Dealer or Dealers may agree to issue under the Programme may only be issued following publication of a Drawdown Prospectus.
Status of Notes	The Notes will be secured obligations of the Issuer and at all times shall rank *pari passu* and without any preference among themselves. The Notes are guaranteed by the Guarantor. The Notes represent the rights of the holders of such Notes to receive interest and principal from the Issuer pursuant to the Terms and Conditions of the Notes and the Trust Deed.
Status of Guarantee	The Guarantee by the Guarantor is an unconditional, irrevocable and unsubordinated secured obligation of the Guarantor.
Negative Pledge	See "*Terms and Conditions of the Notes – Negative Pledge and Covenants*".
Cross Acceleration	See "*Terms and Conditions of the Notes – Events of Default*".
Financial Covenants	See "*Terms and Conditions of the Notes – Events of Default*".
Lock-Up	See "*Overview of the Key Documents – Trust Deed – Lock-Up*".
No Acquisitions	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Merger	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Disposal of TWUL	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Loans or Credit	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Guarantees	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
Ratings	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms or Drawdown Prospectus. As defined by Moody's, a B1 rating means that the obligations of the Issuer are considered speculative and are subject to high credit risk. The modifier 1 indicates a ranking in the higher end of the 'B' generic category. As defined by Fitch, a B+ rating means that the obligations of the Issuer are considered highly speculative and indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however capacity for continued payment is vulnerable to deterioration in the business and economic environment. The modifier '+' indicates a ranking at the upper end of the 'B' generic category.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The credit ratings included or referred to in this Base Prospectus will be treated for the purposes of the CRA Regulation as having been issued by Fitch and Moody's upon registration pursuant to the CRA Regulation. Fitch and Moody's are established and operating in the European Union and are registered under the CRA Regulation.

Credit ratings included or referred to in this Base Prospectus have been issued by the Rating Agencies, each of which is established in the European Community and registered under the CRA Regulation.

Withholding Tax

All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom unless the withholding is required by law. In such event, the Issuer or the Guarantor shall, subject to customary exceptions, pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in "*Terms and Conditions of the Notes – Taxation*".

Transaction Security

The security granted to the Security Trustee pursuant to the Security Agreement and any other Transaction Security Document.

Security

The Issuer and the Guarantor have entered into the Security Agreement pursuant to which:

(a) the Guarantor has granted, as security for the Guarantee: (i) fixed security over all its shares in the Issuer and Thames Water Limited and all its real property, book debts and bank accounts, present and future; (ii) an assignment of its rights in respect of the Transaction Documents; and (iii) a floating charge over all of its property, undertaking and assets; and

(b) the Issuer has granted, as security for the Notes: (i) an assignment of its rights in respect of the Transaction Documents; (ii) a fixed charge over all its book debts, bank accounts and investments, present and future; and (iii) a floating charge over all of its property, undertaking and assets.

Note Documents

The Notes, the Trust Deed, the Agency Agreement, the Dealership Agreement and the Issuer/Guarantor Loan Agreement.

Finance Documents

The Working Capital Facility Agreement, the Hedging Agreements entered into with Hedge Counterparties and any other Finance Documents as may be entered into from time to time pursuant to the Intercreditor Agreement.

Issuer/Guarantor Loan Agreement	A loan agreement which will be entered into between the Issuer and the Guarantor (the "**Issuer/Guarantor Loan Agreement**"), pursuant to which the Issuer will grant intra-group loans to the Guarantor in amounts equal to the proceeds of the Notes issued by the Issuer (each an "**Issuer/Guarantor Loan**"). Funds received under the Issuer/Guarantor Loans from the Guarantor to the Issuer will enable the Issuer to make payments on the Notes and fund its costs and expenses.
Intercreditor Agreement	The intercreditor agreement which was entered into between the Secured Creditors (and, in the case of the Noteholders, the Note Trustee on behalf of the Noteholders), the Issuer and the Guarantor to regulate the claims of the Secured Creditors and the rights of the Issuer and the Guarantor (the "**Intercreditor Agreement**"). See "*Intercreditor, Enforcement and the Working Capital Facility Agreement*".
Transaction Security Documents	The Security Agreement and any other documents entered into at any time by the Issuer and the Guarantor which grants any Security in favour of the Security Trustee (to be held on trust for the Secured Creditors). The claims of the Secured Creditors in respect of the Transaction Security will be regulated by the Intercreditor Agreement.
Governing Law of the Notes	The Notes in issue are, and new Notes will be and all non-contractual obligations arising from or in connection with any such Notes are or will be (as the case may be), governed by, and construed in accordance with, English law.
Listing and Admission to Trading	This document has been approved by the Central Bank as a base prospectus. Application has also been made to Euronext Dublin for the Notes issued under this Programme to be admitted to trading on Euronext Dublin's Regulated Market or as otherwise specified in the relevant Final Terms or Drawdown Prospectus and, except where the context provides otherwise, references to listing shall be construed accordingly, and to be listed on the Official List of Euronext Dublin.
Redenomination, Renominalisation and/or Consolidation	Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Drawdown Prospectus.
Selling Restrictions	The United States, the European Economic Area and the United Kingdom. See "*Subscription and Sale*".
Risk Factors	There are certain factors that may affect the Issuer's and/or the Guarantor's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Risk Factors"*. Certain risk factors set out herein have been incorporated by

reference from the TWUL Base Prospectus (as supplemented by the TWUL Supplemental Prospectus and from time to time).

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur. Certain risk factors (as noted below) are incorporated by reference from the TWUL Base Prospectus.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer and the Guarantor believe that the factors described below represent the material risks inherent in investing in Notes issued under the Programme, but the Issuer or the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons that cannot reasonably be considered to be significant, are currently unknown, or the Issuer and Guarantor are unable to anticipate and, accordingly, neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

In addition, while the various structural elements described in this document are intended to lessen some of these risks for holders of the Notes, there can be no assurance that these measures will ensure that the holders of the Notes receive payment of interest or repayment of principal from the Issuer in respect of such Notes, on a timely basis or at all. Investors may lose all or part of their investment.

This Risk Factors chapter is presented to cover the following risk categories and is accordingly divided into the following sections:

- *Financial Risks;*
- *Structural Risks;*
- *Political Risks; and*
- *Risks relating to the Notes.*

Financial Risks

The Issuer is a special purpose financing entity

The Issuer is a special purpose financing entity with no business operations other than raising external funding for the Guarantor through the issuance of the Notes and other debt finance. The Issuer's only source of funds will be the repayment of amounts by the Guarantor to it pursuant to the related Issuer/Guarantor Loans made by the Issuer to the Guarantor under the Issuer/Guarantor Loan Agreement. Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which the Guarantor is subject as set out or incorporated by reference herein.

The Guarantor is a holding company with no operations and relies on its operating subsidiaries to provide it with funds necessary to meet its financial obligations

The Guarantor is a holding company with no material, direct business operations. The principal assets of the Guarantor are the equity interests it directly or indirectly holds in its operating subsidiaries (primarily Thames Water Utilities Limited ("**TWUL**")). As a result, the Guarantor is dependent on loans, interest, dividends and other payments from its Subsidiaries to generate the funds necessary to meet its financial obligations, including the repayment of any Issuer/Guarantor Loans and the repayment of the Guarantor Notes. The Guarantor's Subsidiaries are separate and distinct legal entities and, except for the Issuer, they will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividends, distributions, advances, loans or other payments. Accordingly, risks that have an impact on the Subsidiaries of the Guarantor (as set out in more detail in the following six paragraphs) and incorporated herein (see further "*Principal risks associated with TWUL and its business*" below) could affect the amount of funds available to the Guarantor to enable the Guarantor to satisfy in full and on a timely basis its obligations under the Issuer/Guarantor Loan Agreement, the Guarantor Notes and the Guarantee. In addition, TWUL is, in certain circumstances, restricted from declaring or paying dividends as part of the Securitisation as defined and further described below, such restrictions being dependent on the financial performance of TWUL. See further "*Principal risks associated with TWUL and its business*" below.

High Leverage of TWUL

TWUL's indebtedness is substantial in relation to its RCV. As at 31 March 2020, Senior RAR was 82.3 per cent. TWUL is entitled to increase its leverage, however, a Senior RAR of greater than 85 per cent. will result in a restriction on certain payments, such as dividends. The ability of TWUL to improve its operating performance and financial results will depend upon economic, financial, regulatory and other factors, including fluctuations in interest rates and general economic conditions in the United Kingdom, beyond its control. Accordingly, there can be no assurance of TWUL's ability to meet its financing requirements and no assurance that TWUL's high degree of leverage will not have a material adverse impact on its ability to pay distributions to its shareholders, and ultimately the Guarantor, to enable the Issuer or the Guarantor to pay amounts due and owing in respect of the Notes. For relevant definitions see Section 1.7 (*Glossary of Defined Terms*) of the TWUL Disclosure.

Risks associated with TWUL and its business

The risks to which TWUL and its business are subject are set out in the risk factors, extracted from the TWUL Base Prospectus, which is incorporated by reference in this Base Prospectus (see "*Documents Incorporated by Reference*"):

Chapter 1 – Risk Factors:

(i) Strategic Risks (pages 26-29 of the TWUL Base Prospectus);

(ii) Operational Risks (pages 29-35 of the TWUL Base Prospectus);

(iii) Compliance Risks (page 35 - 38 of the TWUL Base Prospectus); and

(iv) Financing Risks (pages 39-53 of the TWUL Base Prospectus).

Future Financing

The Issuer or the Guarantor may need to raise further debt from time to time in order to, among other things:

(a) on each date on which principal is required to be repaid and on the maturity date of the relevant Tranche of Notes, refinance the Notes; and

(b) refinance any other debt (including any Loan Facilities) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Notes.

While the Intercreditor Agreement contemplates the circumstances under which such further debt can be raised, there can be no assurance that the Issuer or the Guarantor will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on the Notes or any other maturing indebtedness will be capable of being so paid when due.

Hedge Counterparty risk

If the Issuer or, if applicable, the Guarantor enters into any hedging agreements in connection with any issue of Notes (for example, in relation to interest rate or currency exposures), it faces the possibility that a Hedge Counterparty will become unable to honour its contractual obligations. Hedge Counterparties may default on their obligations due to insolvency, bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Issuer or the Guarantor or from executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

Noteholders' rights subject to the Intercreditor Agreement

The Noteholders' rights against the Issuer and the Guarantor are subject to the Intercreditor Agreement, which is described in detail in the section entitled "*Intercreditor, Enforcement and the Working Capital Facility Agreement*". Whilst the Note Trustee's rights to take any action to enforce its rights against the Issuer and/or the Guarantor following an Event of Default are partially restricted under the Intercreditor Agreement, the taking of Permitted Enforcement Action by the Note Trustee is not restricted. The taking of Permitted Enforcement Action by the Note Trustee shall trigger an automatic acceleration of the Secured Liabilities. Following such automatic acceleration, the Security Trustee shall enforce the Transaction Security in accordance with the instructions of the Majority Secured Creditors (which might not include the Noteholders) and the proceeds of such enforcement shall be distributed in accordance with the order of payments set out in the Intercreditor Agreement. As a result, Noteholders can be bound by the process of enforcement that is determined by the Majority Secured Creditors, which may differ from the interests of Noteholders. Noteholders can therefore be bound by the result of a particular matter that they voted against, including, for the avoidance of doubt, in relation to the enforcement of the Transaction Security.

Reform of LIBOR, EURIBOR

LIBOR, EURIBOR and other rates and indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to such a "benchmark".

Regulation (EU) 2016/1011 (the "**Benchmark Regulation**") was published in the official journal on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016). The Benchmark Regulation could have a material impact on any Notes linked to LIBOR, EURIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of, the published rate or level, of the benchmark. In addition, the Benchmark Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain "benchmarks" will fail to obtain a necessary licence, preventing them from continuing to provide such "benchmarks". Other administrators may cease to administer certain "benchmarks" because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith.

An example of such benchmark reform was the announcement by the UK Financial Conduct Authority on 12 July 2018 that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation (the "**FCA Announcement**"). The FCA Announcement indicates that steps are being taken to transition from the LIBOR benchmark to alternative interest rate benchmarks following the FCA's announcement on 27 July 2017 that it will no longer compel banks to submit rates for the calculation of the LIBOR benchmark. This announcement and subsequent speeches by Andrew Bailey and other FCA officials have emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021.

Other interbank offered rates ("**IBORs**") suffer from similar weaknesses to LIBOR and although work continues on reforming their respective methodologies to make them more grounded in actual transactions, they may be discontinued or be subject to changes in their administration.

Changes to the administration of an IBOR, LIBOR or the emergence of alternatives to an IBOR or to LIBOR, may cause such IBOR or LIBOR to perform differently than in the past, or there could be other consequences which cannot be predicted (see "*Floating Rate Notes*" below). The discontinuation of LIBOR or an IBOR or changes to its administration could require changes to the way in which the Interest Rate is calculated in respect of any Notes referencing or linked to LIBOR or such IBOR. The development of alternatives to an IBOR may result in Notes linked to or referencing LIBOR or such IBOR performing differently than would otherwise have been the case if the alternatives to LIBOR or such IBOR had not developed. Any such consequences could have a material adverse effect on the value of, and return on, any such Notes linked to or referencing LIBOR or such IBOR.

Whilst alternatives to LIBOR and certain IBORs for use in the bond market are being developed, outstanding Notes linked to or referencing LIBOR or an IBOR may transition away from LIBOR or such IBOR in accordance with the particular fallback arrangements set out in their terms and conditions. The operation of these fallback arrangements could result in a different return for Noteholders (which may include payment of a lower Interest Rate) than they might receive under other similar securities which contain different or no fallback arrangements (including which they may otherwise receive in the event that legislative measures or other initiatives (if any) are introduced to transition from LIBOR or any given IBOR to an alternative rate).

Floating Rate Notes

Where Screen Rate Determination is specified as the manner in which the Interest Rate in respect of Floating Rate Notes is to be determined, the Conditions provide that the Interest Rate shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Interest Rate to be determined by the Calculation Agent by reference to quotations from banks communicated to it.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Reference Rate), the Interest Rate may ultimately revert to the Interest Rate applicable as at the last preceding Interest Determination Date before the Reference Rate was discontinued. Uncertainty as to the continuation of the Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

Benchmark Events include (amongst other events) permanent discontinuation of an Original Reference Rate. If the Issuer determines a Benchmark Event occurs, the Issuer shall use its reasonable endeavours to appoint, at the Issuer's expense, an Independent Adviser. The Independent Adviser shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Interest Rate is likely to result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions and/or the Note Trust Deed, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate.

The Adjustment Spread is: (i) the spread, formula or methodology which is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities); (ii) if no such recommendation has been made, or in the case of an Alternative Rate, the spread, formula or methodology which the Independent Adviser determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (iii) if the Independent Adviser determines that no such spread is customarily applied, the spread, formula or methodology which the Independent Adviser determines and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate, as the case may be.

Accordingly, the application of an Adjustment Spread may result in the Note performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the terms and conditions of the Notes.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable, to determine a Successor Rate or Alternative Rate and, in either case, an Adjustment Spread, before the day which is five Business Days prior to the next Interest Determination Date, the Interest Rate for the next succeeding Interest Period will be the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Interest Rate will be the initial Interest Rate.

Where the Issuer has been unable to appoint an Independent Adviser or, the Independent Adviser has failed, to determine a Successor Rate or Alternative Rate and, in either case, an Adjustment Spread, in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Interest Rate, or the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Interest Rate) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Interest Rate, or the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Notes, in effect, becoming Fixed Rate Notes. The fallback arrangements in respect of such hedging transactions could be different to those in the Floating Rate Notes which could lead to a mismatch between the Floating Rate Note and the hedging transaction. This could leave Issuer exposed to a mismatch risk which it otherwise would not have been.

Where ISDA Determination is specified as the manner in which the Interest Rate in respect of Floating Rate Notes is to be determined, the Conditions provide that the Interest Rate in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Interest Rate may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Interest Rate that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

The impact of these conditions could be detrimental to the Issuer and/or the Guarantor and, in each case, could adversely affect: its business, operations and profitability; its solvency and the solvency of its counterparties, custodians, customers and service providers; the value and liquidity of its assets and liabilities and the credit rating of the Notes.

The market continues to develop in relation to SONIA as a reference rate

Investors should be aware that the market continues to develop in relation to so called risk free rates, such as the Sterling Overnight Index Average ("SONIA") as a reference rate in the capital markets and its adoption as an alternative to LIBOR. In addition, market participants and relevant working groups are exploring alternative reference rates based so called on risk free rates, including a term SONIA reference rate (which seeks to measure the market's forward expectation of an average SONIA rate over a designated term). The market or a significant part thereof may adopt an application of a so called risk free rate that differs significantly from that set out in the Conditions and used in relation to Floating Rate Notes that reference a so called risk free rate issued under this Base Prospectus. Interest on Notes which reference a so called risk free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference such so called risk free rates to reliably estimate the amount of interest which will be payable on such Notes. Further, if the Notes become due and payable under Condition 10 (*Events of Default*), the Rate of Interest payable shall be determined on the date the Notes became due and payable and shall not be reset thereafter. Investors should consider these matters when making their investment decision with respect to any such Floating Rate Notes.

Structural Risks

TWUL is subject to certain restrictions in paying dividends as part of its covenant-based ring-fencing, which may limit the amount of funds available to the Guarantor

In 2007, the Thames Water Group implemented a significant corporate restructuring and financing (the "Securitisation") and created a new "ring-fenced" financing group (being the "Securitisation Group"). The Securitisation Group consists of Thames Water Utilities Holdings Limited, TWUL, the Securitisation Issuer and such other subsidiaries as constitute Permitted Subsidiaries under the Securitisation Programme from time to time (see diagram, "*Thames Water Group Structure*" above). A key aspect of this covenant-based ring-fencing is that TWUL is only entitled to pay any dividends (albeit indirectly) or make any other payments ("distributions") if certain conditions are satisfied, including that no potential or actual event of default or trigger event under the Securitisation is continuing or would result from such payment and that certain gearing ratio tests are satisfied. In addition, there are restrictions on the amounts of distributions permitted under the Securitisation. See Section 1.5 (*Chapter 7 – Overview of the Financing Agreements*) of the TWUL Disclosure for further details. There is a risk that these restrictions on the amounts of permitted distributions could affect the ability of the Guarantor to satisfy in full and on a timely basis its obligations under the Issuer/Guarantor Loan Agreement and the Guarantee.

TWUL is subject to certain restrictions in paying dividends as part of its regulatory ring-fencing, which may limit the amount of funds available to the Guarantor

As part of its obligations as a regulated company, TWUL is subject to certain ring-fencing restrictions under its current Licence. In addition to the covenant restrictions applicable to distributions under the Securitisation, TWUL is required pursuant to its Licence to declare or pay dividends only in accordance with a dividend policy which has been approved by the board of directors of TWUL and which complies with the principles: (i) that dividends will not impair the ability of TWUL to finance its Regulated Business; and (ii) that under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk. Under TWUL's Licence, the TWU Financing Group is required to maintain certain credit ratings above prescribed thresholds in order to be able to make distributions. The policy of the TWU Financing Group is to monitor and maintain headroom against these thresholds, and no restrictions on distributions arise based on current credit ratings. There is a risk that these restrictions on the amounts of permitted distributions could affect the ability of the Guarantor to satisfy in full and on a timely basis its obligations under the Issuer/Guarantor Loan Agreement and the Guarantee See Section 1.3 (*Chapter 5 – Description of the TWU Financing Group*) of the TWUL Disclosure for further details.

Noteholders are structurally subordinated to claims of creditors of the Guarantor's subsidiaries, including the secured creditors of TWUL under the Securitisation

The ability of the Guarantor's Subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual restrictions. As an equity investor in its Subsidiaries, the Guarantor's right to receive assets upon their liquidation or reorganisation will be effectively subordinated to the claims of creditors of its Subsidiaries. To the extent that the Guarantor is recognised as a creditor of such Subsidiaries, the Guarantor's claims may still be subordinated to any security interest in or other lien on the assets of such subsidiaries and to any of their debt or other obligations. Therefore Noteholders are structurally subordinated to claims of creditors of the Guarantor's Subsidiaries, including secured creditors of TWUL under the Securitisation.

If share security under the Securitisation is enforced, the Guarantor may no longer be an indirect shareholder of TWUL

Thames Water Utilities Holdings Limited has granted share security as part of the Securitisation over shares in its direct subsidiary, TWUL. If the secured creditors in respect of the Securitisation elect to enforce their rights thereunder, then such security over the shares in TWUL may be enforced and such enforcement may result in a sale of TWUL and, subsequently, the Guarantor no longer being an indirect shareholder of TWUL. As a result, the Guarantor would not be entitled to receive any dividends from TWUL, which may impact its ability to generate the funds necessary to meet its financial obligations.

English law security and insolvency considerations

The Issuer has entered into the Security Agreement and other Transaction Security Documents pursuant to which it has granted the Transaction Security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Transaction Security may be delayed and/or the value of the Transaction Security impaired.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and granted by way of security to the Security Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent which may lead to the ability to realise the security being delayed and/or the value of the security being impaired.

Further, where the Issuer encounters, or is likely to encounter, financial difficulties that are affecting, or will or may affect, its ability to carry on business as a going concern, it may propose a restructuring plan (a "Plan") with its creditors under Part 26A of the Companies Act 2006 (introduced by the Corporate Insolvency and Governance Act 2020) to eliminate, reduce, prevent or mitigate the effect of any of those financial difficulties. Should this happen, creditors whose rights are affected are organised into creditor classes and can vote on any such Plan (subject to being excluded from the vote by the English courts for having no genuine economic interest in the Issuer). Providing that one class of creditors (who would receive a payment, or have a genuine economic interest in the Issuer) has approved the Plan, and in the view of the English courts any dissenting class(es) who did not approve the Plan are no worse off under the Plan than they would be in the event of the "relevant alternative" (such as, broadly, liquidation or administration), then the English court can sanction the Plan where it would be a proper exercise of its discretion. A sanctioned Plan is binding on all creditors and members, regardless of whether they approved it. Any such sanctioned Plan in relation to the Issuer may, therefore, adversely affect the rights of Noteholders and the price or value of their investment in the Notes, as it may have the effect of modifying or disapplying certain terms of the Notes (by, for example, writing down the principal amount of the Notes, modifying the interest payable on the Notes, the maturity date or dates on which any payments are due or substituting the Issuer).

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge re-characterised by the courts as a floating charge), in certain circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Security Agreement or other Transaction Security Document may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Finance Documents are intended to ensure that it has no significant creditors other than the Secured Creditors under the Security Agreement or the documents relating to the Existing Security, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Transaction Security.

While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the applications of insolvency laws (including English insolvency laws).

Fixed charges may take effect under English law as floating charges

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only if, for example, it is determined that the Security Trustee does not exert sufficient control over the assets subject to such charge. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

The interests of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Transaction Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies and thus reduces the categories of preferential debts that are to be paid in "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

Political Risks

Political intervention in the water sector

TWUL and the UK water industry generally face increased scrutiny from regulators and key stakeholders, including the UK Government and other political parties. The UK's Official Opposition, the UK Labour Party, had stated in its manifesto in the 12 December 2019 UK General Election a commitment that, were it to win the 2019 General Election, it would renationalise the UK water industry. Following the election, it is not yet known whether that commitment will remain Labour Party policy under the new Labour Party leader, Keir Starmer. However, the prospect of renationalisation has diminished since the Conservative Party won the 2019 General Election.

Future intervention by the UK Government in the water markets, or changes in governmental policy, may affect the Issuer's and the Guarantor's ability to meet their obligations under the Notes.

Brexit

Current uncertainties around the full terms of the United Kingdom's withdrawal from the European Union as a consequence of Brexit have impacted, and continue to impact, the market. These uncertainties have the potential to adversely affect the geopolitical landscape, macroeconomic conditions, stability of the financial market and companies' businesses, including the Issuer and the Guarantor, more directly. There is also a risk of possible downgrades to the United Kingdom's sovereign rating, which could in turn have a negative impact on the credit rating of the Issuer or of the Guarantor.

In addition, historically TWUL has accessed funding from Europe-based investors and institutions, including, by way of example, the EIB. In light of Brexit, TWUL may find it more difficult to access funding from such investors and institutions in the future, which could have a negative impact on TWUL's ability to fund its activities and on the cost of that funding.

From a commercial perspective there are three primary risks being managed, namely that: (i) the current tariff environment for goods being imported into the UK changes adversely, thereby increasing the cost of such goods; (ii) additional border checks increase the time it takes to import goods into the UK (this may require TWUL to hold more stock in the UK to avoid operational risks arising from TWUL's inability to obtain critical items as and when required); and (iii) sterling may depreciate as a result of any final Brexit trade deal (or lack thereof), which could cause the price of imported goods to increase and therefore may increase TWUL's costs.

Risks relating to the Notes

A range of Notes may be issued under the Programme (as may be specified in the relevant Final Terms or Drawdown Prospectus). A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(a) the market price of such Notes may be volatile;

(b) they may receive no interest;

(c) payment of principal or interest may occur at a different time or in a different currency than expected;

(d) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will be likely to be magnified; and

(g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Inverse Floating Rate Notes

Inverse floating rate notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Potential disenfranchisement of Noteholders

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the "**decision**") to be made pursuant to the Intercreditor Agreement, the Security Trustee shall notify the Obligors and each Secured Creditor Representative (including the Note Trustee) of the matter in question and shall also inform each Secured Creditor Representative (including the Note Trustee) of the date by which it must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the "**Decision Date**"). If the Note Trustee has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the Notes shall be excluded from:

(i) the Total Commitments to be considered as voting in favour of the relevant decision (the numerator); and

(ii) the Total Commitments to be used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right of the Noteholders is affected. Noteholders can therefore be bound by the result of a particular decision (as defined in this risk factor) in respect of which they have not voted, including, for the avoidance of doubt, a decision (as defined in this risk factor) in relation to the enforcement of the Transaction Security, even where the Note Trustee, representing the Noteholders, would (but for the requirement to provide a vote by the Decision Date as described above), whether by itself or with one or more other Secured Creditor Representatives, constitute the Majority Secured Creditors.

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. As a result, Noteholders can be bound by the result of a particular matter that they voted against.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders, agree to: (i) any modification (except as mentioned in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed, the Conditions or any other Transaction Document; or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such; or (iii) the substitution of another company as principal debtor or guarantor under any Notes in place of the Issuer or the Guarantor respectively, in the circumstances described in Condition 11 (*Meetings of Noteholders, Modification, Waiver and Substitution*) of the Terms and Conditions of the Notes.

Integral multiples of less than €100,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination may be illiquid and difficult to trade.

Notes not in physical form

Unless the Global Notes are exchanged for Definitive Notes, which exchange will only occur in the limited circumstances set out under the section entitled "*Summary of Provisions relating to the Notes while in Global Form*" below, the beneficial ownership of the Notes will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg. The fact that the Notes are not represented in physical form could, among other things:

(a) result in payment delays on the Notes because distributions on the Notes will be sent by or on behalf of the Issuer to Euroclear or Clearstream, Luxembourg directly to Noteholders;

(b) make it difficult for Noteholders to pledge the Notes as security if Notes in physical form are required or necessary for such purposes; and

(c) hinder the ability of Noteholders to resell the Notes because some investors may be unwilling to buy Notes that are not in physical form.

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with the following sections of the base prospectus in respect of the Thames Water Utilities Finance plc £10,000,000,000 Multicurrency programme for the issuance of Guaranteed Wrapped Bonds and Guaranteed Unwrapped Bonds base prospectus dated 2 September 2020 (the "**TWUL Base Prospectus**") (available at https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=834&uID=7173&FIELDSORT=docId) which shall be incorporated in and form part of this Base Prospectus:

Section	Title/Reference	Page(s)
1.1	Chapter 2 – Risk Factors	
	(i) Strategic Risks	26 – 29
	(ii) Operational Risks	29 – 35
	(iii) Compliance Risks	35 – 38
	(iv) Financial Risks	39 – 53
1.2	Chapter 3 – The Parties	54 – 56
1.3	Chapter 5 – Description of the TWU Financing Group	60 – 111
1.4	Chapter 6 – Regulation of the Water and Wastewater Industry in England and Wales	112 – 136
1.5	Chapter 7 – Overview of the Financing Agreements	137 – 179
1.6	Chapter 13 – General Information (in particular the section entitled "*Significant or Material Change*")	258 – 261
1.7	Glossary of Defined Terms	263 – 322

Such incorporated sections are referred to herein as the "TWUL Disclosure".

The TWUL Base Prospectus was published and approved by the Central Bank of Ireland on 2 September 2020.

This Base Prospectus should also be read and construed in conjunction with the following, which shall be incorporated in and form part of this Base Prospectus:

(a) the Terms and Conditions of the Notes as contained at pages 34 – 70 (inclusive) of the base prospectus dated 25 March 2011 in connection with the Programme (https://www.rns-pdf.londonstockexchange.com/rns/6664D_-2011-3-25.pdf);

(b) the Terms and Conditions of the Notes as contained at pages 36 – 68 (inclusive) of the base prospectus dated 26 June 2015 in connection with the Programme (https://www.ise.ie/debt_documents/Base%20Prospectus_0ac40228-9971-495e-9926-c7f4b01bfed4.PDF);

(c) the Terms and Conditions of the Notes as contained at pages 37 – 72 (inclusive) of the base prospectus dated 2 April 2020 in connection with the Programme (https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/kemble/thames-water-kemble-finance-plc/prospectuses/prospectus-2020.pdf); and

(c) for each of the financial years ended 31 March 2019 (https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/kemble/thames-water-kemble-finance-plc/reports/annual-report-2018-19.pdf) and 31 March 2020 (https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/kemble/thames-water-kemble-finance-plc/reports/annual-report-2019-20.pdf) the audited financial statements of the Issuer,

together in each case with the audit report thereon, which have been filed with the Central Bank of Ireland.

The TWUL Disclosure and the documents, or sections of documents, referred to above shall be incorporated in and form part of this Base Prospectus, save that any statement contained in such documents, or sections of a document, which are incorporated by reference herein shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Any documents which are themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus, shall not form part of this Base Prospectus. Where only certain parts of a document are incorporated by reference in this Base Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Base Prospectus. Further, any defined term used in the TWUL Disclosure shall only be a defined term for the purposes of such TWUL Disclosure and any defined terms used in this Base Prospectus (other than in such TWUL Disclosure) shall not be a defined term for the purposes of such TWUL Disclosure.

Copies of documents incorporated by reference in this Base Prospectus may be obtained (without charge) from the registered office of the Issuer.

SUPPLEMENTARY PROSPECTUS

Each of the Issuer and the Guarantor has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantor, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

If at any time the Issuer shall be required to prepare a supplement to the Base Prospectus pursuant to Article 23 of the Prospectus Regulation, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further base prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Regulated Market of Euronext Dublin, shall constitute a supplemental base prospectus as required by Article 23 of the Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

FINAL TERMS AND DRAWDOWN PROSPECTUS

In the following paragraphs, the expression "necessary information" means, in relation to any Class of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme, the Issuer has endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Class of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Class of Notes will be contained in the relevant Final Terms or Drawdown Prospectus. Such information will be contained in the relevant Final Terms unless any such information constitutes a significant new factor relating to the information contained in this Base Prospectus in which case such information, together with all of the necessary information in relation to the Notes, may be contained in a Drawdown Prospectus or, in connection with the admission of Notes to the Official List and admitted to trading on the Market, supplementary listing particulars. In addition, the Obligors may agree with any Dealer and the Note Trustee that the Notes may be issued in a form not contemplated by the Conditions (as defined below), in which event (in the case of the Notes admitted to the Official List only) a Drawdown Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified, completed or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the relevant Issuer and the relevant Notes.

For a Class of Notes which is the subject of Final Terms, those Final Terms must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Class of Notes which is the subject of Final Terms are the Conditions as completed to the extent described in the relevant Final Terms.

NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

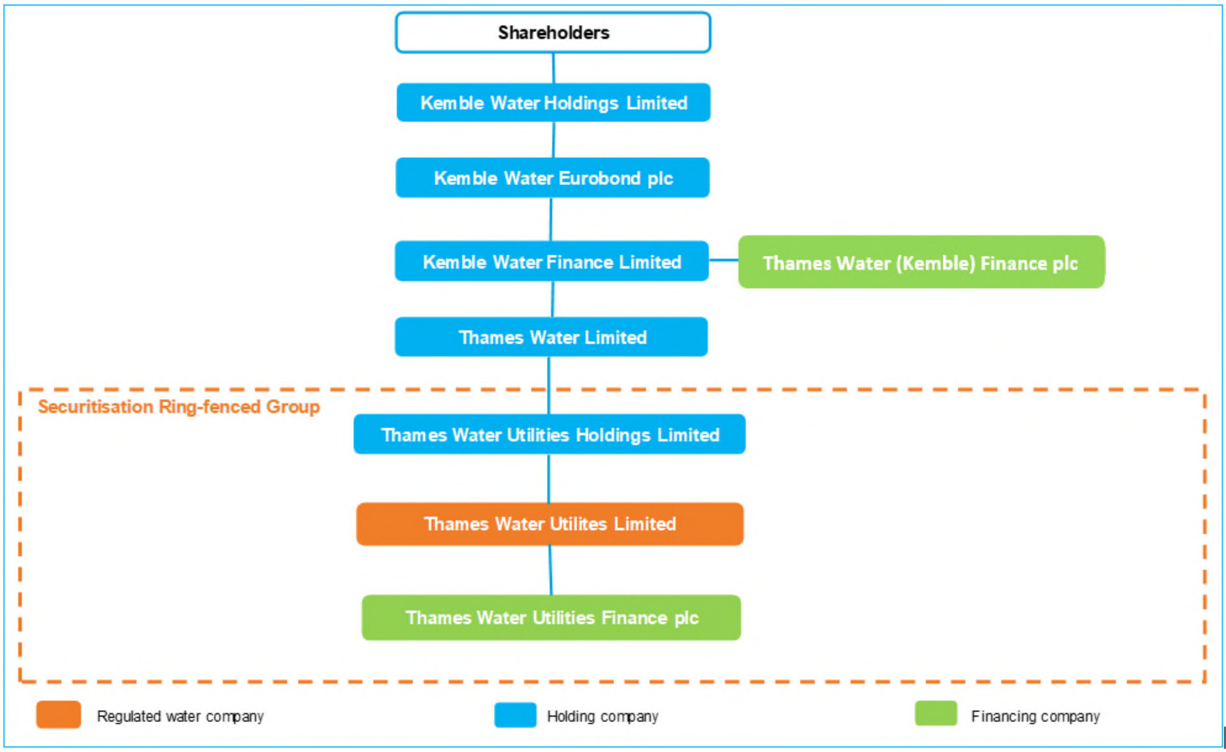
(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In addition, an investment in Notes linked to other bases of reference may entail significant risks not associated with investments in conventional securities such as debt or equity securities, including, but not limited to, the risks set out below in "*Risks related to the structure of a particular issue of Notes*".

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

THAMES WATER GROUP STRUCTURE

Group Structure Chart



TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion in accordance with the provisions of Part A of the relevant Final Terms or completion, supplement or amendment in accordance with the provisions of the relevant Drawdown Prospectus, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. The applicable Final Terms or Drawdown Prospectus in relation to any Tranche of Notes will complete the following terms and conditions for the purpose of such Notes. The relevant Final Terms or Drawdown Prospectus will be endorsed upon, or attached to, such Bearer Notes or on the Certificates relating to such Registered Notes.

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") dated on or around 25 March 2011 between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "**Note Trustee**", which expression shall include all persons for the time being the note trustee or note trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of:

(i) the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below;

(ii) the Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated on or around 25 March 2011, which has been entered into in relation to the Notes between the Issuer, the Guarantor, the Note Trustee, Deutsche Bank AG, London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**";

(iii) the Security Agreement (the "**Security Agreement**") dated on or around 7 April 2011 between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "Security Trustee") and as supplemented on 26 March 2015; and

(iv) the Intercreditor Agreement dated on or around 25 March 2011 between, amongst others, the Issuer, the Guarantor, the Note Trustee, the Security Trustee and certain banks as lenders to the Guarantor as amended and restated on 26 March 2015 (the "**Intercreditor Agreement**").

Copies of the Trust Deed, the Agency Agreement, the Security Agreement and the Intercreditor Agreement are available during usual business hours from the registered office of the Note Trustee and the specified offices of the Paying Agents and the Transfer Agents and, in the case of item (i) only, at the Issuer's website at www.thameswater.com.

The payments of all amounts in respect of the Notes have been secured by the Issuer and the Guarantor pursuant to the Security Agreement and guaranteed by the Guarantor in the Trust Deed.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects.

Terms used but not defined in these Conditions have the meanings given to them in the Trust Deed.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) specified in the applicable Final Terms or Drawdown Prospectus provided that in the case of any Notes which require the publication of a Base Prospectus under the Prospectus Regulation, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note or a combination of any of the foregoing, depending upon the Interest and Redemption/Payment Basis specified in the relevant Final Terms or Drawdown Prospectus (except for Index Linked Interest Notes and Index Link Redemption Notes, whose Interest and Redemption/Payment Basis may be specified in a Drawdown Prospectus only).

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be, and may be treated as, its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the applicable Final Terms or Drawdown Prospectus, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) No Exchange of Notes

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(b) (*Transfer of Registered Notes*) or Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Put Exercise Notice (as defined in Condition 6(e) (*Guarantor Change of Control Put*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) Transfers Free of Charge

Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered: (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) (*Redemption at the Option of the Issuer*); (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. In this Condition 2(f), "**Record Date**" shall have the meaning given to it in Condition 7(b)(ii).

3 Guarantee and Status

(a) Status of Notes

The Notes and the Receipts and Coupons are secured, direct and unconditional obligations of the Issuer, secured pursuant to the Security Agreement, and shall at all times rank *pari passu* and without any preference among themselves.

(b) Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. Its obligation in that respect (the "**Guarantee**") is contained in the Trust Deed and is secured pursuant to the Security Agreement.

4 Negative Pledge and Covenants

(a) **Issuer and Guarantor Negative Pledge: So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will:**

(A) other than for Permitted Security or a Permitted Transaction, create or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital), to secure any Financial Indebtedness, or any guarantee or indemnity in respect of any Financial Indebtedness, without at the same time, or prior thereto according to the Issuer's obligations under the Notes and the Coupons or, as the case may be, the Guarantor's obligations under the Guarantee, (a) the same security as is created or subsisting to secure any such Financial Indebtedness, guarantee or indemnity or (b) such other security as either: (i) the Note Trustee shall deem not materially less beneficial to the interests of the Noteholders; or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

(B) incur any additional Financial Indebtedness unless:

(a) the net proceeds of such additional Financial Indebtedness is either:

(i) applied to repay outstanding Financial Indebtedness on a pound for pound basis; or

(ii) deposited into a Defeasance Account and applied at the relevant time to repay outstanding Financial Indebtedness;

(b) such additional Financial Indebtedness does not rank senior to the Notes;

(c) if such additional Financial Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantor; and

(d) no Lock-Up or Default would occur as a result of the incurrence of such Financial Indebtedness.

(b) **No Financial Indebtedness in respect of Intermediate Subsidiaries:** So long as any Note or Coupon remains outstanding, the Guarantor will procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall incur or allow to remain outstanding any Financial Indebtedness, other than in respect of any Permitted Financial Indebtedness or a Permitted Transaction;

(c) **Negative Pledge of Intermediate Subsidiaries:** So long as any Note or Coupon remains outstanding, the Guarantor shall procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall create or permit to subsist any Security over any of its respective assets;

(d) **No Security:** So long as any Note or Coupon remains outstanding, the Issuer and the Guarantor shall not (and the Guarantor shall procure that no Intermediate Subsidiary shall):

(i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Issuer, the Guarantor or any Intermediate Subsidiary;

(ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;

(iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset, except for any Permitted Security or a Permitted Transaction.

(e) **Covenants of the Issuer and Guarantor:** The Issuer and Guarantor have provided certain additional covenants pursuant to clauses 7 and 8 of the Trust Deed in relation to, without limitation, the financial position, assets, liabilities and business operations of each of them and, in certain cases, made procuring covenants in respect of the Intermediate Subsidiaries. A summary of these covenants is available to Noteholders in the base prospectus prepared by the Issuer in respect of the Notes under the section "Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor".

5 Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g) (*Calculations*).

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g) (*Calculations*). Such Interest Payment Date(s) is/are either specified in the applicable Final Terms (for Floating Rate Notes only) or Drawdown Prospectus as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the applicable Final Terms (for Floating Rate Notes Only) or Drawdown Prospectus, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Final Terms (for Floating Rate Notes only) or Drawdown Prospectus as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Final Terms or Drawdown Prospectus and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms or Drawdown Prospectus.

(iv) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (iv), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms or Drawdown Prospectus;

(B) the Designated Maturity is a period specified in the applicable Final Terms or Drawdown Prospectus; and

(C) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Final Terms or Drawdown Prospectus.

For the purposes of this sub-paragraph (iv), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(v) Screen Rate Determination for Floating Rate Notes

(A) Save where the Reference Rate specified in the applicable Final Terms is SONIA, where Screen Rate Determination is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms or Drawdown Prospectus) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms or Drawdown Prospectus as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms or Drawdown Prospectus.

(B) Subject to Condition 5(b)(vi) below, if the Relevant Screen Page is not available or if, sub-paragraph (A)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Issuer shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(C) Subject to Condition 5(b)(vi) below, if paragraph (B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks, or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(D) If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, and the Reference Rate specified in the applicable Final Terms is SONIA, the Rate of Interest applicable to the Notes for each Interest Period will be the Compounded Daily SONIA as determined by the Calculation Agent plus or minus the Margin (as specified in the applicable Final Terms).

"**Compounded Daily SONIA**", with respect to each Interest Period, will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fourth decimal place, with 0.00005% being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SONIA_{i-pLBD}\times n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

"**d**" is the number of calendar days in the relevant Interest Period;

"**d_o**" is the number of London Banking Days in the relevant Interest Period;

"***i***" is a series of whole numbers from one to $\mathbf{d_o}$, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Period to, and including, the last London Banking Day in the relevant Interest Period;

"**London Banking Day**" or "**LBD**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"$\mathbf{n_i}$" for any London Banking Day "***i***", means the number of calendar days from and including such London Banking Day "***i***" up to but excluding the following London Banking Day;

"**p**" is the number of London Banking Days included in the Reference Look-Back Period, as specified in the applicable Final Terms provided that "**p**" shall not be less than three London Banking Days at any time and shall not be less than five London Banking Days without prior written approval of the Calculation Agent;

"**Reference Look-Back Period**" is as specified in the applicable Final Terms;

"**Reference Period**" means, in respect of an Interest Period, the period from and including the date falling "**p**" London Banking Days prior to the first day of such Interest Period and ending on, but excluding, the date falling "**p**" London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling "**p**" London Banking Days prior to such earlier date, if any, on which the Notes become due and payable);

the "**SONIA Reference Rate**", in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Page or, if the Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day); and

"$\mathbf{SONIA_{i\text{-}pLBD}}$" means, in respect of any London Banking Day, falling in the relevant Interest Period, the SONIA Reference Rate for the London Banking Day which is "**p**" London Banking Days prior to the relevant London Banking Day "***i***".

(E) If, subject to Condition 5(b)(vi) (*Benchmark discontinuation*), in respect of any London Banking Day in the relevant Reference Period, the SONIA Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall be:

(1) (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or

(2) if the Bank Rate is not published by the Bank of England at close of business on the relevant London Banking Day, the SONIA Reference Rate published on the Relevant Screen Page (or otherwise published by the relevant authorised

distributors) for the first preceding London Banking Day on which the SONIA Reference Rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors).

(F) Notwithstanding the paragraphs above, but subject to Condition 5(b)(vi) (*Benchmark discontinuation*), if the Bank of England publishes guidance as to (i) how the SONIA Reference Rate is to be determined or (ii) any rate that is to replace the SONIA Reference Rate, the Calculation Agent shall, subject to receiving written instructions from the Issuer and to the extent reasonably practicable, follow such guidance in order to determine SONIA for the purpose of the Notes for so long as the SONIA Reference Rate is not available or has not been published by the authorised distributors.

(vi) Benchmark discontinuation

(A) Independent Adviser

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(vi)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(vi)(D)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(b)(vi) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Note Trustee, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 5(b)(vi).

If: (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(b)(vi)(A) by no later than 5 Business Days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(vi)(A).

(B) Successor Rate or Alternative Rate

If the Independent Adviser, determines that:

(1) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to

determine the Interest rate (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(vi)); or

(2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(vi)).

(C) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(D) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(vi) and the Independent Adviser, determines: (i) that amendments to these Conditions and/or the Note Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(vi)(E), without any requirement for the consent or approval of Noteholders or Couponholders, vary these Conditions and/or the Note Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Note Trustee and the Calculation Agent of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 5(b)(vi)(E), the Note Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders or the Couponholders, be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Note Trust Deed) and the Note Trustee shall not be liable to any party for any consequence thereof; notwithstanding the above, the Note Trustee shall not be obliged so to concur if in the opinion of the Note Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or protective provisions afforded to the Note Trustee in these Conditions or the Note Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) or any other documents in which it is party in any way and provided further that the Benchmark Amendments do not, without the prior agreement (such agreement not to be unreasonably withheld, conditioned or delayed) of each Paying Agent or the Calculation Agent, as applicable, have the effect of increasing the obligations, duties, responsibilities or liabilities or decreasing the rights or protections, of each Paying Agent or the Calculation Agent under these Conditions and/or the Agency Agreement.

In connection with any such variation in accordance with this Condition 5(b)(vi)(D), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(E) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(b)(vi) will be notified by no later than five Business Days prior to the relevant Interest Determination Date by the Issuer to the Note Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 16, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Note Trustee of the same, the Issuer shall deliver to the Note Trustee and the Calculation Agent a certificate signed by two authorised signatories of the Issuer:

(3) confirming: (i) that a Benchmark Event has occurred; (ii) the Successor Rate or, as the case may be, the Alternative Rate; (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(b)(vi); and

(4) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Note Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Note Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate (without enquiry or liability to any person) as aforesaid) be binding on the Issuer, the Note Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

(F) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(b)(vi)(A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(v)(B), 5(b)(v)(C), 5(b)(v)(E) and 5(b)(v)(F) will continue to apply unless and until the Issuer determines that a Benchmark Event has occurred.

(G) Uncertainty

Notwithstanding any other provision of this Condition 5(b)(vi), if in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(b)(vi), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the

Calculation Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(H) Definitions

As used in this Condition 5(b)(vi):

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(2) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);

(3) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(b)(vi)(B) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes;

"**Benchmark Amendments**" has the meaning given to it in Condition 5(b)(vi)(D);

"**Benchmark Event**" means:

(1) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or

(2) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(3) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(4) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(5) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

(6) a public statement by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative of its relevant underlying market,

provided that in the case of sub-paragraphs (2), (3) and (4), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by, and at the expense of, the Issuer under Condition 5(b)(vi)(A);

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Interest Rate (or any component part thereof) on the Notes;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(vii) Rate of Interest for Index Linked Interest Notes

The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Drawdown Prospectus and interest will accrue by reference to an Index or Formula as specified in the applicable Drawdown Prospectus.

(c) Linear Interpolation

Where Linear Interpolation is specified in the applicable Final Terms or Drawdown Prospectus as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation of two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the applicable Final Terms or Drawdown Prospectus as applicable) or the relevant Floating Rate Option (where ISDA

Determination is specified in the applicable Final Terms or Drawdown Prospectus as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(d) Zero Coupon Notes

Where a Note the Interest Basis of which is specified to be Zero Coupon (a "**Zero Coupon Note**") is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Zero Coupon Notes*)).

(e) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgement) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8 (*Taxation*)).

(f) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding

(i) If any Margin is specified in the applicable Final Terms or Drawdown Prospectus (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes and Index Linked Interest Notes*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to (ii) below.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the applicable Final Terms or Drawdown Prospectus, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), all: (x) percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up); (y) figures shall be rounded to seven significant figures (with halves being rounded up); and (z) currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "unit" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(g) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Final Terms or Drawdown Prospectus, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(h) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Note Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than: (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(i) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms have the meanings set out below:

"**Business Day**" means in relation to any sum payable in:

(i) a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) the case of euro, a day on which the TARGET2 System is operating (a "TARGET2 Business Day"); and/or

(iii) a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms or Drawdown Prospectus, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\ x\ (Y_2 - Y_1)]\ +\ [30\ x\ (M_2 - M_1)]\ +\ (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms or Drawdown Prospectus, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\ x\ (Y_2 - Y_1)]\ +\ [30\ x\ (M_2 - M_1)]\ +\ (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms or Drawdown Prospectus, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\ x\ (Y_2 - Y_1)]\ +\ [30\ x\ (M_2 - M_1)]\ +\ (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the Maturity Date or; (ii) such number would be 31, in which case D2 will be 30; and

(vii) if "**Actual/Actual-ICMA**" is specified in the applicable Final Terms or Drawdown Prospectus:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year;

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such in the applicable Final Terms or Drawdown Prospectus or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the applicable Final Terms or Drawdown Prospectus, shall mean the Fixed Coupon Amount or Broken Amount specified in the applicable Final Terms or Drawdown Prospectus as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms or the Drawdown Prospectus.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or the Drawdown Prospectus or, if none is so specified: (a) if the Reference Rate is not SONIA, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling, (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro; or (b) if the Reference Rate is SONIA, the day falling five Business Days in London prior to the Interest Payment Date for such Interest Period.

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Final Terms or the Drawdown Prospectus.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms or the Drawdown Prospectus.

"**Rate of Interest**" or "**Interest Rate**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the relevant Final Terms or the Drawdown Prospectus.

"**Reference Banks**" means in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Issuer or as specified in the relevant Final Terms or the Drawdown Prospectus.

"**Reference Rate**" means the rate specified as such in the relevant Final Terms or the Drawdown Prospectus.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms or the Drawdown Prospectus.

"**Specified Currency**" means the currency specified as such in the relevant Final Terms or the Drawdown Prospectus or, if none is specified, the currency in which the Notes are denominated.

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(j) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the applicable Final Terms or Drawdown Prospectus and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the applicable Final Terms or Drawdown Prospectus. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the applicable Final Terms or Drawdown Prospectus at its Final Redemption Amount (which, unless otherwise provided in the applicable Final Terms or Drawdown Prospectus, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the applicable Final Terms or Drawdown Prospectus.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the applicable Final Terms or Drawdown Prospectus, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually (the "**Amortised Face Amount**").

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d) (*Zero Coupon Notes*).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms or the Drawdown Prospectus.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms or the Drawdown Prospectus.

(c) Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (*Early Redemption*) above) (together with interest accrued to the date fixed for redemption), if: (i) the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it (including, but not limited to, the replacement of the Issuing and Paying Agent), provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or either Guarantee, as the case may be) then due and provided that any two Directors of the Issuer are able to certify in the notice provided to the Noteholders that it has sufficient funds to pay such Optional Redemption Amount. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Note Trustee a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) Redemption at the Option of the Issuer

If a Call Option is specified in the applicable Final Terms or Drawdown Prospectus and provided that on or prior to the date on which the notice expires, the Note Trustee has not instituted proceedings against the Issuer and/or the Guarantor in accordance with Condition 12 (*Enforcement*), the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the applicable Final Terms or Drawdown Prospectus) in accordance with Condition 16 (*Notices*) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption, provided that any two Directors of the Issuer are able to certify in the notice provided to the Noteholders that it has sufficient funds to pay such Optional Redemption Amount. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the

Minimum Redemption Amount to be redeemed specified in the relevant Final Terms or the Drawdown Prospectus and no greater than the Maximum Redemption Amount to be redeemed specified in the relevant Final Terms or the Drawdown Prospectus.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or, in the case of Registered Notes, shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) Guarantor Change of Control Put

If at any time there occurs a Guarantor Change of Control, a "**Guarantor Change of Control Event**" shall be deemed to have occurred.

Promptly upon the Issuer or the Guarantor being aware of a Guarantor Change of Control Event having occurred and in any event within 14 days thereof, the Guarantor or the Issuer shall give notice to the Noteholders of the occurrence of such Guarantor Change of Control Event (such notice, a "**Guarantor Change of Control Event Notice**"), any such notice to be delivered in accordance with the provisions of Condition 16 (*Notices*). At any time from the date of giving such Guarantor Change of Control Event Notice to the date falling 45 days thereafter (such period, the "**Put Exercise Period**") upon the Issuer receiving at least five Business Days' notice from any Noteholder (any such notice, a "Put Event Notice"), the Notes of such Noteholder as specified in the Put Event Notice shall become due and repayable and the Issuer will, upon the expiry of such Put Event Notice (such date, the "Guarantor Change of Control Event Date"), redeem each Note the subject of such Put Event Notice at 101 per cent. of its principal amount together with interest accrued to (but excluding) the Guarantor Change of Control Event Date.

Pursuant to the above provisions, any Noteholder having the right to require early redemption of any Notes held by it pursuant to this Condition 6(e), to exercise the right to require redemption of such Notes such Noteholder must, if such Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the Put Exercise Period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Exercise Notice**") and in which the Noteholder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6(e) accompanied by such Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Exercise Notice, be held to its order or under its control. If such Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of such Notes, the holder of such Note must, within the Put Exercise Period, give notice to the Issuing and Paying Agent of such exercise in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include notice being given on instruction of the relevant Noteholder by Euroclear or Clearstream, Luxembourg, as the case may be, or any common service provider for them to the Issuing and Paying Agent by electronic means) in a form acceptable to Euroclear or, as the case may be, Clearstream, Luxembourg from time to time and, if such Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Issuing and Paying Agent for notation accordingly.

Any Put Exercise Notice or other notice given by a holder of any Note in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg pursuant to this Condition 6(e) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Note Trustee has declared the Notes to be due and repayable pursuant to Condition 10 (*Events of Default*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6(e).

In this Condition 6(e):

"**Guarantor Change of Control**" means the Initial Investors and/or any Initial Investor Affiliates and/or any Acceptable Investors and/or any Acceptable Investor Affiliates together or separately cease to control directly or indirectly the Guarantor. For the purposes of this definition, "control" of the Guarantor means:

(a) the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:

(i) cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of the Guarantor; or

(ii) appoint or remove all, or the majority, of the directors or other equivalent officers of the Guarantor; or

(iii) give directions with respect to the operating and financial policies of the Guarantor with which the directors or other equivalent officers of the Guarantor are obliged to comply; and/or

(b) the holding beneficially of more than one-half of the issued share capital of the Guarantor (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital).

"**Acceptable Investor**" means an entity:

(a) which is a financial investor, Fund or Trust, which is regularly engaged in making, managing, advising on the management of or holding investments in Regulated Infrastructure Assets and which has at the Relevant Time total infrastructure assets principally invested or under management of no less than £2 billion (or its currency equivalent); or

(b) in respect of which, if the conditions in sub-paragraph (a) above are not met, the Note Trustee (acting as directed by an Extraordinary Resolution of the Noteholders) has approved of such entity being an Acceptable Investor.

"**Acceptable Investor Affiliate**" means, in relation to an Acceptable Investor, any Fund, Trust or company (including any unit trust, investment trust, limited partnership or general partnership) which is controlled by, which is advised by, or which is, or the assets of which are, managed from time to time by:

(a) that Acceptable Investor; or

(b) any Fund, Trust or company which is controlled by that Acceptable Investor and which forms part of that Acceptable Investor's consolidated group for accounting purposes,

and this shall include any wholly-owned subsidiary of such Fund, Trust or company but for the avoidance of doubt shall not include an investee company of an Acceptable Investor.

“**Regulated Infrastructure Assets**” means assets in respect of water, gas, electricity, telecommunications, roads, rail, ports, airports and analogous assets, and/or entities which own such assets, in each case whose core operations are in a monopolistic or quasi-monopolistic position, require a licence, are based on a governmental concession or franchise and/or are subject to a specific legislative regime.

“**Relevant Time**” means the time of an acquisition of rights which amount to beneficial ownership of all or part of the issued share capital of the Guarantor.

(f) Redemption at the Option of Noteholders

If Put Option is specified in the applicable Final Terms or Drawdown Prospectus, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days’ notice to the Issuer (or such other notice period as may be specified in the applicable Final Terms or Drawdown Prospectus) in accordance with Condition 16 (*Notices*) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) Purchases

Each of the Issuer, the Guarantor and its Subsidiaries (as defined in the Trust Deed) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of Condition 10 (*Events of Default*), Condition 11(a) (*Meetings of Noteholders*) or Condition 12 (*Enforcement*).

(h) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to, or to the order of, the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, other than in the case of Bearer Notes denominated in U.S. Dollars, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET2 System.

(b) Registered Notes and Record Date

(i) Payments of principal (which, for the purposes of this Condition 7(b), shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which, for the purpose of this Condition 7(b), shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the 15th day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if: (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due; (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments subject to Laws

Payments will be subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents, Transfer Agents, or Calculation Agent(s), provided that the Issuer shall at all times maintain: (i) an Issuing and Paying Agent; (ii) a Registrar in relation to Registered Notes; (iii) a Transfer Agent in relation to Registered Notes; (iv) one or more Calculation Agent(s) where the Conditions so require; (v) a Paying Agent having its specified office in a major European city; and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee. In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. Dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and Unexchanged Talons**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Index Linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9 (*Prescription*)).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a

Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and, if necessary, another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9 (*Prescription*)).

(h) **Non-Business Days**

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder is not entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" in the relevant Final Terms or the Drawdown Prospectus and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET2 Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note, Receipt or Coupon;

(b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date, except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;

Notwithstanding any other provision of the Conditions or the Trust Deed, any amounts to be paid in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer, the Guarantor nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

"**Relevant Date**" means, in relation to a payment, whichever is the later of: (i) the date on which such payment first becomes due; and (ii) if the full amount payable has not been received in London by the Paying Agents or the Note Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events ("Events of Default") occurs and is continuing (subject to any applicable grace periods), the Note Trustee at its discretion may, and if so requested by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution and, in each case, subject to being indemnified and/or secured and/or pre-funded to its satisfaction shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) Non-Payment

Default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes.

(b) Financial Covenants

Subject, in each case, to Equity Cure (as defined below):

(i) RCV Test

as at any Calculation Date, Group RAR exceeds 0.95:1; or

(ii) Interest Cover Ratio

Interest Cover Ratio shall not be less than 2.00:1,

(the "Financial Ratios").

The backward looking Financial Ratios shall be calculated on the basis of the most recently delivered financial statements and the forward looking financial covenants shall be calculated on the basis of internal forecasts prepared on a consistent basis and, so far is practicable, in accordance with Accounting Principles and internal management accounts.

(c) Breach of Other Obligations

The Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is: (i) incapable of remedy or, if in the opinion of the Note Trustee capable of remedy, is not in the opinion of the Note Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by the Note Trustee; and (ii) in the opinion of the Note Trustee materially prejudicial to the interests of the Noteholders.

(d) Cross-Acceleration

Any other present or future indebtedness of the Issuer or the Guarantor for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual event of default (howsoever described) provided that the aggregate amount of the Financial Indebtedness in respect of which the events mentioned above in this Condition 10(d) have occurred equals or exceeds £15,000,000 or its equivalent (as reasonably determined by the Note Trustee).

(e) Failure to pay under a Loan Facility

Default is made in the payment on the due date of interest or principal in respect of any Loan Facility (as defined in the Trust Deed) (after giving effect to any originally applicable grace period).

(f) Cross Acceleration in respect of the Securitisation

The termination of a Standstill Period (as defined in the TWUL Base Prospectus) other than by waiver or remedy of default.

(g) Enforcement Proceedings

A distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or the Guarantor and is not discharged or stayed within 30 days.

(h) Security Enforced

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person).

(i) Insolvency

The Issuer or the Guarantor is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or the Guarantor.

(j) Winding-up

An administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Issuer or the Guarantor, or the Issuer or the Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution of the Noteholders.

(k) Ownership

The Issuer ceases to be wholly-owned and controlled by the Guarantor.

(l) Illegality

It is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its material obligations under any of the Note Documents.

(m) Analogous Events

Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

(n) Guarantee

The Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

Equity Cure

(a) No default under Condition 10(b) (*Financial Covenants*) above shall occur if, prior to the date on which the Compliance Certificate setting out the calculations in respect of the relevant covenant determination is required to be delivered:

(i) the Obligors procure that a Cure Investment is made;

(ii) the proceeds of such Cure Investment are applied to prepayment of Financial Indebtedness of the Group or credit to the Defeasance Account (as the Obligors may decide in their discretion); and

(iii) a Compliance Certificate is delivered to the Note Trustee and the Working Capital Facility Agent evidencing that, after taking into account the Cure Investment, the relevant Financial Ratio is not breached,

(a "**Cure Right**").

(b) For the purposes of re-calculating the Financial Ratios, in respect of each £1 of Cure Investment the Obligors shall apply such £1:

(i) as reducing Total Net Debt as at the Calculation Date if the Group RAR is the defaulted Financial Ratio; or

(ii) as an addition to Group EBITDA on a historical basis (as at the immediately previous Calculation Date) if the Interest Cover Ratio is the defaulted Financial Ratio.

A Cure Right may not be exercised more than 3 times in any 5 year period or in respect of two consecutive Calculation Dates.

(c) The backward looking Financial Ratios shall be calculated on the basis of the most recently delivered financial statements and the forward looking financial covenants shall be calculated on the basis of internal forecasts prepared on a consistent basis and, so far is practicable, in accordance with Accounting Principles and internal management accounts.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding.

The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

(i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes;

(ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes;

(iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;

(iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the applicable Final Terms or Drawdown Prospectus, to reduce any such Minimum and/or Maximum;

(v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;

(vi) to vary the currency or currencies of payment or denomination of the Notes;

(vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution; or

(viii) to modify or cancel the Guarantee,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding.

Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) Modification of the Trust Deed

The Note Trustee may agree, without the consent of the Noteholders or Couponholders, to: (i) any modification of any of the provisions of the Trust Deed, the Conditions or any other Transaction Document that is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven; or (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Conditions or any other Transaction Document that is in the opinion of the Note Trustee not materially prejudicial to the interests of the Noteholders. The Note Trustee shall, at the request of the Issuer, without the consent of the Noteholders or Couponholders, agree to such amendments to the Trust Deed or the Conditions as may be required by the Issuer to transfer the listing of any Notes between Euronext Dublin and the London Stock Exchange, provided that: (i) the Note Trustee has received a certificate signed by two directors of the Issuer certifying that such amendments are required to effect such transfer and are only intended to give effect to such transfer (upon which certificate the Note Trustee shall be entitled to rely without further enquiry or liability); and (ii) such amendments do not require the Note Trustee to undertake any more onerous duties or responsibilities or impose on the Note Trustee any additional liabilities beyond those set out in the Trust Deed. In addition, the Note Trustee shall be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments in the circumstances and as otherwise set out in Condition 5(b)(vi)(D) without the consent or approval of the Noteholders or the Couponholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms or Drawdown Prospectus in relation to such Series.

(c) Substitution

The Trust Deed contains provisions permitting the Note Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business in place of the Issuer or of the Guarantor's successor in business in place of the Guarantor, or, in each case, in place of any previous substituted company, as principal debtor or, as the case may be, Guarantor under the Trust Deed and the Notes. In the case of such a substitution, the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed, provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.

(d) Entitlement of the Note Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11), the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

(e) Benchmark Amendments

For the avoidance of doubt, the requirements set out in this Condition 11 do not apply to amendments to the Conditions and/or the Note Trust Deed that are made pursuant to Condition 5(b)(vi)(D).

12 Enforcement

Subject to the terms of the Intercreditor Agreement, at any time after the Notes become due and payable, the Note Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, and may give instructions to the Security Trustee in relation to the Security Agreement under the Intercreditor Agreement as a Secured Creditor Representative representing 100 per cent. of the principal amount of the Notes outstanding, provided that the provisions of the Intercreditor Agreement shall determine whether or not the Security Trustee is obliged to comply with those instructions; but it shall not be required to take any such proceedings or give such instructions unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. For the avoidance of doubt, enforcement of the Transaction Security may only take place in accordance with the terms of the Intercreditor Agreement. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Guarantor unless the Note Trustee, having become bound so to proceed and permitted so to do by the Intercreditor Agreement, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Note Trustee

Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Note Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and is entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Note Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and requirements of Euronext Dublin (in the case of Notes admitted to listing on such stock exchange), if the relevant Notes have been admitted to listing, trading and/or quotation on such stock exchange), at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them and their issue price) and so that such further securities shall be consolidated and form a single series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche, with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may, be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

16 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of Euronext Dublin, on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 (the "Act"), but this does not affect any other right or remedy of a third party which exists or is available apart from the Act.

18 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons or the Guarantee (including any disputes in relation to non-contractual obligations arising out of or in connection with them) and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons or the Guarantee ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waived any objections to

Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. Each of the Note Trustee, the Noteholders and the Couponholders may take (i) Proceedings in any other court of competent jurisdiction or (ii) Proceedings in any one or more jurisdictions (whether concurrently or not).

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms or Drawdown Prospectus to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Where the Global Notes or the Global Certificates issued in respect of any Tranche are in NGN form or issued under the NSS structure, the Common Safekeeper will be notified whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is issued in CGN form, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is issued in NGN form, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms or Drawdown Prospectus) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system ("Alternative Clearing System") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Final Terms or Drawdown Prospectus indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme —Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms or Drawdown Prospectus, for Definitive Notes.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

Exchange provisions relating to Global Notes generally

In the event that Global Notes are exchangeable for Definitive Notes in circumstances other than the limited circumstances specified in the Global Notes, such Global Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Permanent Global Certificates

If the Final Terms or Drawdown Prospectus state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of a holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.4(i) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms or Drawdown Prospectus).

Delivery of Notes

If the Global Note is issued in CGN form, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will: (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange; or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is issued in NGN form, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Base Prospectus, "Definitive Notes" means in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security-printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"Exchange Date" means in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is in CGN form, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. If the Global Note is in NGN form or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a Global Note in NGN form will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the "**Record Date**"), where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is in CGN form, presenting the permanent Global Note to the Issuing and Paying Agent for notation. Where the Global Note is in NGN form or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

NGN Nominal Amount

Where the Global Note is in NGN form, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above, shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

BUSINESS DESCRIPTION OF ISSUER

The Issuer was incorporated in England and Wales on 4 February 2011 with registered number 07516930 (LEI: 213800S7UU2MQXYJQO60) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at Clearwater Court, Vastern Road, Reading RG1 8DB. The telephone number of the Issuer's registered office is +44 (0) 20 3577 8800. The website of the Issuer is www.thameswater.co.uk but information on the website does not form part of this Base Prospectus unless it has been explicitly incorporated by reference into this Base Prospectus.

Ownership

As at the date of this Base Prospectus, the issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 13,000 of which are fully paid, all of which are legally and beneficially owned by the Guarantor (see "*Business Description of Guarantor*" below).

In respect of measures in relation to such control, the Guarantor is ultimately owned by the Kemble Shareholders. The Kemble Shareholders have entered into a shareholders' agreement which complies with the Ofwat publication "Board leadership, transparency & governance – principles." The directors of the Issuer support high standards of corporate governance and have particular regard for the UK Corporate Governance Code issued by the Financial Reporting Council. As a company registered in England and Wales, the Issuer is also subject to the provisions of the Companies Act.

Business Activities

The Issuer is a special purpose financing entity with no business operations other than raising external funding for the Guarantor through the issuance of the Notes and other debt finance. The Issuer has no Subsidiaries.

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the issues or proposed issues of the Notes and the authorisation of and entry into the other Finance Documents referred to in this Base Prospectus to which it is a party and other matters which are incidental or ancillary to the foregoing. Save as disclosed in this Base Prospectus, the Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Base Prospectus. The Issuer has no employees.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in the Conditions and the Trust Deed.

Financial Statements

The accounting reference date of the Issuer is 31 March and the statutory accounts of the Issuer for the 12 months ended 31 March 2019 and 2020 have been prepared and delivered to the Registrar of Companies on behalf of the Issuer.

The auditors of the Issuer for 2018/19 and 2019/20 were PricewaterhouseCoopers LLP ("PwC"), which is a member firm of the Institute of Chartered Accountants in England and Wales.

Corporate Governance

The following table sets out the directors of the Issuer and their respective business addresses and occupations.

Name	Position	Position(s) Outside the Issuer	Business Address
Tom Bolton	Director	Head of Corporate Finance	Clearwater Court Vastern Road Reading RG1 8DB
Dinesh Manuelpillai	Director	Finance Director	Clearwater Court Vastern Road Reading RG1 8DB
Mark Bamford	Director	Group Financial Controller	Clearwater Court Vastern Road Reading RG1 8DB

The company secretary of the Issuer is David Hughes, whose business address is Clearwater Court, Vastern Road, Reading RG1 8DB.

Conflicts

There are no potential conflicts of interest between any duties to the Issuer of its directors or the company secretary and their private interests or other duties.

BUSINESS DESCRIPTION OF GUARANTOR

The Guarantor was incorporated in England and Wales on 17 May 2006 with registered number 05819317 and LEI 2138003A8GC5KL85UR35 as a private limited company under the Companies Act 1985 (as amended). The registered office of the Guarantor is at Clearwater Court, Vastern Road, Reading RG1 8DB. The telephone number of the Guarantor's registered office is +44 (0) 20 3577 8800.

Ownership

As at the date of this Base Prospectus, the issued share capital of the Guarantor comprises 1,000,001 ordinary shares of one pound each, all of which are beneficially owned by Kemble Water Eurobond plc.

In respect of measures in relation to such control, Kemble Water Eurobond plc is ultimately owned by the Kemble Shareholders. The Kemble Shareholders have entered into a shareholders' agreement which complies with the Ofwat publication "Board leadership, transparency & governance – principles." The directors of the Guarantor support high standards of corporate governance and have particular regard for the UK Corporate Governance Code issued by the Financial Reporting Council. As a company registered in England and Wales, the Guarantor is also subject to the provisions of the Companies Act.

Business Activities and Subsidiaries

The Guarantor is a holding company with no material, direct business operations other than raising external funding for the Group through debt finance.

The Guarantor is the beneficial owner of: (i) the entire issued share capital of the Issuer; and (ii) the entire issued share capital of Thames Water Limited. The Guarantor will covenant to observe certain restrictions on its activities which are set out in the Trust Deed and the Conditions.

The Auditors of the Guarantor for the financial years ended 31 March 2019 and 31 March 2020 were PricewaterhouseCoopers LLP.

Corporate Governance

The following table sets out the current directors of the Guarantor and their respective business addresses and occupations:

Name	Position	Position(s) Outside the Guarantor	Business Address
Michael David Bloch-Hansen	Director	Associate Director	Clearwater Court Vastern Road Reading RG1 8DB
Michael McNicholas	Director	Managing Director	Clearwater Court Vastern Road Reading RG1 8DB

Name	Position	Position(s) Outside the Guarantor	Business Address
Stephen Alan John Deeley	Director	Investment Manager	Clearwater Court Vastern Road Reading RG1 8DB
Christy Pham	Director	Portfolio Manager	Clearwater Court Vastern Road Reading RG1 8DB
Alastair Colin Hall	Director	Investment Professional	Clearwater Court Vastern Road Reading RG1 8DB
Guy Lambert	Director	Investment Professional	Clearwater Court Vastern Road Reading RG1 8DB
Perry Noble	Director	Investment Manager	Clearwater Court Vastern Road Reading RG1 8DB
Giles Tucker	Director	Principal	Clearwater Court Vastern Road Reading RG1 8DB
Gregory Pestrak	Director	Executive Vice President	Clearwater Court Vastern Road Reading RG1 8DB
Fuxin Sheng	Director	Investment Manager	Clearwater Court Vastern Road Reading RG1 8DB

The company secretary of the Guarantor is David Hughes, whose business address is Clearwater Court, Vastern Road, Reading RG1 8DB.

Conflicts

There are no potential conflicts of interest between any duties to the Guarantor of its directors or the company secretaries and their private interests or other duties.

OVERVIEW OF THE KEY DOCUMENTS

Trust Deed

General

The Trust Deed between the Issuer, the Guarantor and the Note Trustee contains, amongst other things, the following provisions:

(a) the Issuer's covenant to the Note Trustee (who holds the benefit of the covenant on trust for the Noteholders) to pay the principal and interest on the Notes in accordance with the Conditions;

(b) the Issuer is at liberty from time to time (but subject always to the provisions of the Trust Deed) without the consent of the Noteholders or the Couponholders to create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and their issue price in respect of such Notes) and so that such further issues shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue;

(c) requirements in relation to Global Notes and Definitive Notes;

(d) the Guarantee given by the Guarantor as further described below;

(e) the covenants and undertakings of the Issuer and the Guarantor as further described below;

(f) the Note Trustee's power to approve, authorise or waive any breach or proposed breach of any of the covenants or provisions of the Trust Deed or the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Deed, provided that the Note Trustee shall not exercise any powers conferred upon it by such provision in contravention of any express direction by an Extraordinary Resolution (as defined in the Trust Deed) or of a request pursuant to Condition 10 (Events of Default);

(g) provisions relating to meetings of Noteholders; and

(h) the appointment, retirement, removal, remuneration, indemnification and liability of the Note Trustee.

Guarantee

The Guarantor unconditionally and irrevocably guarantees that if the Issuer does not pay any sum payable by it under the Trust Deed, the Notes, the Receipts or the Coupons at the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), the Guarantor will pay or procure the payment of that sum to or to the order of the Note Trustee, according to the terms of the Trust Deed and the Notes and the Coupons. In case of the failure of the Issuer to pay any such sum as and when the same becomes due and payable, the Guarantor agrees to cause such payment to be made as and when the same becomes due and payable, as if such payment were made by the Issuer.

The Guarantor unconditionally and irrevocably agrees, as an independent primary obligation, that it will pay to the Note Trustee sums sufficient to indemnify the Note Trustee and each Noteholder and Couponholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under the Trust Deed, the Notes or the Receipts or Coupons not being paid on the date and otherwise in the manner specified in the Trust Deed or any payment obligation of the Issuer under the Trust Deed, the Notes or the Receipts or Coupons being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Note Trustee, any Noteholder or any Couponholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

The Guarantor's guarantee and indemnity is a continuing guarantee and indemnity and shall remain in full force and effect until all amounts due in respect of the Notes, the Receipts or Coupons or under the Trust Deed have been paid in full. The Guarantor shall not be discharged by anything other than a complete performance of the obligations under the Trust Deed and the Notes and the Guarantor shall be subrogated to all rights of the Note Trustee and the Noteholders against the Issuer in respect of any amounts paid by the Guarantor pursuant to the Trust Deed.

The Guarantor has, pursuant to the Security Agreement, secured its obligations under the Guarantee. Enforcement of the security created pursuant to the Security Agreement is subject to the Intercreditor Agreement. The payment obligations of the Guarantor in respect of the Guarantee constitute direct, secured, irrevocable and unconditional obligations of the Guarantor.

Lock-Up

Subject to Equity Cure, at any time at which:

(a) Group RAR at the date the payment is made (and taking into account such payment) is more than 0.925:1; or

(b) any drawing is made and is outstanding under the Working Capital Facility; or

(c) any Event of Default is continuing or would occur immediately after the making of the payment; or

(d) a Trigger Event (as defined in the Master Definitions Agreement) has occurred and is continuing,

the Issuer and the Guarantor will not (and shall procure that no member of the Group shall make any of the payments referred to below to any direct or indirect shareholder of the Guarantor):

(i) declare, make or pay any dividend, charge, fee, any amount by way of intercompany loan or Subordinated Debt, or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital); or

(ii) repay or distribute any dividend or share premium reserve (each of (i) and (ii) constituting a "Lock-Up"),

other than a Permitted Distribution. If the Lock-Up is caused solely by a drawing being made under the Working Capital Facility, then such Lock-Up shall cease upon the repayment of such drawing.

Covenants of the Issuer and the Guarantor

So long as any Note or any Coupon is outstanding, each of the Issuer and the Guarantor will:

(a) **No acquisitions**: not enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to acquire any assets, if such acquisition would negatively impact the rating of the Notes and/or, taking into account such acquisition, result in the ratio of Group RAR as at the most recent Calculation Date exceeding 0.925:1;

(b) **No disposal of TWUL**: not (and procure that no member of the Group shall) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to dispose of any of its (direct or indirect) interests in the Licence Holder where such disposal results in the Group ceasing to hold beneficially all of the issued share capital of the Licence Holder;

(c) **No merger**: not enter into any amalgamation, demerger, merger, consolidation or corporate reconstruction other than a Permitted Transaction;

(d) **No Loans**: except in respect of Permitted Transactions and/or Permitted Loans and/or loans to an indirect or direct shareholder of the Guarantor (payments in respect of which, for the avoidance of doubt, shall be subject to Lock-Up), not be (and shall procure that no Intermediate Subsidiary shall be) a creditor in respect of any Financial Indebtedness.

(e) **No guarantees**: not incur or allow to remain outstanding (and procure that no Intermediate Subsidiary shall incur or allow to remain outstanding) any guarantee in respect of any obligation of any person, other than in relation to a Permitted Transaction or any Permitted Guarantee;

(f) **Pari passu ranking**: ensure that at all times any secured and unsubordinated claims of a Noteholder against it under the Note Documents rank at least pari passu with the claims of all its unsecured and unsubordinated creditors, except those creditors whose claims are mandatorily preferred by laws of general application to companies;

(g) **Conduct of Business**: at all times carry on and conduct its affairs and procure its Intermediate Subsidiaries to carry on and conduct their respective affairs in a proper and efficient manner;

(h) **Opinions**: give or procure to be given to the Note Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall reasonably require, for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under the Trust Deed, any other Transaction Document or by operation of law;

(i) **Accounts**: in respect of the Guarantor only supply to the Note Trustee:

(i) as soon as the same become available, but in any event within 180 days after the end of each of its financial years:

(A) its audited consolidated financial statements for that Financial Year; and

(B) the audited financial statements of TWUL for that Financial Year; and

(ii) as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years:

(A) its consolidated financial statements for that financial half year; and

(B) the financial statements of TWUL for that financial half year.

(j) **Accounts to comply with stock exchange rules**: cause to be prepared and certified by the Auditors, in respect of each of its financial years, accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of Euronext Dublin or such other stock exchange as the Notes may be listed from time to time;

(k) **Books of Account**: at all times keep, and procure its Intermediate Subsidiaries to keep, proper books of account, and allow, and procure its Subsidiaries to allow, after an Event of Default or Potential Event of Default, or if the Note Trustee has reasonable grounds for so requiring, the Note Trustee and any person appointed by the Note Trustee to whom the Issuer, the Guarantor or the relevant Intermediate Subsidiary (as the case may be) shall have no reasonable objection, free access to such books of account at all reasonable times during normal business hours and make available its annual audited accounts to the Paying Agents at their specified offices for inspection by Noteholders and Couponholders;

(l) **Paying Agents**: at all times maintain Paying Agents in accordance with the Conditions;

(m) **Stock Exchange**:

(i) use all reasonable endeavours to maintain the listing of the Notes on the Official List of Euronext Dublin and admission to trading on the Regulated Market;

(ii) if it has been so requested by the Issuer pursuant to Clause 12.2 of the Trust Deed, use all reasonable endeavours to maintain the listing of notes on the official list of the London Stock Exchange and admission to trading on the EEA Regulated Market of the London Stock Exchange; or

(iii) if it is unable to do so having used its reasonable endeavours or if the Note Trustee agrees with the Issuer that the maintenance of such listing is unduly onerous and the Note Trustee is satisfied that to do so would not be materially prejudicial to the interests of the Noteholders, use its reasonable endeavours to obtain and maintain a quotation or listing of the Notes on an EEA Regulated Market or on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Note Trustee) decide and shall also upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets, enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Note Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange(s) or securities market(s);

(n) **Audited Accounts: supply to the Note Trustee**: (x) their respective audited financial statements for each of the financial years within 180 days of the end of the relevant financial period; and (y) their respective interim financial statements for each of the financial years within 120 days of the end of the relevant financial period;

(o) **Compliance Certificate**: in respect of the Guarantor only, supply to the Note Trustee a Compliance Certificate (in the form set out in Schedule 4 (Form of Compliance Certificate) to the Trust Deed) with each set of financial statements supplied to the Note Trustee under paragraph (i) above commencing in respect of the half year ending 30 September 2011, provided that the Compliance Certificate must be signed by two authorised signatories, or by the Chief Financial Officer and an authorised signatory of the Guarantor;

(p) **No Default**: supply to the Note Trustee: (i) within 15 Business Days after demand by the Note Trustee therefore a certificate signed by two authorised signatories of the Issuer and the Guarantor, respectively; and (ii) (without the necessity for demand) promptly after the publication of its audited financial statements in respect of each year, commencing with the year ending 31 March 2011 and in any event not later than 180 days after the end of such year, a certificate signed by two authorised signatories of the Guarantor, to the effect that there does not exist and had not existed since the certification date of the previous certificate (or, in the case of the first such certificate, the date hereof) any Event of Default or any Potential Event of Default (or if such exists or existed specifying the same);

(q) **Notices**: send to the Note Trustee, not less than three days prior to the date on which any such notice is to be given, the form of every notice to be given to the Noteholders in accordance with Condition 16 (Notices) and obtain the prior written approval of the Note Trustee to, and promptly give to the Note Trustee two copies of, the final form of every notice to be given to the Noteholders in accordance with Condition 16 (Notices) (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21 of the FSMA);

(r) **Obligations**: comply with and perform all its obligations under the Note Documents and the Intercreditor Agreement and use all reasonable endeavours to procure that the Paying Agents comply with and perform all their respective obligations under the Agency Agreement and any notice given by the Note Trustee pursuant to the Trust Deed;

(s) **Further Assurance**: at all times execute and do all such further documents, acts and things as may be necessary at any time or times in the opinion of the Note Trustee to give effect to the Note Documents and the Intercreditor Agreement;

(t) **Legal Opinions**: prior to making any modification or amendment or supplement to the Trust Deed, if reasonably requested, procure the delivery of legal opinion(s) as to English and any other relevant law, addressed to the Note Trustee, dated the date of such modification or amendment or supplement, as the case may be, and in a form acceptable to the Note Trustee from legal advisers acceptable to the Note Trustee;

(u) **Notification of Event of Default**: unless the Note Trustee has already been so notified, notify the Note Trustee of the occurrence of any Event of Default or Potential Event of Default relating to it (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence;

(v) **Change of Paying Agent**: give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of a Paying Agent or of any change by a Paying Agent of its specified office and not make any such appointment or removal without the Note Trustee's written approval;

(w) **Amendments**: not amend, vary, novate, supplement, supersede, waive, terminate or permit to become invalid or ineffective any term of a Note Document or the Intercreditor Agreement without the prior written consent of the Note Trustee;

(x) **Set-off**: pay moneys payable by it to the Note Trustee without set-off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law, will pay such additional amount as will result in the payment to the Note Trustee of the full amount which would otherwise have been payable by it to the Note Trustee under the Trust Deed;

(y) **Rating Agencies**: notify the Rating Agencies currently rating the Notes of any such amendment, variation, novation, supplementation, succession, waiver or termination of a Note Document or the Intercreditor Agreement (unless deemed not to be reasonably likely to be materially prejudicial to the interests of Noteholders) made in accordance with sub-paragraph (w) above; and

(z) **Ratings**: furnish, or procure that there is furnished, from time to time, any and all documents, instruments, information and undertakings that may be necessary in order to maintain the current ratings of the Notes by the Rating Agencies (save that when any such document, instrument, information and/or undertaking is not within the possession or control of the Issuer, the Issuer agrees to use all reasonable efforts to furnish, or procure that there is furnished, from time to time any such documents, instruments, information and undertakings as may be necessary in order to maintain the current ratings of the Notes by the Rating Agencies).

Covenants of the Issuer

The Issuer covenants with the Note Trustee that, so long as any of the Notes or Coupons remain outstanding, it will:

(a) not incorporate or acquire any Subsidiaries;

(b) not carry on any business or enter into any documents other than those contemplated by or permitted in the Note Documents and the Intercreditor Agreement;

(c) not transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(d) hold itself out as a separate entity, conduct its business in its own name and maintain an arm's length relationship with its Affiliates; and

(e) observe all formalities required by its Articles of Association.

Covenants of the Guarantor

The Guarantor covenants with the Note Trustee, so long as any of the Notes or Coupons remain outstanding, that it shall hold all of the issued share capital of the Issuer.

Governing Law

The Trust Deed (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Issuer/Guarantor Loan Agreement

All Financial Indebtedness raised by the Issuer from time to time will be backed by an aggregate nominal amount of debt owed by the Guarantor to the Issuer under a loan agreement (the "Issuer/Guarantor Loan Agreement"). Each advance under the Issuer/Guarantor Loan Agreement will relate to the principal amount of the relevant Notes issued by the Issuer on an Issue Date. The Issuer's obligations to repay principal and pay interest on the Notes are intended to be met primarily from the repayments of principal and payments of interest received from the Guarantor under the Issuer/Guarantor Loan Agreement and, to the extent that the Issuer has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Issuer under such Hedging Agreement. The business of the Guarantor demonstrates the capacity to produce funds to service any payments due and payable under the Issuer/Guarantor Loan Agreement.

All advances to be made by the Issuer under the Issuer/Guarantor Loan Agreement will be in a currency and in amounts and at rates of interest set out in the relevant Final Terms or Drawdown Prospectus. Interest on each advance made under an Issuer/Guarantor Loan Agreement will accrue from the date of such advance. In addition, each advance will be repayable on the same date as the related Notes.

The Issuer/Guarantor Loan is repayable on demand by the Issuer or may be prepaid by the Guarantor in each case together with: (i) interest accrued thereon and any other amounts due or owing to the Issuer at such time; and (ii) if the Issuer has elected to redeem the Notes in accordance with Condition 6(d) (*Redemption at the Option of the Issuer*), an amount equal to the excess of the Redemption Price (as defined in Condition 6(d) (*Redemption at the Option of the Issuer*)) over the principal amount of the Issuer/Guarantor Loan (if any).

Governing Law

The Issuer/Guarantor Loan Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Agency Agreement

The Agency Agreement entered into between the Issuer, the Guarantor, the Issuing and Paying Agent and the Note Trustee, includes, amongst other things, the following provisions:

(a) the duties of the Issuing and Paying Agent and the Paying Agents and the terms on which they are appointed, or on which such appointment may be resigned or terminated or any additional or successor Paying Agents may be appointed;

(b) indemnity by the Issuer (failing whom, the Guarantor) of each Paying Agent against any claim, demand, action, liability, damages, cost, loss or expense incurred otherwise than by reason of its own gross negligence, or wilful default or fraud, as a result or arising out of or in relation to its acting as the agent of the Issuer and the Guarantor in relation to the Notes;

(c) payment by the Issuer (failing whom, the Guarantor) of principal and/or interest in respect of the Notes, as the same becomes due and payable, to the Issuing and Paying Agent, before such payment becomes due and the manner and time of such payments;

(d) payment by each Paying Agent of principal and interest to Noteholders in respect of the Notes in accordance with the Conditions;

(e) provisions relating to the notification of the Note Trustee in the event that the Issuing and Paying Agent: (i) does not receive on the due date for payment in respect of the Notes, the full amount payable; or (ii) receives such amount after the relevant due date for payment in respect of the Notes;

(f) provisions relating to the authentication of the temporary Global Note, the Global Notes and the Definitive Notes, the exchange of the temporary Global Note for a Global Note, the exchange of the Global Note for Definitive Notes and the issue of replacement Notes and Coupons;

(g) the keeping of records of the payment, redemption, replacement, cancellation and destruction of Notes; and

(h) the fees and expenses of the Issuing and Paying Agent and the Paying Agents.

Governing Law

The Agency Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Intercreditor Agreement

The Intercreditor Agreement entered into between, amongst others, the Issuer, the Guarantor, the Working Capital Lenders, the Security Trustee, the Note Trustee (on behalf of the initial Noteholders), the Issuing and Paying Agent and the Subordinated Lenders. For a summary and description of certain terms of the Intercreditor Agreement, see "*Intercreditor, Enforcement and the Working Capital Facility Agreement*".

Governing Law

The Intercreditor Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Security Agreement

The Issuer and the Guarantor entered into the Security Agreement pursuant to which:

(a) the Guarantor has granted, as security for the Guarantee: (i) fixed security over all its shares in the Issuer, Kemble Water Investments Limited and all its real property, book debts and bank accounts, present and future; (ii) an assignment of its rights in respect of the Transaction Documents; and (iii) a floating charge over all of its property, undertaking and assets; and

(b) the Issuer has granted, as security for the Notes: (i) an assignment of its rights in respect of the Transaction Documents; (ii) a fixed charge over all its book debts, bank accounts and investments, present and future; and (iii) a floating charge over all of its property, undertaking and assets.

In addition, each of the Issuer and the Guarantor has given certain undertakings in relation to dealings with the charged property. Pursuant to the terms of the Security Agreement, the proceeds of enforcement are required to be applied by the Security Trustee in accordance with the terms of the Intercreditor Agreement.

Governing Law

The Security Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Hedging Agreements

The Guarantor shall enter into Hedging Agreements from time to time.

The Guarantor will be entitled to terminate a Hedging Agreement in certain circumstances (including a failure to pay by the Hedge Counterparty, certain insolvency events affecting the Hedge Counterparty and certain rating downgrade events affecting the Hedge Counterparty or any guarantor as the case may be where the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of Fitch and Moody's).

A Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

(a) a failure by the Guarantor to make payment when due under the relevant Hedging Agreement;

(b) certain insolvency events affecting the Guarantor;

(c) illegality affecting the relevant Hedging Agreement;

(d) certain tax events; or

(e) the taking of Enforcement Action.

In certain limited circumstances, a Hedge Counterparty will also be entitled to terminate a Hedging Agreement as a result of a change in the Licence or the regulatory status of TWUL.

Notwithstanding the above, the Guarantor shall not be prevented from terminating or closing out any transactions under a Hedging Agreement in accordance with the terms thereof:

(a) to the extent funded from the proceeds of any Financial Indebtedness, provided that no Event of Default would occur as a result of the incurrence of such Financial Indebtedness;

(b) to the extent not funded pursuant to (a) above, provided that the amount of the Secured Liabilities to be discharged would not exceed the amount that the Guarantor would be entitled to pay by way of a Permitted Distribution (or any Permitted Distributions or dividends howsoever described) for the purposes of each applicable Finance Document; or

(c) if such discharge does not require any actual or contingent present or future payment by the Guarantor,

provided that, such termination or close out does not result in a breach of the terms of the Finance Documents.

If, on termination of any transaction under the Hedging Agreements occurring after the commencement of any Enforcement Action, a settlement amount or other amount falls due from a Hedge Counterparty to the Guarantor then that amount shall be paid by that Hedge Counterparty to, or to the order of, the Security Trustee, treated as the proceeds of enforcement of the Transaction Security and applied in accordance with the terms of the Intercreditor Agreement.

INTERCREDITOR, ENFORCEMENT AND THE WORKING CAPITAL FACILITY AGREEMENT

The following is a summary of certain terms of the Intercreditor Agreement and the Working Capital Facility Agreement.

Intercreditor Agreement

The Intercreditor Agreement entered into between, amongst others, the Issuer, the Guarantor, the Working Capital Lenders, the Security Trustee, the Note Trustee (on behalf of the Noteholders) and the Issuing and Paying Agent.

The Intercreditor Agreement does not regulate amendments, waivers or releases in respect of the Note Documents, the Finance Documents or any other underlying credit documents that may be entered into from time to time between a Secured Creditor and the Issuer and/or the Guarantor (the Note Documents, the Finance Documents and any other underlying credit documents from time to time being the "**Underlying Credit Documents**"). (See "*Enforcement Action—Entrenched Rights and Reserved Matters*" below).

Other future credit providers, including any Additional Hedge Counterparties, may become Secured Creditors from time to time by acceding to the Intercreditor Agreement as Secured Creditors.

Secured Creditors and Secured Creditor Representatives

All Secured Creditors must be party to the Intercreditor Agreement (either directly, or through, in the case of the Noteholders, Couponholders and Receiptholders, the Note Trustee). The Intercreditor Agreement allows for the following creditors to accede to the Intercreditor Agreement as Secured Creditors by way of an accession deed:

(a) transferees or assignees of the Subordinated Lenders or Secured Creditors;

(b) any person which becomes a Secured Creditor Representative in accordance with the terms of the relevant Transaction Documents;

(c) lenders under any new bank facilities (including transferees); and

(d) Hedge Counterparties.

For the purposes of the Intercreditor Agreement, the Secured Creditors will be represented as follows by:

(a) in respect of the Initial Notes and any Additional Notes, the Note Trustee;

(b) in respect of the Working Capital Finance Documents, the Working Capital Facility Agent;

(c) in respect of a Loan Facility, the agent in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the relevant Hedge Counterparty (representing itself),

(each, a "**Secured Creditor Representative**").

Claims of the Secured Creditors

The Intercreditor Agreement regulates the claims of the Secured Creditors. Amounts received or recovered from time to time by the Security Trustee pursuant to the terms of any Transaction Document or in connection with the realisation or enforcement of all or any part of the Transaction Security are applied in the following order:

(a) **first**, on a pro rata basis:

(i) in payment of all fees, costs, charges, expenses and liabilities (including any taxes required to be paid) incurred by or on behalf of the Security Trustee, any receiver or any delegate appointed by the Security Trustee in connection with carrying out its functions under the Intercreditor Agreement and the other Transaction Documents (including in connection with any realisation or enforcement of the Transaction Security); and

(ii) in payment or satisfaction of the fees, costs, charges, expenses and liabilities (including any taxes required to be paid properly) incurred by the Note Trustee and any other delegate appointed by it or them in carrying out its or their functions under the Intercreditor Agreement and/or the applicable Note Documents;

(b) **second**, on a pro rata basis, in payment or satisfaction of the fees, costs, charges, expenses and liabilities properly incurred by the Working Capital Facility Agent, the Issuing and Paying Agent, the Transfer Agent, the Registrar, the Paying Agent, the Calculation Agent, any other agent in respect of an issue of Notes and any other agent in carrying out its functions under the Intercreditor Agreement and/or the Note Documents, the Agency Agreement, the applicable Additional Note Documents and/or the Finance Documents applicable to it;

(c) **third**, on a pro rata basis in payment to:

(i) the Note Trustee (on behalf of any Noteholders);

(ii) the Working Capital Facility Agent (on behalf of the Working Capital Finance Parties);

(iii) any agent (on behalf of the relevant Additional Finance Parties); and

(iv) each Hedge Counterparty,

for application (in accordance with the terms of the relevant Underlying Credit Documents) towards the discharge of the Secured Liabilities;

(d) **fourth**, if the Security Trustee shall have received written notice from the Issuer and the Guarantor that none of the Issuer and the Guarantor is under any further actual or contingent liability under any Transaction Document, in payment to any person to whom the Security Trustee is obliged to pay in priority to any of the Issuer and the Guarantor, as notified in writing by any of the Issuer and the Guarantor to the Security Trustee; and

(e) **fifth**, the balance, if any, in payment to the Issuer and the Guarantor (as shall be confirmed in writing to the Security Trustee by either of the Issuer or the Guarantor) for application by the Issuer or, as the case may be, the Guarantor in its discretion, including, if applicable and so decided, towards discharge of the Subordinated Liabilities.

"Secured Liabilities" means all the liabilities and all other present and future obligations at any time due, owing or incurred by any of the Issuer or the Guarantor to any Secured Creditor under the Transaction Documents, both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

Enforcement Action

No Secured Creditor Representative or the Security Trustee (either in relation to the Transaction Security or under the Intercreditor Agreement) may take Enforcement Action in relation to either the Issuer or the Guarantor other than:

(a) Permitted Enforcement Action; or

(b) following a Special Decision of the Majority Secured Creditors approving such action.

Following any Permitted Enforcement Action being taken, the Security Trustee shall promptly upon receiving instructions from the Secured Creditor Representative who has taken such Permitted Enforcement Action (in accordance with the terms of the relevant Underlying Credit Document), where such Secured Creditor Representative does not represent the Majority Secured Creditors, seek instructions from the other Secured Creditors in relation to taking Enforcement Action (other than Permitted Enforcement Action).

"**Permitted Enforcement Action**" means:

(a) the cancellation of any commitments by a Secured Creditor following the occurrence of an event of default (howsoever described) and/or the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case, in accordance with the terms of the Underlying Credit Documents; and

(b) the suing for, commencing or joining of any legal or arbitration proceedings against any of the Issuer and the Guarantor to recover any Liabilities,

in each case, in accordance with the Underlying Credit Documents.

Following any Enforcement Action being taken (other than Permitted Enforcement Action by any Hedge Counterparty), the liabilities of all Secured Creditors will be automatically accelerated and, subject to receiving instructions from the Majority Secured Creditors (following a Special Decision of the Majority Secured Creditors) and such indemnities, pre-funding or security as it may require, the Security Trustee shall enforce the Security without need for further instruction.

None of the Subordinated Lenders shall be entitled to take any Enforcement Action unless all the Secured Liabilities have been repaid or discharged in full.

Amendments/Waivers and Releases under the Intercreditor Agreement or the Transaction Security Documents

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Majority Secured Creditors and subject to the Entrenched Rights of each Secured Creditor.

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Issuer and the Guarantor.

Entrenched Rights and Reserved Matters

The Intercreditor Agreement sets out that the following constitute "**Entrenched Rights**" of the Secured Creditors:

(a) any amendment or waiver which would result in an increase in or would adversely modify the obligations or liabilities of a Secured Creditor or materially reduce the rights of a Secured Creditor, in each case under the Intercreditor Agreement;

(b) any amendment or waiver which would result in any release of any of the Transaction Security (unless at least equivalent replacement security is taken at the same time or such release is permitted in accordance with the Intercreditor Agreement or the Security Agreement);

(c) in respect of the Transaction Security, any amendment or waiver which would adversely alter the rights of priority of or enforcement by a Secured Creditor;

(d) any amendment or waiver which would change any of the Entrenched Rights; or

(e) any amendment or waiver which would change the Secured Creditor decision-making process contained in the Intercreditor Agreement.

If an Entrenched Right of a Secured Creditor is affected, the relevant Secured Creditor's approval must be obtained in accordance with the provisions of the relevant Underlying Credit Document before the proposed change can be made. No Entrenched Right will prevent enforcement or acceleration instructions given in accordance with the Intercreditor Agreement or prevent anything expressly permitted by the relevant Underlying Credit Documents.

The relevant Secured Creditors may agree to amend or waive the terms of the Underlying Credit Documents in accordance with the terms of those Underlying Credit Documents without the consent of any Secured Creditors that are not party to such documents.

Voting

The Intercreditor Agreement specifies that Secured Creditor Representatives may give instructions or directions in respect of:

(a) the exercise by the Security Trustee of any of its rights, powers and discretions; and

(b) subject to Entrenched Rights, amendments, waivers and releases under the Intercreditor Agreement and the Transaction Security Documents.

The Security Trustee may request and must act on instructions given by such Secured Creditor Representative or Secured Creditor Representatives representing: (i) at least in aggregate 66 2/3 per cent. of Total Commitments where the instructions relate to a Special Decision; or (ii) greater than in aggregate 50 per cent. of Total Commitments, where the instructions relate to any Ordinary Decision (the "**Majority Secured Creditors**").

"**Total Commitments**" means:

(a) prior to the taking of Enforcement Action: (i) the total commitments under the Finance Documents; plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes issued under the Note Documents; and

(b) following the taking of Enforcement Action: (i) the aggregate principal amount outstanding under the Finance Documents and the Note Documents (including, if applicable, any accretion due to indexation); plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount expressed in pounds sterling on the basis of the applicable Exchange Rate.

"**Positive Value**" means in respect of each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or the Guarantor (as applicable) following termination of the relevant Hedging Agreements.

"**Exchange Rate**" means the spot rate at which any currency is converted to pounds sterling as quoted by certain banks as at 11:00 a.m. on the final Business Day on which Secured Creditors may vote on any matter on which the Security Trustee has sought the instructions of the Majority Secured Creditors pursuant to the Intercreditor Agreement.

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the "**decision**") to be made pursuant to the Intercreditor Agreement, the Security Trustee shall notify the Obligors and each Secured Creditor Representative of the matter in question and shall also inform each Secured Creditor Representative of the date on which it must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the "Decision Date").

Each Secured Creditor Representative shall, by the Decision Date, provide to the Security Trustee a certificate setting out directions to the Security Trustee as to the decision of its Secured Creditors, and the certificate shall include the Commitments in respect of the relevant Underlying Credit Document.

"**Commitments**" means:

(a) prior to the taking of Enforcement Action:

(i) in respect of any Loan Facility, the total commitments under such Loan Facility;

(ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

(iii) in respect of any Hedging Agreement, zero; and

(b) following the taking of Enforcement Action:

(i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;

(ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

(iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement.

If a Secured Creditor Representative has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the relevant Underlying Credit Document shall be excluded from the Total Commitments to be:

(A) considered as voting in favour of the relevant decision (the numerator); and

(B) used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right is affected.

In respect of Underlying Credit Documents which constitute a series of Notes, the holders of such Notes will be represented in their entirety by the Note Trustee (100 per cent. of principal outstanding will be voted for or against based on the voting mechanics in the Trust Deed).

In respect of Underlying Credit Documents which are bank facilities, the lenders will be represented in their entirety by the agent in respect of the relevant facility (100 per cent. of commitments or principal outstanding (as the case may be) will be voted for or against based on the voting mechanics in the relevant facility agreement).

In respect of the Hedge Counterparties, each Hedge Counterparty will have no vote prior to the taking of Enforcement Action (save in respect of a veto in relation to amendments which would affect the relevant Entrenched Rights). Following the taking of Enforcement Action, each Hedge Counterparty will vote the aggregate Positive Value under the relevant Hedging Agreement.

Prepayments

The Issuer and the Guarantor may make payments (including voluntary prepayments and redemptions in accordance with the terms of the relevant Finance Document) to the Secured Creditors from time to time in respect of the Secured Liabilities then due in accordance with the terms of the relevant Finance Document.

Working Capital Facility Agreement

On 25 October 2018 the Guarantor entered into the Working Capital Facility Agreement. The Working Capital Facility Agreement contains representations and warranties together with covenants and events of default that are, broadly, more extensive than those contained in the terms and conditions of the Notes and in the Trust Deed. The Working Capital Facility Agreement provides a revolving credit facility to finance working capital and the general corporate purposes of the Group.

Events of Default

The events of default in the Working Capital Facility Agreement include:

(a) cross acceleration and non-payment cross default in respect of the Notes; and

(b) a breach of the Intercreditor Agreement (subject to material adverse effect), loss of, or changes to, the Licence and the occurrence of any event or circumstance which has or could reasonably be expected to have, in the reasonable opinion of the majority lenders, a material adverse effect or occur due to a breach by TWUL.

Covenants

The covenants in the Working Capital Facility Agreement include:

(a) restrictions on: (i) acquisitions by either the Issuer or the Guarantor; and (ii) a disposal of TWUL by the Guarantor or any member of the Group; and

(b) restrictions on the incurrence of Financial Indebtedness and the provision of guarantees (subject to certain exceptions).

Negative Pledge

The Working Capital Facility Agreement contains a negative pledge pursuant to which the Issuer and the Guarantor shall not (and the Guarantor must procure that no Intermediate Subsidiary shall), subject to certain exceptions, create or permit to subsist: (i) any Security over any of its assets; or (ii) "*Quasi Security*" (each as defined in the Working Capital Facility Agreement).

Financial Covenants

Each of the Issuer and the Guarantor is required to comply with substantially similar financial covenants to those described in "*Terms and Conditions of the Notes—Events of Default*" above.

Permitted Enforcement Action

As a result of the more extensive representations, warranties, covenants and events of default in the Working Capital Facility Agreement, the agent in respect of the Working Capital Facility Agreement (as a Secured Creditor Representative) may take Permitted Enforcement Action at a time when the Note Trustee may not do so. The taking of any Permitted Enforcement Action by the agent in respect of the Working Capital Facility Agreement will trigger the cross acceleration provision in the Notes which will permit the Note Trustee (subject to approval from the Noteholders) to take Permitted Enforcement Action. See "*Enforcement Action*" above.

TAXATION

UK Tax Considerations

The comments below are of a general nature based on current United Kingdom law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. Any Noteholders who are in doubt as to their own tax position should consult their professional advisers. In particular, Noteholders should be aware that the tax legislation of any jurisdiction where a Noteholder is resident or otherwise subject to taxation may have an impact on the tax consequences of an investment in the Notes including in respect of any income received from the Notes.

Interest on the Notes

While the Notes are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of UK income tax. The Issuer and the Guarantor have undertaken to use all reasonable endeavours to maintain the listing of the Notes on the Official List of Euronext Dublin and admission to trading on its Regulated Market. Although HM Revenue & Customs' published practice only states that the "Main market" of "The Irish Stock Exchange (trading as Euronext Dublin)" is a "recognised stock exchange" for the purposes of Section 1005 Income Tax Act 2007 (and does not refer to the "Regulated Market"), the Issuer understands that HM Revenue & Customs treats the "Regulated Market" of Euronext Dublin as a "recognised stock exchange" for these purposes. Accordingly, provided that HM Revenue & Customs continues to treat the "Regulated Market" of Euronext Dublin as a "recognised stock exchange", the Notes should be treated as listed on a "recognised stock exchange" if they are both admitted to trading on the Regulated Market of Euronext Dublin and officially listed in Ireland in accordance with provisions corresponding to those generally applicable in countries in the European Economic Area. In addition, even if the Notes are not so listed, no withholding or deduction for or on account of UK income tax will apply if the relevant interest is not "yearly interest". Interest payable on Notes with a maturity of less than one year from the date of issue and which are not issued under a scheme or arrangement the intention or effect of which is to render such Notes part of a borrowing with a total term of a year or more will not be yearly interest.

In cases falling outside the two exemptions described above, interest on the Notes will generally be paid under deduction of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs under domestic law or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Payments in respect of the Guarantee

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption from withholding on account of United Kingdom tax in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments and they have a United Kingdom source, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.).

Other Rules relating to United Kingdom Withholding Tax

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Notes should not be subject to any UK withholding tax pursuant to the provisions mentioned in the section "*Interest on the Notes*" above.

Where Notes are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined above.

Where interest has been paid under deduction of UK income tax, Noteholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in UK tax law. The above statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes).

Other tax considerations

Foreign Account Tax Compliance Act ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Summary of the Dealership Agreement

Subject to the terms and on the conditions contained in a Dealership Agreement originally dated 25 March 2011 and as amended, supplemented, novated and/or restated from time to time (the "**Dealership Agreement**") between the Issuer, the Guarantor and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series pursuant to the Dealership Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealership Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of their expenses incurred in connection with the update of the Programme and the Dealers for certain of their activities in connection with the issuance of Notes under the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealership Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling and Transfer Restrictions

United States

Selling Restrictions

General

Neither the Issuer, the Guarantor nor any Dealer has made any representation that any action will be taken in any jurisdiction by the Dealers, the Issuer, or the Guarantor that would permit a public offering of the Notes, or possession or distribution of this Base Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Base Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantor or any other Dealer in any such jurisdiction as a result of any of the foregoing actions.

United States

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws or "blue sky" laws of any state or any other relevant jurisdiction of the United States and therefore the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act ("**Regulation S**") or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer represents that it has offered and sold the Notes, and agrees that it will offer and sell the Notes or the Guarantee: (i) as part of their distribution at any time; and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer agrees that, at or prior to confirmation of the sale of the Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in the two preceding paragraphs have the meanings given to them by Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The relevant Final Terms or Drawdown Prospectus will specify whether United States Treasury Regulation §1.163-(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA C**") or United

States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA D**") is applicable in relation to the Bearer Notes, or whether the Bearer Notes are issued other than in compliance with TEFRA C or TEFRA D but in circumstances in which the Bearer Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms or Drawdown Prospectus as a transaction to which TEFRA is not applicable.

In addition, solely with respect to the Bearer Notes where TEFRA D is specified in the relevant Final Terms or Drawdown Prospectus:

(a) except to the extent permitted under TEFRA D, each Dealer (a) represents that it has not offered or sold, and agrees that during a 40-day restricted period it will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person, and (b) represents that it has not delivered and agrees that it will not deliver within the United States or its possessions definitive Notes that are sold during the restricted period;

(b) each Dealer represents that it has and agrees that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;

(c) if it is a United States person, each Dealer represents that it is acquiring the Notes for purposes of resale in connection with their original issue and, if it retains Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of Code); and

(d) with respect to each affiliate that acquires from it Notes for the purpose of offering or selling such Notes during the restricted period, each Dealer either (a) repeats and confirms the representations and agreements contained in clauses (a), (b) and (c) on its behalf or (b) agrees that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in clauses (a), (b) and (c).

Terms used in clauses (a), (b), (c) and (d) above have the meanings given to them by the Code and U.S. Treasury regulations thereunder, including TEFRA D.

Further, solely with respect to the Bearer Notes where TEFRA C is specified in the applicable Final Terms or Drawdown Prospectus, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance by an issuer that (directly or indirectly through its agents) does not significantly engage in interstate commerce with respect to the issuance. Each Dealer represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer represents and agrees in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Bearer Notes. Terms used in this paragraph have the meanings given to them by the Code and Treasury regulations promulgated thereunder, including TEFRA C.

United Kingdom

Each Dealer has represented and agreed that, and each further Dealer under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA and UK Retail Investors

Each Dealer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

   the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

IMPORTANT – PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA") or in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [●]

THAMES WATER (KEMBLE) FINANCE PLC

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
unconditionally and irrevocably guaranteed by Kemble Water Finance Limited
under the £1,000,000,000 Guaranteed Secured Medium Term Note Programme

Part A – Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 2 September 2020 which constitutes a base prospectus for the purposes of the Prospectus Regulation. [This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Base Prospectus [as so supplemented] in order to obtain all the relevant information.][1] The Base Prospectus [and the supplemental base prospectus] [is] [are] available for viewing [at [www.thameswater.co.uk]] [and] during normal business hours at [Clearwater Court, Vastern Road, Reading RG1 8DB] [and copies may be obtained from [Winchester House, 1 Great Winchester Street, London EC2N 2DB]]. The Base Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of Euronext Dublin) the applicable Final Terms will also be available on the

[1] To be removed in respect of an unlisted issuance.

website of the Irish Stock Exchange, trading as Euronext Dublin at: https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=833&uID=7172&FIELDSORT=docId..

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [25 March 2011 / 26 June 2015 / 2 April 2020] and incorporated by reference into the Base Prospectus dated 2 September 2020 [and the supplemental base prospectus dated [●]]. [This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus dated [●] [and the supplemental base prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation in order to obtain all the relevant information].] [2] The Base Prospectuses [and the supplemental base prospectus] are available for viewing [at [www.thameswater.co.uk]] [and] during normal business hours at [Clearwater Court, Vastern Road, Reading RG1 8DB] [and copies may be obtained from Clearwater Court, Vastern Road, Reading RG1 8DB]. The Base Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of Euronext Dublin) the applicable Final Terms will also be available on the website of the Irish Stock Exchange, trading as Euronext Dublin at: https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=833&uID=7172&FIELDSORT=docId.]

1.	(i)	Issuer:	Thames Water (Kemble) Finance PLC LEI: 213800S7UU2MQXYJQO60
	(ii)	Guarantor:	Kemble Water Finance Limited
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount of Notes:		[●]
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5.	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [[●]]
6.	(i)	Specified Denominations:	[●] [[●s] and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●].]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●]
8.	Maturity Date:		[●]
9.	Interest Basis:		[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/SONIA] +/– [●] per cent. Floating Rate] [Zero Coupon]

2 To be removed in respect of an unlisted issuance.

10.	Redemption/Payment Basis:	[Redemption at par] [Instalment]
11.	Put/Call Options:	[Investor Put] [Issuer Call]
12.	[Date [Board] approval for issuance of Notes obtained:	[●] [and [●], respectively]]

Provisions relating to Interest (if any) Payable

13.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/[●]] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]/not adjusted]
	(iii) Fixed Coupon Amounts:	[●] per Calculation Amount
	(iv) Broken Amounts:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction:	[Actual/Actual] [Actual/Actual – ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
	(vi) Determination Dates:	[●] in each year
14.	**Floating Rate Note Provisions**	[Applicable/Not Applicable]
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) First Interest Payment Date:	[●]
	(iv) Interest Period Date:	[●]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(vi) Additional Business Centre(s):	[●]
	(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Calculation Agent]):	[●]
	(ix) Screen Rate Determination:	
	– Reference Rate:	[EURIBOR / LIBOR / SONIA]

		– Interest Determination Date(s):	[●]
		– Relevant Screen Page:	[EURIBOR / LIBOR]
		– Reference Look-Back Period:	[●]
	(x)	ISDA Determination:	
		Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Reset Date:	[●]
		– ISDA Definitions:	2006
	(xi)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
	(xii)	Margin(s):	[+/-][●] per cent. per annum
	(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
	(xv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual- ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
15.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	(i)	Amortisation Yield:	[Condition 6(b)(i) (*Zero Coupon Notes*) applies/specify other] per cent. per annum

Provisions relating to Redemption

16.	**Call Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period (if other than as set out in the Conditions)	[●]
17.	**Put Option**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]

	(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii)	Notice period (if other than as specified in the Conditions)	[●]
18.	**Final Redemption Amount of each Note**		[●] per Calculation Amount
19.	**Early Redemption Amount**		[●]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default:		

General Provisions applicable to the Notes

20.	Form of Notes:		**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** [Regulation S Global Note (U.S.$/€[●] nominal amount) registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
21.	New Global Note:		[Yes] [No]
22.	Relevant Financial Centre(s):		[Not Applicable/[●]]
23.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):		[Yes/No]
24.	Details relating to Instalment Notes:		[Not Applicable/Applicable]
	(i)	Instalment Date:	[●]
	(ii)	Instalment Amount:	[●]

Distribution

25.	(i)	If syndicated, names of Managers:	[Not Applicable/[●]]
	(ii)	Stabilising Manager(s) (if any):	[Not Applicable/[●]]
26.	If non-syndicated, name of Dealer:		[Not Applicable/[●]]

27.	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/ TEFRA D/TEFRA Not Applicable]

Third Party Information

[[●] has been extracted from [●]. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ……………………………………………………………….
Duly authorised

Signed on behalf of the Guarantor:

By: ……………………………………………………………….
Duly authorised

Part B – Other Information

1. **Listing**

(i) Listing	[Listed on the Official List of Euronext Dublin][Not Applicable]
(ii) Admission to trading:	[Application has been made for the Notes to be admitted to trading on Euronext Dublin's Regulated Market with effect from [●][Not Applicable]
(iii) Estimate of total expenses related to admission to trading:	[●]

2. **Ratings**

Ratings:	The Notes to be issued have been rated: [Moody's: [●]] [Fitch: [●]] [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the ratings provider]

3. **[Interests of Natural and Legal Persons involved in the [Issue/Offer]]**

[●]

4. **[Reasons for the Offer, Estimated net Proceeds, Total Expenses and Use of Proceeds**

[(i) Reasons for the offer	[●]]
[(ii)] Estimated net proceeds:	[●]
[(iii)] Estimated total expenses:	[●]
[(iv)] Use of proceeds	[●]

5. **[Fixed Rate Notes only – YIELD**

Indication of yield:	[●] per cent. per annum The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **Operational Information**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/[●]]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes which are to be held under the NSS] and does not necessarily mean that the Notes will

	be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] /[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any)	[●]

GENERAL INFORMATION

The listing of Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of a temporary Global Note or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 2 September 2020. Prior to official listing and admission to trading, however, dealings will be permitted by Euronext Dublin in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in England and Wales in connection with the establishment and update of the Programme and the Guarantee. The establishment of the Programme was authorised by a resolution of the board of directors of the Issuer and passed on 24 March 2011 and the giving of the Guarantee by the Guarantor was authorised by a resolution of the board of directors of the Guarantor and passed on 24 March 2011 and the update of the Programme was authorised by further resolutions of the board of directors of the Issuer and the Guarantor passed on 7 July 2020 and 25 June 2020, respectively.

There has been no significant change in the financial or trading position of: (i) the Issuer; (ii) the Guarantor or (iii) the Group since 31 March 2020 and no material adverse change in the prospects of: (a) the Issuer, (b) the Guarantor or (c) the Group since 31 March 2020.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor or the Group. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Drawdown Prospectus.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms or Drawdown Prospectus.

There are no material contracts entered into other than in the ordinary course of the Issuer’s or Guarantor’s business which could result in either being under an obligation or entitlement that is material to the Issuer’s or Guarantor’s ability to meet its obligations to Noteholders in respect of the Notes being issued.

Certain information in the TWUL Base Prospectus incorporated by reference into this Base Prospectus has been sourced from Ofwat. All such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by Ofwat no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has also identified the source(s) of such information.

The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms or Drawdown Prospectus of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be physically available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified offices of the Paying Agents for the time being and, in the case of items (i) and (v) only, at the Issuer's website at www.thameswater.com:

(i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);

(ii) the Agency Agreement;

(iii) the Intercreditor Agreement;

(iv) the Security Agreement;

(v) the Memorandum and Articles of Association of the Issuer and the Guarantor;

(vi) the latest published annual report and audited financial statements of the Issuer and the Guarantor;

(vii) each Final Terms or Drawdown Prospectus;

(viii) a copy of this Base Prospectus together with the documents, or sections of documents incorporated by reference in this Base Prospectus, any supplement to this Base Prospectus or further Base Prospectus; and

(ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus.

This Base Prospectus and the Final Terms or Drawdown Prospectus for Notes that are listed on the Official List and admitted to trading on the Regulated Market will be available on the website of the Irish Stock Exchange, trading as Euronext Dublin at: https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=833&uID=7172&FIELDSORT=docId.

The Issuer has prepared and delivered to the Registrar of Companies financial statements for the financial year ended 31 March 2019. Financial statements for 31 March 2020, are available on the Thames Water website, and will be delivered to the Registrar of Companies. Both the Guarantor and the Issuer produce interim primary financial statements.

PricewaterhouseCoopers LLP, a member firm of the Institute of Chartered Accountants in England and Wales and Registered Auditors of 3 Forbury Place, 23 Forbury Road, Reading, Berkshire, RG1 3JH have audited, and issued unqualified audit reports on, the financial statements of the Guarantor for the years ended 31 March 2019 and 31 March 2020, and the financial statements of the Issuer for the financial years ended 31 March 2019 and 31 March 2020 which were prepared in accordance with EU-IFRS.

The Dealers and the Arranger and their respective affiliates: (i) have provided, and may in the future provide, investment banking, commercial lending, consulting and financial advisory services to; (ii) have entered into and may, in the future enter into, other related transactions with; and (iii) have made or assisted or advised any party to make, and may in the future make or assist or advise any party to make, acquisitions and investments in or related to, the Issuer or the Guarantor and their respective subsidiaries and affiliates or other parties that may be involved in or related to the transactions contemplated in this Base Prospectus, in each case in the ordinary course of business.

The Irish Listing Agent is Maples and Calder and the address of its registered office is 75 St. Stephen's Green, Dublin 2, Ireland. Maples and Calder is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Regulated Market of Euronext Dublin.

FINANCIAL INFORMATION

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Annual report and consolidated financial statements

For the year ended 31 March 2020

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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

<table>
<tr><th colspan="2">Environmental protection and climate change</th></tr>
<tr><td>

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.

</td><td>

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

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

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

Customer service

Description	Mitigation
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	**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

People

Description	Mitigation
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	**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

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

Supply of enough clean, safe water	
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	**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

Wastewater treatment	
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	**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

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

Legal and regulatory compliance	
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	**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

Credit and Liquidity	
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	**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

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.

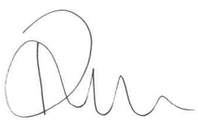
Directors' confirmations

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

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

	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
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	2020 BTL £m	2020 Total £m	Restated 2019[1] Underlying £m	Restated 2019[1] BTL £m	Restated 2019[1] 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.

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

Consolidated statement of financial position

As at 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
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

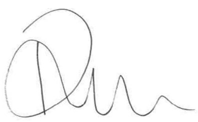
As at 31 March

	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			Restated[1] 2019	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	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 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:						
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 Underlying £m	2020 BTL £m	2020 Total £m	2019 Underlying £m	2019 BTL £m	2019 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 £m	**Net derivative financial liabilities £m**	**Lease liabilities [4]**	Borrowings £m	Net derivative financial liabilities[3] £m	Lease liabilities [4]
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			Restated[1] 2019	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	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	2019
	£'000	£'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 Years**	2019 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% £m	**-1% £m**	+1% £m	-1% £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 £m	2019 £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 £m**	2019 £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)

Registered number 05819317 (England and Wales)

Kemble Water Finance Limited

Annual report and consolidated financial statements

For the year ended 31 March 2019

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 2019, £1,159.0 million of external debt, £585 million (£575.6 million book value) of which has been raised directly by the Company and £574 million (£573.3 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 2019 ("2018/19").

Directors and Advisors

Directors

M McNicholas - Chairman
K Bradbury
S Deeley
J Divoky
A Hall
P Noble
G Pestrak
G Tucker
G Lambert
F Sheng
M Bloch-Hansen
C Pham
E Lewis
P Mulholland
T Song
J Cogley
B Moncik

Registered auditor

PricewaterhouseCoopers LLP
3 Forbury Place
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 2019. 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.

From 1 April 2017 the Group no longer provides non-household retail services since non-household customers have been transferred to Castle Water Limited.

Business strategy

The Group's strategy is as follows:

- For the appointed business of TWUL, the aim is to deliver safe reliable services for customers while ensuring reasonable returns for shareholders. 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 risk management process is developed to align with the Risk Management International Standard, ISO 31000, which aids our compliance with the Financial Reporting Council's UK Corporate Governance Code guidance on risk management. Risks are prioritised and reported, according to our defined risk scoring criteria, for oversight at the appropriate level of management. These reviews form the basis for our annual principal risks and uncertainties disclosure. The effectiveness of our overall risk management framework is evaluated by the ARRC during the annual control self-assessment review.

Principal risks and uncertainties

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

Health, safety, environment and security	
Description Failure to manage risks resulting from our operations could result in fatality or injury, significant environmental damage, personal health and safety lapses, crime and sabotage and internal security related attack. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Zero tolerance approach when safeguarding the health, safety, security and wellbeing of employees, partners and the public; • Clearly defined strategy, safety policies, protocols and standards that are set, monitored and reported; and • Close work with partners and suppliers to ensure a safe environment. **Looking Forward** • Review and continuously improve business continuity and resilience programmes.

Customer Service	
Description Unacceptable customer service levels, or the perception that we are failing to maintain and improve service quality will have a detrimental effect on customer satisfaction and complaints, and our performance commitments. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Incidents and events that arise are managed through Executive-led response teams with a new dedicated field based customer facing representative team; • Dedicated team provides focus on customer insight and satisfaction measurement; • Engagement with the Customer Challenge Group (CCG) to provide independent challenge to our business and independent assurance to Ofwat on the quality and results of our customer engagement. **Looking Forward** • Implement a new customer relationship management and billing system and reduce complaint volumes by 20%.

Principal risks and uncertainties (continued)

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

Asset Management and Performance	
Description The level of investment and maintenance, operational and weather issues affects the performance of assets with potential interruption to service, environmental breach, regulatory target failure or health and safety threats **Movement in the period:** ↑ The inherent risk profile increased during 2018/19 following a challenging regulatory environment and leakage target performance.	**Mitigation** • The Board takes a direct interest in ensuring the highest operational standards for significant assets; • 2015-20 investment programme to maintain and improve network and asset resilience; and • AMP7 programme of upgrades to infrastructure and assets. **Looking Forward** • Continue to improve and invest in enhancing asset performance and resilience.

Trust and Reputation	
Description Future investor funding, regulatory requirements and stakeholder relationships are affected by our performance transparency of operations and reputation, including that of senior management and the Executive Team. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Increase transparency in financial reporting and engage with customer groups, political parties, regulators, and other stakeholders to understand views and concerns; and • Customer service metrics and performance commitments regularly reviewed by Executive Team and the Board; and • Protect the most vulnerable households through initiatives to improve water efficiency or with financial advice and aid. **Looking Forward** • Continued investment through the business plan in our business and infrastructure to improve the service given to customers.

Climate and Societal	
Description Strategic execution, customer behaviour and demand can change due to external influences outside of our control, such as population growth, climate change, long-term weather patterns and new technologies. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Long-term investment in the network and assets to strengthen customer relationships, secure future water requirements, develop resilience and reduce the impact of adverse weather patterns and events, and population growth; • Work to manage the unavoidable impacts of climate change to the business focus a customer demand reduction activity and reduce carbon and greenhouse gas emissions; and • Continue to find solutions that balance competing environmental, social and economic demands in a more sustainable way through the five-year business plan. **Looking Forward** • Continue to regularly review our forecast planning and investment programme;

Principal risks and uncertainties (continued)

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

Business Planning, Forecasting and Execution	
Description Robust processes for business planning and performance, accurate forecasting and reporting, and change management are required for effective management decision, strategic delivery and performance commitments **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Performance and financial management reporting process with an external audit provision and internal audit schedule; • Board, Audit Risk and Reporting Committee and Executive team oversight and challenge; and • Dedicated delivery office, and change management, investment and business planning processes in place. **Looking Forward** • Continue to embed improved efficiency and customer advocacy.

Political, Regulatory and Economic Environment	
Description The general economic outlook and political and regulatory oversight could impose significant obligations, operational changes, increases in the estimated cost to fulfil obligations and assumptions underlying estimates changing or proving incorrect, affecting investment in current or new assets and markets. **Movement in the period:** ↑ The inherent risk profile increased during 2018/19 following heightened political and regulatory scrutiny and the re-submission of our PR19 plan.	**Mitigation** • Engage with regulators to find a better approach to intervention that agrees clear targets against which progress can be demonstrated; • Engage with political parties with the aim of moving towards water policy differences converging rather than polarising; and • Review effect on energy costs, water markets, investment and financial markets from the process of the UK leaving the EU. **Looking Forward** • Economic and market effects from the UK departure from the EU and potential for a further UK General Election as a result.

Legal and Regulatory Compliance	
Description Significant UK and EU legislative and regulatory change and scrutiny may require additional compliance and reporting arrangements as well as amendments to existing policies and procedures to be in place. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • The Board promotes high ethical standards of behaviour and ensures the effective contribution of all Directors; • Clear understanding of regulatory and key legal obligations and identify impending new legislation, and changes to existing legislation and licence conditions, with assurance programmes in place; and • Policy framework, training programmes and corporate responsibility approach in place for employees and service delivery partners to ensure compliance with key laws such as data protection, competition, honest and ethical behaviour and cyber security. **Looking Forward** • Embed assurance mapping framework against key compliance obligations.

Principal risks and uncertainties (continued)

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

People	
Description Attraction, development, retention and succession of senior management and individuals with key skills are critical factors in the successful execution of our strategic initiatives, and business operations. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • People strategy based on culture and engagement, equality and wellbeing, talent development, training, reward and recognition; • Regular review of organisational capability, reward strategies for key skills, talent management pipeline and learning and development programmes, which are externally benchmarked; and • Strong relationship maintained with trade unions, to ensure that issues are openly discussed and addressed, to promote an environment of trust and honesty. **Looking Forward** • Monitor effect of Brexit on our workforce and third-party capacity.

Technology Systems and Security	
Description Effective operations and protection of data relies on the availability, integrity and security of complex technology systems and networks. This includes those of our third-party service providers and alliance partners. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Collaborate across utility industry and public and private sectors to manage security threats to national infrastructure; • Solutions in place to detect and investigate security threats and incidents to ensure potentially vulnerable systems are identified and vulnerability gaps closed; and • Review adequacy and effectiveness of infrastructure and technology security controls, undertake employee security awareness training, and test contingency and recovery processes. **Looking Forward** • Embed an improved technology function for our business.

Supply Chain Management	
Description Operations rely on the resilience, availability and cost-effective quality of the supply chain for outsourced capability, goods, services and third party infrastructure. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Executive-led Contracts Committee in place to review and approve contracts of significant value; • Policy requirement for compliance with OJEU and third party due diligence checks carried out prior to contract award; and • Contract management in place with responsibility for completing assurance checks on contract compliance. **Looking Forward** • Implement an effective delivery route for AMP7.

Principal risks and uncertainties (continued)

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

Credit and Liquidity	
Description Inaccurate forecasting, exposure to adverse conditions in debt or capital markets, counterparty payment obligation default or adverse actuarial pension scheme valuation may hinder or prevent business activity. **Movement in the period:** → There has been no significant change in the inherent risk profile during 2018/19.	**Mitigation** • Cash forecasts on liquidity requirements and assessed for different scenarios; • Planning, committed facilities and investment processes in place; • Long-term refinancing with staggered maturity dates to minimise the effect of short-term downturns. **Looking Forward** • Continue to focus on improving operational performance and delivering further improvements within our business plan.

Financial review

Key financial performance indicators

	2019			Restated 2018[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue (£m)	**2,037.1**	**47.5**	**2,084.6**	2,018.2	26.9	2,045.1
Operating expenses (£m)	**(1,685.7)**	**(0.3)**	**(1,686.0)**	(1,620.3)	(0.4)	(1,620.7)
Operating profit (£m)	**444.8**	**47.2**	**492.0**	490.1	26.5	516.6
Net finance expense (£m)	**(1,001.9)**	**-**	**(1,001.9)**	(980.3)	-	(980.3)
Net (losses)/gains on financial instruments (£m)	**(37.7)**	**-**	**(37.7)**	41.0	-	41.0
Loss before tax (£m)	**(594.8)**	**47.2**	**(547.6)**	(359.5)	26.5	(333.0)
Loss after tax (£m)	**(496.0)**	**44.4**	**(451.6)**	(289.7)	24.9	(264.8)
Capital expenditure (£m)	**1,188.7**	**-**	**1,188.7**	1,148.8	-	1,148.8
Statutory net debt (£m)	**(18,779.8)**	**-**	**(18,779.8)**	(17,596.8)	-	(17,596.8)
Interest cover (PMICR) *	**1.3**	**n/a**	**n/a**	1.3	n/a	n/a
Gearing (%) *	**88.0**	**n/a**	**n/a**	87.4	n/a	n/a
Credit rating **	n/a	n/a	Baa1 negative	n/a	n/a	Baa1 negative

* As defined on page 52.
** Representing the consolidated Corporate Family Rating assigned by Moody's for the Thames Water Utilities Limited securitisation group. Separately Moody's rated KWF guaranteed debt as B1 (negative) and Fitch as BB- (negative).

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 46 to 50. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9. Additionally, finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018.

Overall performance

Total loss before tax for the year was (£547.6) million (restated 2018: £333.0 million).

A summary of the movement in our total loss before tax is summarised below:	**2019 £m**
Loss before tax for the year ended 31 March 2018	**(333.0)**
Decrease in underlying revenue	**18.9**
Decrease in BTL revenue	**20.6**
Increase in operating expenses	**(65.3)**
Difference on profit on the sale of retail non-household business	**(89.7)**
Increase in profit on sale of property, plant and equipment	**(18.4)**
Increase in other operating income	**19.6**
Increase in net finance expense	**(21.6)**
Movement in (losses)/gains on financial instruments	**(78.7)**
Loss before tax for the year ended 31 March 2019	**(547.6)**

Revenue

As a regulated business, the amount we bill our customers was agreed by Ofwat through the price review process before the start of the current five year regulatory period. As such our underlying revenue does not significantly fluctuate year-onyear. Overall, underlying revenue for the year has increased slightly compared to the previous year by 0.9% to £2,084.6 million.

Our bills include amounts relating to the construction of the Thames Tideway Tunnel ("TTT") and therefore movements in our total revenue are affected by movements in these billings. As we collect the cash this is passed onto Bazalgette Tunnel Limited ("BTL") and is excluded from our underlying results. Revenue related to BTL has increased by 76.6% to £47.5 million. The increase is due to the phasing of construction works.

Capital expenditure

During the year, we invested a total of £1,188.7 million (2018: £1,148.8million) in our assets, including £572.6 million on the water network and, £616.1 million on the wastewater network. This spend includes the following key projects:

- £52.9 million on our metering programme (water);
- £92.2 million on connecting our network to the Thames Tideway Tunnel;
- £29.6 million on a customer relationship management and billing system;
- £26.9 million on our scheme aimed to reduce the risk of flooding (waste);
- £31.9 million on upgrading our sewage treatment works at Deephams (waste).

Our capital expenditure has increased by £39.9 million (3.4%) to £1,188.7 million (2018: £1,148.8 million) due to the phasing of our capital projects.

Financing our investment

As we continue to invest heavily in the business, our statutory net debt (as defined on page 52) has increased by £638.3 million to £18,779.8 million (2018: £17,596.8 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £568.9 million to £14,273.7 million (2018: £13,704.8 million). Overall gearing (on a covenant basis), was 88.0% (2018: 87.4%), below the mandated maximum of 95.0%. Additionally, our PMICR in the current year is 1.3x (2018: 1.3x) and is above the mandated minimum of 1.05x.

We continue to borrow through external public and private debt capital markets and through financial institutions across a diverse range of currencies, geographies and sources. The last year has seen us continue to focus on increasing diversity including the issue of a further £227 million equivalent US Private Placement which was priced in January and funded in April 2019 along with a number of new bilateral loans. In addition, the Company raised a gross amount of £649.8 million in November 2018, of which £310.0 million (£303.9 million net) was drawn down during the year.

The associated net finance expense has increased by £21.6 million to £1,001.9 million (2018: £980.3 million), which has been driven primarily by higher RPI accretion on borrowings, in addition to the increased borrowing levels. 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 £109.3 million this year (2018: £100.7 million).

Bad debt

Bad debt arises predominantly from those who choose not to pay their bill, despite being financially able to, as opposed to those who cannot pay. This year we had an overall increase in bad debt cost of £5.1 million to £62.6 million (2018: £57.5 million). This is split between bad debt relating to current year bills of £33.4 million, which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £29.2 million, which is shown within operating expenses. The overall increase in bad debt is due to a number of factors including:

- An increase in write offs for our waste only customers who are billed by other water companies, over which we have no control of collections; and
- Lower cash collection rates on our customer bills that have been cancelled and then rebilled. Where there has been a change of occupier and a bill is cancelled and split between incoming and outgoing occupier, the portion of debt associated with the outgoing occupier is more difficult to collect.

Operating expenses

Our underlying operating expenses have increased by £65.4 million (4.0%) to £1,686.0 million from 2018/19, driven mainly by:

- A £16.3 million increase in power cost as a result of 15% increase in the unit price;
- A £45.0 million increase in our personnel costs, as we have increased employee numbers to improve our service to customers;
- A £19.1 million increase in depreciation and amortisation, in line with our ongoing investment programme;
- Increase in spend to to repair and fix leaks, to get our leakage performance back on track; and
- Additional costs associated with preparing and assruing our business plan submissions. We incure this every five years.

Financial instruments

Our borrowings, revenue and total expenditure ("totex") (as defined on page 52) 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 £6.8 billion of derivative financial instruments (face value), which include £250.0 million of forward starting interest rate swaps that have fixed a significant element of the cost of debt we expect to borrow before 31 March 2020. A total loss on financial instruments of £37.7 million was recognised in the income statement during the year (2018: gain of £41.0 million). This is primarily driven by a £34.2 million loss on cash flow hedge transferred from reserves, partially offset by £64.5 million fair value gains on swaps and £68.0 million net foreign exchange loss on foreign currency loans. Note 8 to the financial statements provides detail of the amounts charged to the income statement in relation to financial instruments.

Credit rating

In May 2019, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") for our securisation group but placed us on negative outlook (2018: negative outlook).

This continues to be a strong investment grade credit rating supporting our ratings of A3 and Baa3 for our Class A and Class B debt respectively. The change to negative outlook reflecys a change in assesment of the stability and predictiblity of the UK water regulatory regime rather than a reflection of Thames Water specifically. In July 2018, S&P assigned our securitisation group companies a credit rating of BBB+ and BBB- (2018: BBB+ and BBB-) in respect of our Class A debt and our Class B debt respectively and placed us on negative outlook (2018: stable outlook). These ratings allow us to issue efficiently priced debt to fund our investment programmes, whilst keeping bills affordable for our customers.

Separately Moody's rated KWF guaranteed debt as B1 (negative) and Fitch as BB- (negative).

Dividends

No dividends or interest on shareholder debt was paid to external shareholders in 2018/19 after our Board decided to reinvest profits back into the business to improve our service to customers.

Pensions

We operate four pension schemes for our employees – three defined benefit schemes and one defined contribution scheme. During 2018/19, we contributed £11.0 million (2018: £8.1 million) to the defined contribution scheme.

Our defined benefit scheme accounting valuation has been updated to 31 March 2019 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net retirement benefit obligation for the three schemes as at 31 March 2019 was £285.3 million (restated 2018: £243.1 million[1]), which includes a pension deficit of £338.8 million (2018: £300.8 million) for the TWPS scheme, offset by a pension surplus of £45.8 million (restated 2018: £50.6 million) for the TWMIPS scheme and a pension surplus of £7.7m (2018: £7.5m) for the SUURBS pension scheme. We have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments. The increase in the deficit is mostly driven by a change in actuarial assumptions, specifically a decrease in the discount rate for both schemes, resulting in an actuarial loss. In addition to this, we recognised a past service cost in the current year income statement of £9.0 million relating to Guaranteed Minimum Pensions ("GMP") which has been discussed in more detail in the section below. As part of the last triennial valuation, a recovery plan to reduce the deficit to zero was agreed with the trustees. The Group has agreed to make deficit repair payments of £22.0 million (2018: £22.0 million) (indexed) per annum until 2027.

Recognition of pension surplus (TWMIPS scheme)

In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted of a deficit within the TWPS scheme and a restricted surplus1 in the TWMIPS scheme.
Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. The Trust Deed provides the Group 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 and any surplus taken by Thames Water Utilities Limited. Based on these rights, any net surplus in the scheme is recognised in full. We have therefore restated our pension figure for the previous year, such that our net pension deficit reduced from £293.7 million to £243.1 million following the recognition of the £50.6 million TWMIPS surplus, at 31 March 2018.

Guaranteed Minimum Pensions

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. Guaranteed Minimum Pensions ("GMPs") built up in our pension schemes between their commencement and 5 April 1997. They form a part of the overall pension and need to be provided before April 1997 as a condition of our opting out of the earnings related part of the state pension, as a result of which Thames Water and the pension scheme members paid reduced rate national insurance contributions up to April 2016. GMPs are subject to increase in payment and in deferment at different rates from the increases to benefits in excess of GMP.

Even though state pension ages are now the same for men and women, GMPs for women are generally higher than those for men. Despite the equalisation of state pension ages, GMPs are still required to come into payment on the 60th birthday of women and the 65th birthday for men. As such GMPs are unequal between men and women of identical ages, salary histories and periods of service. The Lloyds case requires this inequality to be remedied and has given rise to additional pension liabilities for the Group. Our actuaries, Hymans Robertson LLP have factored in the cost of equalisation into the accounting valuation as at 31 March 2019. This has resulted in a past service cost recognised in the 2018/19 income statement of £6.8 million for TWPS and £2.2 million for TWMIPS, a total of £9.0 million across the two schemes.

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 note 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 2029. 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 remainder of the current price control period to 31 March 2020 is followed by moderate confidence in the next five year price control period to 31 March 2025 based on our business plan for this period, and a lower level of confidence for the first four years of the following five year regulatory period. In spite of the reduced confidence levels in the later years of the look forward period, the Directors 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 9.

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.

Approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

A Hall
Director
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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 2019. 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 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 9.

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 2019 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 2019 and to the date of this report were:

M McNicholas	(appointed 4 April 2019)
K Bradbury	
S Deeley	
J Divoky	
A Hall	
G Lambert	
P Noble	
G Pestrak	
G Tucker	(resigned 20 May 2019)
M Bloch-Hansen	
E Lewis	
P Mulholland	(resigned 20 May 2019)
Y Wang	(resigned 22 October 2018)
F Sheng	
T Song	(appointed 22 October 2018)
C Pham	
J Cogley	(appointed 20 May 2019)
B Moncik	(appointed 20 May 2019)

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 (2018: 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
A Hall & K Bradbury	M Bloch-Hansen
J Divoky	C Pham
P Noble	E Lewis
G Tucker	P Mulholland
Y Wang	F Sheng
F Sheng	T Song
J Cogley	B Moncik

Directors' indemnities

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 27 June 2019, 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.

Dividends

The Group's dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid (to a maximum of statutory distributable reserves), are required to ensure that:

- sufficient liquidity is maintained to enable the business to meet its financial obligations for at least 15 months;
- the Group maintains a minimum of 2% headroom on its gearing covenant restrictions; and
- post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis.

The Group has not paid any dividends during the current or preceding financial year and do not recommend the payment of a final dividend (2018: £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 year Group formally closed the Cayman Islands subsidiaries.

Going concern

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 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.

Over the past 12 months, we have made considerable progress in commencing the elimination of 44 dormant companies within the Group through either strike-off or liquidation. As a result, the consolidated financial statements reflect the financial impact of dormant companies being removed from the Group and Company. For a complete list of subsidiaries that are in the process of being liquidated refer to note 42.

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 Chief Executive Officer 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 (2018: £0.4 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 for AMP6 and beyond 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 relating to Thames Water is currently divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage, customers, and regulatory issues. In addition, the Group carried out more specific research in the fields of large meters, metaldehyde removal, water quality monitoring and pipeline materials during the year.

Expenditure on research and development totalled £5.0 million for the year (2018: £3.9 million).

Employee Involvement

We undertake significant levels of communication with our people, through regular business review conferences, team briefs and varied written communications. During the year the Executive have continued to develop the key messages around the new "One Thames" structure, values and strategic plan.

Thames Water recognises three trade unions, UNISON, GMB and Unite, working with them through an agreed Partnership approach. We regularly meet trade unions, and where appropriate non-union representatives, at senior and working levels, to discuss issues affecting employees. During the year, the Group has continued a significant consultation process with both trade union and pension scheme representatives, looking at how we can make our defined benefit pension schemes sustainable and avoid closure. In addition to formal consultation meetings, this included joint learning sessions on topics including scheme indexation, mortality rates and emerging pension options like Collective DC schemes. Specific groups also consider issues relating to Health, Safety and Wellbeing and undertake reviews of Group policies. The Partnership trade unions negotiate pay and conditions for non-managerial grades.

Incentives for all Managers and Senior Leaders in the Group link reward to performance for customers and other key stakeholders. Most targets are based on regulatory outcomes including customer service, leakage, environmental and financial performance. The same targets are also used for an incentive for all non-managerial employees which will pay out in 2020.

The Group regularly shares key performance and other critical business information to employees through the various communications, including business reviews and written communications. In addition to a monthly "Team Talk" session which enables every team to discuss key customer, operational and financial performance, the CEO holds bi-annual "Yamjam" sessions, an opportunity for any employee to ask him questions directly, while the CEO and Executive team also attend conferences to hear key messages and ask direct questions of the lead team.

Each year we ask our employees to have their say through a Group wide engagement survey. We then use the results to develop a strategic improvement plan as well as encouraging teams to utilise a toolkit to turn their 'voices into action' at a local level, sharing and celebrating successes. As a result of our ongoing engagement with our employees, we have seen a 12% increase in the past year in employees feeling that they have the opportunity to contribute their ideas if they want to.

Equal Opportunities, diversity and inclusion

We recognise that our people are at the heart of our business. To help us succeed in our aim to provide best-in-class water and sewerage service, to be efficient and sustainable and to act in the long-term interests of our wider community, we need a range of skills and capabilities, representative of society, throughout our business.

We seek to attract, develop, reward, promote, and retain a mix of colleagues who can offer different but complementary attitudes, ideologies, talents, and knowledge. We understand the importance of appreciating and harnessing the unique skills, experiences, and backgrounds that each individual brings to our family.

To support an equal opportunity, fair, diverse, and inclusive Thames Water free from discrimination, bulling, harassment, or victimisation, we are committed to building a working environment and culture that inspires our people to live our values.

Everyone has a part to play to ensure people feel comfortable to bring their whole self to work.

The attitude and behaviour of all our colleagues has a profound impact on our reputation and ability to ensure that everyone is provided with the same opportunities, treated with respect and valued, irrespective of their protected characteristic including; age, disability, gender identity, marriage or civil partnership, pregnancy or maternity, race, religion and belief, sex or sexual orientation.

Employees with disability

Thames Water is proud to be a Disability Confident accredited employer.

Thames Water is proud to be a Disability Confident Employer, an accolade we have been awarded as a result of our ongoing work to actively hire, support and develop persons with disabilities. We were delighted to once again be asked to speak at the Stronger Together, Access to Work event, sharing best practice and initiatives we have developed such as our inclusion cards which include scenarios developed by our Disability Champions to explore and positively challenge attitudes and behaviours ensuring an inclusive culture. Additionally, we were asked by Alok Sharma, MP to speak at a local event in the Thames Valley to share with other employers how they can learn from us to become Disability Confident themselves

We are fully committed to ensuring that existing or potential future employees with disabilities are not treated less favourably than any other such person without a disability and that they are fully integrated into the work environment. This includes supporting individuals with their personal requirements and we currently have a programme of work to ensure our key buildings have disability friendly facilities.

As well as focussing on attracting, supporting and retaining people with disabilities we also raised awareness of physical disabilities via our own version of 'dining in the dark' at some of our key sites which generated money for Guide Dogs for the Blind as part of our celebration of International Day of Disabled Persons.

Greenhouse gas emissions

We have continued to make progress throughout 2018/19 in reducing our emissions. Where we're not able to produce our own energy, we source Renewable Energy Guarantees of Origin ("REGO") accredited sourcing renewable electricity through a contract with our green tariff electricity supplier. As a result we have achieved our 2018/19 emissions targets for both water and wastewater.

In the last year we have reduced our emissions from 277.9 kTCO2e last year, to 275.7kTCO2e (2018: 275.7 kTCO2e to 277.9 kTCO2e). 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 regulated business 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 mega-litre day (MLd) of service delivered.

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

Insurance

The Group 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 wider KWH Group's insurances are consistent with good industry practice, have regard to the risk being covered and address the interests of the KWH Group.

Funding

In November 2018, the Group signed an innovative £1,386.8 million (subsequently increased in size to a total of 1,646.4 million in January 2019) 5-year revolving credit facility with the interest rate linked to annual performance against environmental, social and governance (ESG) metrics.

The agreement saw the TWUL become the first UK corporate to tie the interest rate it will pay on the RCF to its Infrastructure GRESB score (Global Real Estate Sustainability Benchmark). GRESB is an independent, external ESG benchmark which assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. In addition to the £227.3 million sterling-equivalent Private Placement which was priced in January 2019 and a new £189.0 million bilateral loan with Export Development Canada, which were both undrawn at 31 Match 2019, the Group signed a new £150.0 million facility with a commercial bank which was drawn down in full at 31 March 2019. The £227.3 million Private Placement, to be funded in April 2019, included two US Dollar traches of 5 and 7 years and an 11 year Euro tranche which together, once swapped to sterling, and translated into a weighted average yield of 3.12%.

During the year, a total of £999.3million was drawn down and £540.0 million was repaid from the Thames Water Utilities Finance plc, £1,464.4 million revolving credit facility in various tranches. The amounts were used for general corporate purpose and to pre-finance long term debt.

Disclosure of information to the auditor

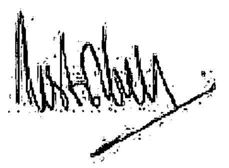
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditors

PricewaterhouseCoopers LLP ("PwC") have replaced KPMG LLP as auditors for the year ended 31 March 2019.

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 27 June 2019 and signed on its behalf by



A Hall
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 parent 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 parent company and of the profit or loss of the group and parent 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 parent company will continue in business.

The directors are also responsible for safeguarding the assets of the group and parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent 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.

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.

A Hall
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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

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 2019 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.

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 2019; the consolidated income statement, the consolidated and company 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.

Basis for opinion

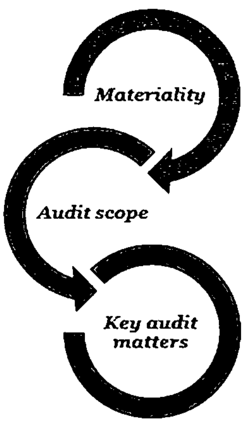
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit 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,, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: £30.0 million, based on 0.16% 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).
- Classification of costs between capital and operating expenditure (Group).
- Valuation of financial derivatives (Group).
- Valuation of retirement benefit obligation (Group).
- Recoverability of Goodwill (Group).
- Investment in subsidiaries (Parent).

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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. The company uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £176.6m (2018: £174.3m). Management make 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. This risk is applicable to the group only	We evaluated the model used to calculate the provision and confirmed its consistency with prior years and the appropriateness of this given the transition to IFRS 9. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We re-performed the calculations used in the model 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 also assessed the impact of changes to the provision methodology on account on adoption of IFRS 9. 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 description of changes arising as a result of the adoption of IFRS 9. Overall we consider that the provision and disclosure for bad and doubtful debt is reasonable as at 31 March 2019.
Classification of costs between capital and operating expenditure Additions to Assets under construction (AUC) during the period amounted to £1.098bn (2018: £1.073bn). Within this is £189m (2018: 198.2m) of own works capitalised and £102.7m (2018: 96.4m) 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 company and can be measured reliably. There is a risk costs capitalised do not meet these criteria. This risk is applicable to the group only	Our procedures over external costs included: We have tested the controls regarding the assessment by management of each project as operating or capital. 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. Our procedures over own works capitalised included: We tested the control process over the assessment and review by management over the support internal cost functions are providing with regards to capital programmes. We have challenged management as to the nature of these costs and whether they meet the capitalisation criteria. We have obtained management's papers and considered the assessment made 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 verified the mathematical accuracy of the calculation and that the percentages applied in the calculation agree to the percentage for that cost centre in management's paper. Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2019.
Valuation of financial derivatives The net derivative liability position at 31 March 2019 was £1,100m (2018: £1,153m). The valuation of derivatives has been 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. This risk is applicable to the group only	Our procedures included: - Obtaining 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 (testing 33 of the 64 derivative contracts with a total fair value tested of £1,014m). - Performed an analytic review of the derivative position by calculating expected movements in derivatives using independent sources of exchange rates and interest rates. - Tested management controls in operation to reconcile the derivative valuations to those provided by the external counterparties.

	Overall we assess that the valuation method and judgements management have used are reasonable.
Valuation of retirement benefit obligation Relating to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme Valuation of total scheme liabilities £2,606.4m (2018: £2,498.7m) Subjective judgement: 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 impact of the High Court Lloyds ruling regarding Guaranteed Minimum Pensions (GMPs). This risk is applicable to the group only	Our procedures included: We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities, as well as assessing the liability impact calculated by the pension scheme actuaries in relation to GMP. 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 prior year end most recent actuarial valuation. We tested the accuracy of the retirement benefit obligation disclosures, including GMP, made in relation to the group's pensions policy. We Confirmed that the group's actuarial experts (Hymans Robertson LLP and Aon) are qualified, appropriately affiliated to territory industry bodies, and are independent of the company and group. Overall we concur that the methodology and assumptions used by management at 31 March 2019 are reasonable.
Investment in Subsidiaries Recoverability of Investments Investments at 31 March 2019 is £4,292.3m (2018: £4,292.3m) 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. This risk is applicable to the company only	Our procedures included: - We have obtained management's model and verified the mathematical accuracy of calculations used. - We have reviewed the assessment management have 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 2019 to the audited financial statements. - We have verified the RCV used by management to the latest Ofwat publication. Overall we concur with the assessment that management have made and that there is no impairment at 31 March 2019.
Recoverability of Goodwill Goodwill at 31 March 2019 is £1,468.1m (2018: £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. This risk is applicable to the group only	Our procedures included: We have obtained management's model and verified the mathematical accuracy of calculations used. We have reviewed the assessment management have performed to determine the premium on RCV and determined that the assessment performed is reasonable. We have agreed the net debt used in management's assessment at 31 March 2019 to the audited financial statements. We have also verified the RCV used by management to the latest Ofwat publication. Overall we concure with the assessment that management have made and that there is no impairment at 31 March 2019.

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 item. 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. Three 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:

Overall group materiality	£30.0 million.
How we determined it	0.16% of total assets.
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group (see company rationale), 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 0.16% of total group assets was deemed to be most appropriate.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.5 million (Group audit) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.5 million (Group audit) and £5.2 million (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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 2019 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 set out on page 19, 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.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 June 2019

Consolidated income statement

For the year ended 31 March

	Note	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated 2018[1] Underlying £m	Restated 2018[1] BTL £m	Restated 2018[1] Total £m
Revenue	1	**2,037.1**	**47.5**	**2,084.6**	2,018.2	26.9	2,045.1
Operating expenses	2	**(1,685.7)**	**(0.3)**	**(1,686.0)**	(1,620.3)	(0.4)	(1,620.7)
Other operating income	4	**93.4**	**-**	**93.4**	92.2	-	92.2
Operating profit		**444.8**	**47.2**	**492.0**	490.1	26.5	516.6
Profit on the sale of retail non-household business	5	**-**	**-**	**-**	89.7	-	89.7
Finance income	6	**18.8**	**-**	**18.8**	10.4	-	10.4
Finance expense	7	**(1,020.7)**	**-**	**(1,020.7)**	(990.7)	-	(990.7)
Net (losses) / gains on financial instruments	8	**(37.7)**	**-**	**(37.7)**	41.0	-	41.0
(Loss)/profit on ordinary activities before taxation		**(594.8)**	**47.2**	**(547.6)**	(359.5)	26.5	(333.0)
Taxation on loss/(profit) on ordinary activities	9	**98.8**	**(2.8)**	**96.0**	69.8	(1.6)	68.2
(Loss)/profit for the year		**(496.0)**	**44.4**	**(451.6)**	(289.7)	24.9	(264.8)

The group activities above are derived from contouring 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 in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 34.

The accounting policies and notes on pages 33 to 103 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 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50 as well as other restatements which are on pages 43 to 45.

Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated 2018[1] Underlying £m	Restated 2018[1] BTL £m	Restated 2018[1] Total £m
(Loss)/profit for the year		**(496.0)**	**44.4**	**(451.6)**	(289.7)	24.9	(264.8)
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial gains/(losses) on pension schemes	23	**(23.4)**	**-**	**(23.4)**	87.2	-	87.2
Deferred tax (charge)/credit on net actuarial gain/loss	9	**4.3**	**-**	**4.3**	(17.1)	-	(17.1)
May be reclassified to the income statement:							
(losses) / gains on cash flow hedges		**(8.9)**	**-**	**(8.9)**	16.3	-	16.3
Cash flow hedges transferred to income statement	8	**34.2**	**-**	**34.2**	84.3	-	84.3
Deferred tax (charge)/credit on cash flow hedges	9	**(4.3)**	**-**	**(4.3)**	(17.1)	-	(17.1)
Other comprehensive income/(loss) for the year		**1.9**	**-**	**1.9**	153.6	-	153.6
Total comprehensive (loss)/income for the year		**(494.1)**	**44.4**	**(449.7)**	(136.1)	24.9	(111.2)

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 in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 34.

The accounting policies and notes on pages 33 to 103 are an integral part of these financial statements.

[1] The restatement in the statement of other comprehensive income relates to the change in accounting policy for the TWMIPS pension scheme surplus is discussed on page 51.

Consolidated statement of financial position
As at 31 March

	Note	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated 2018[1] Underlying £m	Restated 2018[1] BTL £m	Restated 2018[1] Total £m
Non-current assets							
Goodwill	10	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Interest in joint venture	11	**-**	**-**	**-**	-	-	-
Intangible assets	12	**218.2**	**-**	**218.2**	169.0	-	169.0
Property, plant and equipment	13	**15,747.3**	**-**	**15,747.3**	15,184.1	-	15,184.1
Trade and other receivables	15	**44.2**	**101.9**	**146.1**	35.7	56.7	92.4
Pension asset SUURBS	23	**7.7**	**-**	**7.7**	7.1	-	7.1
Pension asset TWMIPS[1]	23	**45.8**	**-**	**45.8**	50.6	-	50.6
Derivative financial assets	19	**162.3**	**-**	**162.3**	76.4	-	76.4
		17,693.6	**101.9**	**17,795.5**	16,991.0	56.7	17,047.7
Current assets							
Inventories and current intangible assets	14	**13.5**	**-**	**13.5**	18.1	-	18.1
Contract asset	15	**217.5**	**0.9**	**218.4**	186.2	0.4	186.6
Trade and other receivables	15	**802.6**	**4.1**	**806.7**	706.2	3.4	709.6
Cash and cash equivalents	16	**513.8**	**7.6**	**521.4**	153.8	2.6	156.4
Derivative financial assets	19	**-**	**-**	**-**	8.5	-	8.5
		1,547.4	**12.6**	**1,560.0**	1,072.8	6.4	1,079.2
Current liabilities							
Contract liabilities	17	**(110.6)**	**(3.4)**	**(114.0)**	(123.1)	(4.1)	(127.2)
Trade and other payables	17	**(679.5)**	**(11.1)**	**(690.6)**	(613.2)	(3.5)	(616.7)
Borrowings	18	**(1,550.8)**	**-**	**(1,550.8)**	(302.1)	-	(302.1)
Derivative financial liabilities	19	**(38.6)**	**-**	**(38.6)**	(12.3)	-	(12.3)
		(2,379.5)	**(14.5)**	**(2,394.0)**	(1,050.7)	(7.6)	(1,058.3)
Net current (liabilities)/assets		**(832.1)**	**(1.9)**	**(834.0)**	22.1	(1.2)	20.9
Non-current liabilities							
Contract liabilities	17	**(636.1)**	**-**	**(636.1)**	(589.8)	-	(589.8)
Borrowings	18	**(17,750.4)**	**-**	**(17,750.4)**	(17,451.1)	-	(17,451.1)
Derivative financial liabilities	19	**(1,223.8)**	**-**	**(1,223.8)**	(1,225.9)	-	(1,225.9)
Deferred tax	20	**(903.6)**	**-**	**(903.6)**	(893.2)	-	(893.2)
Provisions for liabilities and charges	21	**(109.7)**	**-**	**(109.7)**	(134.2)	-	(134.2)
Pension deficit	23	**(338.8)**	**-**	**(338.8)**	(300.8)	-	(300.8)
		(20,962.4)	**-**	**(20,962.4)**	(20,595.0)	-	(20,595.0)
Net (liabilities)/assets		**(4,100.9)**	**100.0**	**(4,000.9)**	(3,581.9)	55.5	(3,526.4)
Equity							
Called up share capital	22	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	22	**(118.0)**	**-**	**(118.0)**	(139.0)	-	(139.0)
Retained earnings	22	**(3,983.9)**	**100.0**	**(3,883.9)**	(3,443.9)	55.5	(3,388.4)
Total equity		**(4,100.9)**	**100.0**	**(4,000.9)**	(3,581.9)	55.5	(3,526.4)

Bazalgette Tunnel Limited ("BTL") is an independent company un-related to the Group, and was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and so we have disclosed our underlying performance separately.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50 as well as other restatements which are discussed on pages 43 to 45. 2017 results have also been restated as a result of transition to IFRS 15 which is detailed in note 33.

Company statement of financial position

As at 31 March

	Note	2019 £m	2018 £m
Non-current assets			
Investment in subsidiaries	34	**4,292.3**	4,292.3
Trade and other receivables	35	**8.2**	-
Intercompany receivables	35	**170.6**	248.8
Deferred tax asset	36	**9.3**	10.9
		4,480.4	4,552.0
Current assets			
Intercompany receivables	35	**534.3**	416.1
Cash and cash equivalents	37	**349.2**	28.9
		883.5	445.0
Current liabilities			
Trade and other payables	38	**(1.2)**	(0.2)
Borrowings	39	**(426.7)**	(22.0)
		(427.9)	(22.2)
Net current assets		**455.6**	422.8
Non-current liabilities			
Trade and other payables	38	**(14.9)**	(14.9)
Borrowings	39	**(7,105.8)**	(6,636.5)
		(7,120.7)	(6,651.4)
Net liabilities		**(2,184.8)**	(1,676.6)
Equity			
Called-up share capital	22	**1.0**	1.0
Retained earnings		**(2,185.8)**	(1,677.6)
Total equity		**(2,184.8)**	(1,676.6)

The accounting policies and notes on pages 33 to 103 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 2019 the Company generated a loss after taxation of £508.2 million (2018: £403.8m)

The financial statements for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

A Hall
Director

Consolidated statement of changes in equity

For the year ended 31 March

	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2017	1.0	(222.5)	(3,117.5)	**(3,339.0)**
Restatement for IFRS 15[1]	-	-	(100.0)	**(100.0)**
Recognition TWMIPS surplus[1]	-	-	36.7	**36.7**
Deferred tax on recognition of TWMIPS surplus[1]	-	-	(12.9)	**(12.9)**
Restated 1 April 2017	**1.0**	**(222.5)**	**(3,193.7)**	**(3,415.2)**
Loss for the year	-	-	(264.8)	**(264.8)**
Gain on cash flow hedges	-	16.3	-	**16.3**
Cash flow hedges transferred to income statement	-	84.3	-	**84.3**
Deferred tax charge on cash flow hedge	-	(17.1)	-	**(17.1)**
Actuarial gain on pension schemes[1]	-	-	87.2	**87.2**
Deferred tax charge on actuarial gain[1]	-	-	(17.1)	**(17.1)**
At 31 March 2018	1.0	(139.0)	(3,388.4)	(3,526.4)
Restatement for IFRS 9[2]	-	-	(29.3)	**(29.3)**
Deferred Tax on IFRS 9 restatement[2]	-	-	4.5	**4.5**
At 1 April 2018	1.0	(139.0)	(3,413.2)	(3,551.2)
Loss for the year	-	-	(451.6)	**(451.6)**
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**
At 31 March 2019	1.0	(118.0)	(3,883.9)	**(4,000.9)**

The accounting policies and notes on pages 33 to 103 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 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50 as well as other restatements which are discussed on pages 43 to 45.

[2] An adjustment was made for the impact of the transition to new accounting standards IFRS9 'Financial Instruments: Recognition and Measurement on 1 April 2018 as discussed on page 45.

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

	Share capital £m	Retained earnings £m	**Total equity £m**
At 1 April 2017	1.0	(1,273.8)	**(1,272.8)**
Loss for the year	-	(403.8)	**(403.8)**
At 31 March 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)**

The accounting policies and notes on pages 33 to 103 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 March

		2019			Restated 2018[1]		
		Underlying	BTL	Total	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m
Cash generated from operations[2]	29	1,097.6	5.0	1,102.6	1,093.9	(1.2)	1,092.7
Payments for group relief		(0.1)	-	(0.1)	(0.3)	-	(0.3)
Net cash generated by/(used in) operating activities		1,097.5	5.0	1,102.5	1,093.6	(1.2)	1,092.4
Investing activities:							
Interest received		10.7	-	10.7	9.6	-	9.6
Decrease in current asset investments		-	-	-	1.0	-	1.0
Purchase of property, plant and equipment[3]		(1,117.8)	-	(1,117.8)	(1,100.6)	-	(1,100.6)
Purchase of intangible assets		(71.2)	-	(71.2)	(61.7)	-	(61.7)
Proceeds from sale of property, plant and equipment		2.6	-	2.6	18.8	-	18.8
Net cash used in investing activities		(1,175.7)	-	(1,175.7)	(1,132.9)	-	(1,132.9)
Financing activities:							
New loans raised		1,452.7	-	1,452.7	2,238.3	-	2,238.3
Repayment of borrowings		(670.2)	-	(670.2)	(1,799.8)	-	(1,799.8)
Interest paid		(328.0)	-	(328.0)	(304.4)	-	(304.4)
Fees paid		(19.1)	-	(19.1)	(4.4)	-	(4.4)
Derivative settlements		2.8	-	2.8	(28.4)	-	(28.4)
Net cash generated by financing activities		438.2	-	438.2	101.3	-	101.3
Net increase/(decrease) in cash and cash equivalents		360.0	5.0	365.0	61.1	(1.2)	59.9
Net cash and cash equivalents at beginning of year		153.8	2.6	156.4	92.7	3.8	96.5
Net cash and cash equivalents at end of year		513.8	7.6	521.4	153.8	2.6	156.4

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 34.

The accounting policies and notes on pages 33 to 103 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 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50 as well as other restatements which are discussed on pages 43 to 45.

[2] Refer to Note 29 'Statement of Cash Flows' on page 89 for a reconciliation of net cash generated by operating activities.

[3] Borrowing costs that have been capitalised are included within "Purchase of property, plant and equipment" under investing activities.

Company statement of cash flows
For the year ended 31 March

	Note	2019 £m	2018 £m
Cash generated used in operations	41	**79.7**	(2.1)
Tax paid		**-**	-
Net cash generated by/(used in) operating activities		**79.7**	(2.1)
Investing activities:			
Interest received		**0.5**	-
Dividends received		**1.0**	56.0
Net cash generated by investing activities		**1.5**	56.0
Financing activities:			
New loans raised		**303.9**	-
Repayment of borrowings		**(0.7)**	-
Interest paid		**(54.1)**	(54.1)
Fees paid		**(10.0)**	-
		239.1	(54.1)
Net cash used in financing activities		**239.1**	(54.1)
Net increase/(decrease) in cash and cash equivalents		**320.3**	(0.2)
Net cash and cash equivalents at beginning of the year		**28.9**	29.1
Net cash and cash equivalents at end of the year		**349.2**	28.9

The accounting policies and notes on pages 33 to 103 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 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.

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.

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

The policies applied in these consolidated financial statements 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 27 June 2019, the date that the Board of Directors approved these financial statements. The Company only accounts prepared under IFRS.

Basis of preparation

The consolidated financial statements for the year ended 31 March 2019, set out on pages 25 to 32, 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.

Basis of consolidation

The Group 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.

Going concern

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 Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of both the Group and Company, and the requirement for ongoing support from the ultimate parent, Kemble Water Holdings Limited ("KWH").

KWH has confirmed that it will continue to provide support to the Group and Company, to enable them to meet their liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements. The Directors have considered it appropriate to place reliance on this support based upon a review of KWH's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Directors also took into account potential contingent liabilities and other risk factors in making their assessment.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Group and the 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 12 months from the date of signing of these financial statements. On this basis the Directors consider it appropriate to prepare these financial statements on a going concern basis.

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, in line with 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 with no cash retained, 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.

Revenue recognition

At 1 April 2018 the Group transitioned from IAS 18 Revenue to IFRS 15 "Revenue from Contracts with Customers". 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.

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 to ensure revenue is recorded at the amount which the Group expects to receive, for providing its services to customers.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions.

For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the bill relates.

The Group only raises bills in the name of the "occupier" when it has evidence that an unmeasured property is occupied but cannot confirm the name of the occupier. When the Group identifies the occupants the bill is cancelled and re-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 34).

Refer to pages 46-50 for the impact of new accounting standards on revenue and page 53 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 payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments or 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 expense is presented within finance expense in the consolidated income statement.

Contract assets

Contract assets are presented in the statement of financial position when the Group's right to consideration is conditional on future performance. 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 deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Net (losses) / gains on financial instruments

The group raises debt in a variety of currencies and use 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 (losses) / gains on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 41 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.

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 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

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 13:

	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

Leases where the Group obtains assets which transfer substantially all the risks and rewards of ownership to the Group are treated as finance 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' which becomes effective for the Group on 1 April 2019. The tunnel will be recognised as an asset within PP&E and depreciated over the life of the lease. On inception of the lease, the tunnel will be recognised at fair value, being the BTL prepayment (refer to BTL arrangement section on page 34) plus the present value of the future minimum lease 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").

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)

IAS 39 (applicable for comparative periods 1 April 2017 and 31 March 2018)

Trade and other receivables are measured at fair value on initial recognition and subsequently at amortised cost using the effective interest method. If there is objective evidence that the asset is impaired it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense within operating costs.

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management on a case-by-case basis.

Included within trade receivables is an assessment of the recoverability of debts 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 made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and 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.

A provision is also made against debts due from Water Only Companies ("WOCs") who bill their customers for sewerage services provided by the Company. As the bills relate to services provided by the Company, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Company. As detailed information about the debt, including the ageing, is not readily available, the level of provision is calculated with reference to the level of historical, current and forecast write-offs.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

IFRS 9 (applicable for the year ended 31 March 2019)

Trade and other receivables (excluding prepayments) are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. 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 can relate to a financial asset in its entirety or to a portion of it, and is recognised as an expense within operating costs.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

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 intercompany loans 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.

There are 3 main types of customer for which an expected credit losses provision is calculated, directly billed customers, indirectly billed and billed through WoCs (Water Only Companies). There is also bad debt associated to the BTL arrangement.

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 will 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.

A provision is also made against debts due from 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.

Expected credit losses (continued)

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 34 for more information on the BTL arrangement.

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.

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.

Discontinued operations

Components of the Group will be classified as a discontinued operation if that component has either been disposed of, or is classified as held for sale. A component comprises operations that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Group. A component will only be classified as discontinued given that either: it represents a separate major line of business, or geographical area; or is part of a single co-ordinated plan to dispose of a separate major line of business.

Assets held for sale

Non-current assets are reclassified as held for sale if all of the following criteria are satisfied:

- the carrying amount will be recovered principally through sale rather than through continuing use;
- the asset is available for immediate sale in its present condition; and
- a sale is considered to be highly probable.

On initial reclassification as held for sale, non-current assets are measured at the lower of the previous carrying amount and fair value less costs to sell, with any adjustments being recognised within the income statement. Once classified as held for sale no further depreciation or amortisation is recognised.

Inventories and current intangible assets

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

Purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) are recorded as current intangible assets, 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.

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 34.

Retirement and other employment benefits

Defined contribution schemes

The Group operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS") managed through Standard Life Assurance Limited. From 1 April 2011 the DCSPS is the only scheme to which new employees of the Group are eligible. The assets of the DCSPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

Defined benefit schemes

The Group operates three, independently administered, defined benefit pension schemes, all of which are closed to new employees. Actuarial valuations are carried out as determined by the Trustees, using the projected unit credit method for both schemes 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 or obligation. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service cost, 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.

Changes in the retirement benefit 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 comprehensive income in the period in which they arise.

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 captive and 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 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.

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 2019 there were three alliances responsible for delivering works over AMP6.

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.

Risks, opportunities and innovation ("ROI") funds (continued)

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

Derivative financial instruments are initially recognised at fair value with transaction costs being taken to the income statement. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

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 economic relationship between the hedged instrument and the hedged item is determined by analysing the critical terms of the hedge relationship;
- 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 Group continues to test and document the effectiveness of the hedge on an ongoing basis. Hedge accounting discontinues when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

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.

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.

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 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.

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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Summary of Prior Year Restatements

A number of restatements to the comparative periods have been made, including those from the adopting the new accounting standard IFRS 15 Revenue from Contracts with Customers. New accounting standard IFRS 9 'Financial Instruments' has been applied using a modified retrospective approach and such there has been no restatements to the prior year.

IFRS 15: Revenue from Contracts with Customers

Background

The Group has adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group has restated both comparative periods presented in the financial statements which include the 1 April 2017 and the 31 March 2018.

Restatements to the prior year

The Group now recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings.

The restatement has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years. Refer to the "Transition to new IFRSs" section on pages 48-50 for more information on the prior year adjustments made following the transition to IFRS 15.

Presentation of interest on derivatives

Background

The interest on swaps has been historically presented gross in the income statement and statement of cash flows, referenced in the adjustments section below. For purposes of the year ended 31 March 2019, it was considered more appropriate to present any interest incurred or received for the same instrument on a net rather than gross basis.

Restatements to the prior year

Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018.

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

- Consolidated income statement on page 25
- Note 6 Finance income on page 60
- Note 7 Finance expense on page 61
- Note 29 Statement of cash flows on page 89
- Note 33 Restatements to the prior year on pages 91-95

Recognition of TWMIPS surplus

Background

In recent years, the defined benefit pension scheme TWMIPS has been in a surplus position. The Directors had previously reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised.

Restatements to the prior year

Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. The Group now recognises any surplus from the TWMIPS scheme. The comparative periods have been restated to reflect this change in accounting policy. Refer to "Change in accounting policies" section on page 51 for more information on the change in accounting policy and the prior year adjustments.

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

- Consolidated statement of financial position on page 27
- Consolidated statement of comprehensive income on page 26
- Note 23 Retirement benefit obligations on pages 82
- Note 33 Restatements to the prior year on pages 91-95

Summary of Prior Year Restatements (continued)

Insurance claims receivable

Background

It was identified from a review that our classification of the insurance claims receivable was current i.e. to be collected within the next 12 months despite our recognition of the insurance provision as non-current i.e. not due for settlement within 1 year. The Group has therefore reclassified the insurance claims receivable from current to non-current, to be in line with the insurance provision classification.

Restatement to the prior year

The comparative periods 1 April 2017 and 31 March 2018 have been restated to reflect this change in classification. The amount that has been reclassified from current to non-current for the comparative periods has been included in the table below:

Comparative period	£m
1 April 2017	36.0
31 March 2018	32.7

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

- Consolidated statement of financial position on page 27
- Note 15 Trade and other receivables on page 66
- Note 33 Restatements to the prior year on pages 91-95

Payment in advance from metered customers

Background

Payments in advance from metered customers have historically been included within trade payables. Following a review into the classification of these amounts, payments in advance from metered customers have been reclassified to other payables on the basis that the liability recognised is not in respect of amounts due to suppliers of the Group.

Restatements to the prior year

The reclassification from trade payables to other payables in the prior years are as follows:

Comparative period	£m
1 April 2017	57.9
31 March 2018	40.3

Credits against MSA

Background

The metered sales accrual recognises revenue from metered customers for whom meter reads have not been taken at the reporting date, and therefore no bill has been raised. Some metered customers make regular payments by direct debit. Where a bill has not been raised, their account will be in credit. Historically, all customer accounts that are in a net credit position have been reclassified to payables, however, following a review, we have identified that these direct debit payments should be offset against the associated amounts due from those customers.

Restatements to the prior year

The credits arising on customer accounts that relate to direct debit payments where an invoice has not been raised have been reclassified and offset against the metered sales accrual. This has resulted in a reduction in contract assets and trade payables by the following:

Comparative period	£m
1 April 2017	32.7
31 March 2018	39.7

New accounting policies and financial reporting changes

A number of amendments to IFRSs became effective for the financial year beginning 1 April 2018. The following new accounting standards have been adopted by the Group and are now effective:

- IFRS 9 Financial Instruments Recognition and Measurement;
- IFRS 15 Revenue from Contracts with Customers; and

The Group has undertaken an assessment of its accounting policy as a result of the changes in the standards listed above. In addition to these, 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 consolidated financial statements of the Group.

The following issued standard has not yet been adopted by the Group:

- IFRS 16 Leases will be effective on 1 January 2019 (and thus to the Group 1 April 2019), subject to EU endorsement.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 'Financial Instruments: Recognition and Measurement' as at 1 April 2018 and applied the new rules using a modified retrospective approach, including the practical expedients permitted in the standard, where applicable. The Group has undertaken an assessment of our accounting policy as a result of the changes in the standard:

Classification and Measurement

The review has included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS 9. Management's assessment concludes that there are no changes in classification or measurement of its assets and liabilities and no change in accounting policy as a result of adopting IFRS 9 except as mentioned on page 37.

Impairment Methodology

Financial assets

IFRS 9 introduces a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses, as was required under IAS 39. Management has assessed the impact on trade receivables and contract assets and concluded that there is no significant change in the Group's impairment methodology as most of our receivables are short term, and therefore no material impact on the provision for losses against trade receivables presented in the financial statements.

A credit loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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,

Utilising the practical expedient (IFRS 9 B5.5.35), 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.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Hedge Accounting

IFRS 9 provides increased flexibility for hedge accounting, introducing a new, simpler hedge accounting model with a principles-based approach designed to align the accounting result with the economic hedging strategy. The Group currently uses cash flow hedge relationships to hedge interest rate risk on borrowings. Management has confirmed that the current hedge relationships continue to qualify as hedges following the adoption of IFRS 9.

New accounting policies and financial reporting changes (continued)

IFRS 15 Revenue from Contract with Customers

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.

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 historic experience, is excluded from revenue to ensure revenue is recorded at the amount which the Group expects to receive, for providing its services to customers

The following services are recorded within "Revenue" in the Income Statement since they relate to our obligation as a water and wastewater services provider to provide these services to our customers:

Water and wastewater services

As an appointed water and wastewater services provider, the Group has an ongoing obligation to provide water and wastewater services to customers in its statutory supply area. The Group is obligated to provide a continuous supply of services across the entire network, and so customers simultaneously receive and consume the benefits in line with the Group performing its obligation.

The Group recognises revenue for water and wastewater services in the amount which it has a right to receive, since this amount is considered by management to correspond directly with the value to the customer of the Group's performance to date. This accounting treatment is an application of the practical expedient given in paragraph B16 of IFRS 15.

For unmeasured customers, the amount of consideration to which the Group has the right to receive is determined by the rateable value of the customer's property, as assessed by an independent rating officer, such that revenue is recognised on a straight line basis over the course of the financial year.

For metered customers, the amount of consideration which the Group has the right to receive is determined by actual usage, derived from meter readings. Revenue includes an estimate of the amount of mains water and wastewater charges unbilled to metered customers at the period end, which are recorded within contract assets.

IFRS 15 usually requires the disclosure of the aggregate amount of revenue which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting period. In other words, the aggregate amount of future revenues from existing ongoing contracts. Management consider that such an amount cannot be reliably estimated, primarily because the Group's obligation to supply customers with water and wastewater services will continue in perpetuity. The Group has applied the practical expedient, given in paragraph 121(b) of IFRS 15, not to disclose this amount in relation to water and wastewater charges.

There is no impact on the recognition of water and wastewater services as a result of the adoption of IFRS 15.

The following services are recorded within "Other Operating Income" in the Income Statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Requisitions

The Group may be contracted by customers in its statutory supply area to provide a new water main or new sewer, this is known as a requisition. These services are usually provided to property developers and are each considered by management to be distinct performance obligations.

Requisition income is recognised over time in other operating income using the input method by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions income is recorded within contract liabilities (deferred income).

There is no impact on the recognition of income from requisitions as a result of the adoption of IFRS 15.

Service connections

A service connection includes the provision of a connection to an existing water main or sewer, laying a pipe to the boundary of a customer's property and connecting to their supply pipe. Management consider that the combination of these activities comprise of a distinct performance obligation to the customer. Service connection income is recognised in other operating income at the point in time that the service is complete.

There is no material impact on the recognition of income from service connections as a result of the adoption of IFRS 15.

Diversions

The Group may be contracted by customers in its statutory supply area to relocate a pipe which is already in the ground. This is known as a diversion. Charges for diversions are recognised over time in other operating income using the input method by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. The costs incurred are used as a measure of the estimated progress to completing the performance obligation.

New accounting policies and financial reporting changes (continued)

There is no impact on the recognition of income from diversions as a result of the adoption of IFRS 15.

Income from Infrastructure charges

The Group applies infrastructure charges to a developer when the Group provides a first-time supply of water and/or wastewater services for a property. These charges cover the future investment needed to meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure (excluding treatment works).

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, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enable the Group to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore, the Group recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset. Deferred infrastructure charges are recorded within contract liabilities (deferred income).

Infrastructure charges were previously recognised over a 30 year period. As a result of the adoption of IFRS 15, the period has changed to be consistent with our depreciation policy in respect of the associated asset. The assets and their respective estimated useful life are as follows:

Network assets	Years
Wastewater network assets	150
Water network assets	80-100

Notwithstanding the length of time between when the Group performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money. Amounts are collected before the services are provided because the regulations require payment to be made by the initial customer or developer. The amounts collected do not provide a significant financing benefit.

There is an impact on the recognition of income from infrastructure charges as a result of the adoption of IFRS 15.

Adoptions

As an appointed water and sewerage undertaker, the Group may be required to adopt an asset, such as a sewer or pumping station, which has been constructed by a customer. On adoption, the asset becomes part of the Group's water/wastewater network and is maintained at the Group's expense. Management consider that this is an exchange transaction in which the performance obligation is the ongoing and future maintenance of the asset, and the consideration transferred by the customer is the asset itself.

Adopted assets are recognised in property, plant and equipment at their fair value at the time of transfer. The associated consideration on transfer is recognised in other operating income on a straight line basis over the life of the asset. Deferred revenue in relation to adopted assets is recorded within contract liabilities.

The contract does not contain a financing component because the timing of the consideration transferred by the customer does not provide the Group with a significant benefit of financing its performance obligation. Accordingly, no adjustment is made for the time value of money.

There is no impact on the recognition of adopting an asset as a result of the adoption of IFRS 15.

Transition to new IFRS

IFRS 15 Revenue from Contract with Customers applicable from 1 April 2018

Transition approach

IFRS 15 'Revenue from Contracts with Customers' addresses the recognition of revenue and replaces IAS 18 'Revenue' and IFRIC 18 'Transfer of Assets from Customers'. The Group has adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group and Company has restated both comparatives periods presented in the financial statements which include the 1 April 2017 and the 31 March 2018.

The standard requires the identification of performance obligations in contracts with customers and allocation of the total contractual value to each of the performance obligations identified. Revenue is recognised as each performance obligation is satisfied either at a point in time or over time.

Adjustments

As discussed in the accounting policies section on page 33, the Group now recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings. The adjustment has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years.

In addition, in accordance with IFRS 15, we have made a re-classification for amounts relating to contract assets and liabilities. These adjustments have been presented in the table below.

Group

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application, 1 April 2017:

	IAS 18 Carrying Amount * As previously stated 31 March 2017 £m	Re-measurement £m	Re-classification £m	IFRS 15 Carrying Amount * 1 April 2017 £m
Current assets				
Contract assets	-	-	247.8	247.8
Trade and other receivables	886.7	-	(247.8)	638.9
Subtotal	**886.7**	**-**	**-**	**886.7**
Current liabilities				
Contract liabilities	-	-	125.5	125.5
Trade and other payables	(917.8)	(10.7)	(125.5)	(1,054.0)
Subtotal	**(917.8)**	**(10.7)**	**-**	**(928.5)**
Non-current liabilities				
Contract liabilities	-	-	536.1	536.1
Trade and other payables	(404.9)	(131.2)	(536.1)	(1,072.2)
Deferred tax	(836.6)	20.5	-	(816.1)
Subtotal	**(1,241.5)**	**(110.7)**	**-**	**(1,352.2)**
Equity	**(3,117.5)**	**100.0**	**-**	**(3,017.5)**

* The amounts in this column are before the adjustments from the adoption of IFRS 9, recognition of the TWMIPS surplus and restatement of the insurance claims receivable from non-current to current.

Transition to new IFRSs (continued)

IFRS 15 'Revenue from Contracts with Customers' applicable from 1 April 2018 (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of the previous set of annual financial statements, 31 March 2018:

	IAS 18 Carrying Amount * As previously stated 31 March 2018	Re-measurement	Re-classification	IFRS 15 Carrying Amount * Restatement 1 April 2018
	£m	£m	£m	£m
Current assets				
Contract assets	-	-	226.3	226.3
Trade and other receivables	968.6	-	(226.3)	742.3
Subtotal	**968.6**	-	-	**968.6**
Current liabilities				
Contract liabilities	-	-	(129.4)	(127.2)
Trade and other payables	(816.9)	11.5	129.4	(678.1)
Subtotal	**(816.9)**	**11.5**	-	**(805.4)**
Non-current liabilities				
Contract liabilities	-	-	(589.8)	(589.8)
Trade and other payables	(445.8)	(144.0)	589.8	-
Deferred tax	(898.0)	22.5	-	(875.5)
Subtotal	**(1,343.8)**	**(121.5)**	-	**(1,465.3)**

* The amounts in this column are before the adjustments from the adoption of IFRS 9, recognition of the TWMIPS surplus and restatement of the insurance claims receivable from non-current to current.

The impact on the group's total equity is as follows:

	1 April 2018 £m	1 April 2017 £m
Total equity – before IFRS 15 restatement	**(3,311.3)**	**(3,117.5)**
Decrease in cumulative infrastructure charges recognised in other operating income	132.4	120.5
Decrease in cumulative taxation on profit/loss on ordinary activities	(22.5)	(20.5)
Opening total equity 1 April – after IFRS 15 restatement	**(3,201.4)**	**(3,017.5)**

IFRS 9 'Financial Instruments' applicable from 1 April 2018

Transition approach

IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*, introduces new requirements for recognition, classification and measurement, a new impairment model for financial assets based on expected credit losses, and simplified hedge accounting. The Group and Company have adopted IFRS 9 as at 1 April 2018 and applied the new rules using a modified retrospective approach. As a result, comparatives have not been restated. Management has conducted an assessment of the impact of IFRS 9 and concluded on the following impact below:

Adjustments

During December 2016, a £400 million Class A Puttable, Callable, Resettable ("PCR") bond issued by Thames Water Utilities Cayman Finance Limited ("TWUCF") with a final maturity of 9 April 2058 was exchanged for a new £400 million Class A 2058 bond with the same final maturity. In turn a PCR bond issuance related intercompany loan from TWUCF to TWUL was also exchanged for a new intercompany loan with a final maturity of 9 April 2058. On adoption of IFRS 9, a loss of £26.5 million related to PCR bond exchange has been recognised within the Group's retained earnings and a loss of £26.2 million related to the intercompany loan exchange has been recognised within the Company's retained earnings. Derivative assets and liabilities have continued to be recognised at fair value with movements recognised in the income statement or the cash flow hedge reserve where the instrument has been designated in a hedge relationship.

Transition to new IFRSs (continued)

In summary, the following adjustments were recognised in the consolidated statement of financial position at the date of transition, 1 April 2018:

	IAS 39 Carrying Amount* As previously stated 31 March 2018	Re-measurement	IFRS 9 Carrying Amount* 1 April 2018
	£m	£m	£m
Non-current liabilities			
Borrowings	(17,451.1)	(29.3)	(17,480.4)
Deferred Tax	(898.0)	4.5	(893.5)
Subtotal	**(18,349.1)**	**(24.8)**	**(18,373.9)**
Equity			
Retained earnings	(3,311.3)	(24.8)	(3,336.1)
Subtotal	**(3,311.3)**	**(24.8)**	**(3,336.1)**

* The amounts in this column are before the adjustments from the adoption of IFRS 15 and recognition of the TWMIPS surplus.

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

- IFRS 16 *Leases*, which will be effective on 1 January 2019 (and thus to the Group from 1 April 2019).

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.

Operating lease payments represent rentals payable by the Group for certain office properties, and plant and equipment. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is probable 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.

Management anticipates that the Group will adopt this standard on its effective date and has no plans for early adoption. In considering the transition options available under IFRS 16, it is likely that the Group will adopt the fully retrospective method which has the advantage of having, in the first reporting period, a comparative period prepared on the same basis.

Management has assessed the impact of the implementation of IFRS 16 on the Group. The work performed to date has indicated that there will be a material impact to the statement of financial position primarily due to the Group's property lease portfolio. Initial assessments of the Group's property leases, estimate an additional aggregate lease liability of at least £72 million under the fully retrospective method, will be recognised on transition to the new standard. The Group estimate that the right of use asset recognised on transition to the new standard would be at least £52 million and that profit before tax would decrease by approximately £0.3 million for the period of adoption.

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. A risk that this covenant may be breached in future was initially identified. Management have addressed the risk of covenant breach through amendment to the covenant calculations. Leases that would have been identified as operating leases prior to the new standard will not count towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio.

The actual impact of applying IFRS 16 will depend on the composition of the Group's lease portfolio at the adoption date and the extent to which the Group chooses to use practical expedients and the recognition exemption. Under IFRS 16, the Group will continue to account for short-term (under 12 months) and immaterial leases on the same basis as is required for operating leases under IAS 17. That is, recognising the lease payments as an expense on a straight-line basis over the lease term.

In addition to these, 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.

Changes in Accounting Policy

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

Background

In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme the Group did not have an unconditional right to the surplus based upon their interpretation of the provisions of IFRIC 14. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted of a deficit within the TWPS scheme and a restricted surplus in the TWMIPS scheme.

Following a further review and after obtaining legal advice, the Directors have concluded that a different acceptable interpretation of IFRIC 14 provided a truer, fairer picture of the pension scheme arrangements for our stakeholders. The Directors concluded that the Trust Deed provides the Group 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.

Adjustments

Following the review we have recognised the surplus for the TWMIPS scheme and have restated the comparative periods.

Deferred tax is provided at 35% on the TWMIPS scheme, rather than at the standard rate of 17%, because the higher tax rate would be payable in future if the scheme surplus were to be returned to the employer (the Group).

In summary, the following adjustments were made to the amounts recognised in the Group statement of financial position at the date of initial application, 1 April 2017:

	Carrying Amount* As previously stated 31 March 2017	**Re-measurement**	**Carrying Amount* 1 April 2017**
	£m	**£m**	**£m**
Non-current assets			
Retirement surplus	-	21.7	21.7
Non-current liabilities			
Retirement benefit obligations	(379.8)	15.0	(364.8)
Deferred Tax	(792.4)	(12.9)	(805.3)
Subtotal	**(1,172.2)**	**(23.8)**	**(1,196.0)**
Equity			
Retained earnings	(3,117.5)	23.8	(3,093.7)
Subtotal	**(3,117.5)**	**23.8**	**(3,093.7)**

* The amounts in this column are before the adjustments from the adoption of IFRS 15.

In summary, the following adjustments were made to the amounts recognised in the Group statement of financial position at 31 March 2018:

	Carrying Amount* As previously stated 31 March 2018	**Re-measurement**	**Carrying Amount* 1 April 2018**
	£m	**£m**	**£m**
Non-Current asset			
Retirement benefit surplus	-	50.6	50.6
Non-current liabilities			
Retirement benefit obligations	(300.8)	-	(300.8)
Deferred Tax	(853.7)	(17.7)	(871.4)
Subtotal	**(1,154.5)**	**32.9**	**(1,121.6)**
Equity			
Retained earnings	(3,311.3)	32.9	(3,278.4)
Subtotal	**(3,311.3)**	**32.9**	**(3,278.4)**

* The amounts in this column are before the adjustments from the adoption of IFRS 9 and IFRS 15

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.

Underlying operating profit excluding depreciation and amortisation

This measure consists of the Group's operating profit excluding BTL, depreciation and amortisation, and hence also excludes tax, net finance expenses, net fair value movements on derivatives and the profit on sale of the retail non-household business (which is a one-off item in 2017/18). Management use this metric to analyse the performance of the underlying business, as one-off items and fair value movements, which can be high volatile, have been removed in line with covenant reporting.

Total expenditure ("totex")

Totex encompasses both capital and operational spend, and under AMP6 is a key driver of regulatory performance. Management use this measure to monitor performance against the objective of the Group to achieve the optimum combination of expenditure to deliver the required business plan. Totex differs from IFRS where the distinction between operating and capital expenditure remains, and therefore it is important that expenditure is accounted for correctly.

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 12 and 13 respectively).

Net debt

Net debt is presented in note 19 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the banking covenants. Net debt on a statutory basis consists of borrowings 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.

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.

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 34 for more information on the BTL arrangement.

Significant accounting judgments and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgments, 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. In preparing these financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Annual Report and Financial Statements for the year ended 31 March 2018 with the exception of the items noted below; which have been updated following transition to IFRS 15 'Revenue from Contracts with Customers'.

The following paragraphs detail the judgments, estimates and assumptions management believe to have the most significant impact on the financial statements.

Revenue recognition

Accounting judgment – 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 judgmental. 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 £35.1 million (2018: £28.7 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 2019 was £75.6 million (2018:£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.

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 made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. 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 2019 was £176.6 million (2018: £174.3 million). The actual level of receivables collected may differ from the estimated level of recovery which could have a positive or negative impact on financial statements.

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

The Directors concluded that 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.

Refer to page 55 for more information on this accounting judgment.

Property, plant and equipment and intangible assets

Accounting judgment – 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 judgments. 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 2019 were £1,117.5 million (2018: £1,087.0 million). Intangibles additions for the year ended 31 March 2019 were £71.2 million (2018: £61.8 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 judgment is applied concerning the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgment 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 2019, net of commissioning, were £109.3 million (2018: £100.7 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 2019 was £544.7 million (2018: £520.1 million). 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	49.3	Decrease in total depreciation and amortisation charge
5 year decrease in average remaining useful life	(60.2)	Increase in total depreciation and amortisation charge

Provisions for other liabilities and charges

Accounting judgment – 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, 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 judgment 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 judgment about whether or not a provision should be recognised.

Other provisions, which are detailed in note 21, total £24.6 million as at the year ended 31 March 2019 (2018: £42.0 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 2019 totalled £109.0 million (restated 2018: £133.1 million). There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

Retirement benefit obligations

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.

Accounting estimate – actuarial assumptions

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 2019 was £285.3 million (restated 2018: £243.1 million), which includes a pension deficit of £338.8 million (2018: £300.8 million) for the TWPS scheme, offset by a pension surplus of £45.8 million (restated 2018: £50.6 million) for the TWMIPS scheme and pension surplus of £7.7million (2018: £7.1million) for the SUURBS scheme. Refer to Note 23 on pages 82-87 for more information on the key assumptions and sensitivities of the pension schemes.

Guaranteed Minimum Pensions ("GMP")

There are a number of uncertainties in the calculation of the cost of GMP equalisation raised by the scheme' actuary at Aon. These include:

- The benefit structure of the scheme and operational practices;
- The demographic profile of the scheme;
- The method of GMP equalisation;
- Administrative implications of GMP equalisation; and
- Assumptions and market conditions.

The total estimated cost of GMP equalisation for the two schemes was £9.0 million which was recognised in the income statement in the current year. Aon concluded that the actual cost of GMP equalisation may differ due to the above uncertainties with the range between £4.5 million to £18.0 million. The Group do not consider there to be a material impact of these uncertainties on the financial statements.

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 2019 was a liability of £1,101.1 million (2018: liability of £1,153.3 million).

Impairment of financial assets (including receivables)

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. There is an annual impairment review for intercompany receivables which assesses the ability of the entity to pay them based on their net assets position. Regarding amounts owed by group undertakings the key estimates include future Regulatory Capital Value ("RCV"), RCV premium, future gearing and expected interest settlements.

Impairment of investment in subsidiaries and goodwill

Determining whether the Companys 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 10 and 34 for the net carrying value of goodwill investments and associated impairment provision.

Arrangement with Bazalgette Tunnel Limited ("BTL")

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). Judgment 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

	2019 Underlying £m	2019 BTL £m	2019 Total £m	2018 Underlying £m	2018 BTL £m	2018 Total £m
Regulated water and wastewater services	**2,046.5**	**-**	**2,046.5**	2,004.3	-	2,004.3
Other services	**23.8**	**47.7**	**71.5**	41.9	27.6	69.5
Gross revenue	**2,070.3**	**47.7**	**2,118.0**	2,046.2	27.6	2,073.8
Charge for bad and doubtful debts	**(33.2)**	**(0.2)**	**(33.4)**	(28.0)	(0.7)	(28.7)
Net revenue	**2,037.1**	**47.5**	**2,084.6**	2,018.2	26.9	2,045.1

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:

	2019 £m	2018 £m
Contract assets		
Current		
Accrued revenue for services provided to metered customers	**144.3**	124
Accrued income for other activities[1]	**74.1**	62.6
Total current contract assets	**218.4**	186.6
Contract liabilities		
Non-current		
Deferred revenue from infrastructure charges	**497**	481.2
Deferred revenue from other activities[2]	**139.1**	108.6
Total non-current contract liabilities	**636.1**	589.8
Current		
Advance payments received from unmeasured customers	**75.6**	75.6
Deferred revenue from infrastructure charges	**5.1**	4.9
Deferred revenue from other activities[2]	**33.3**	46.7
Total current contract liabilities	**114.0**	127.2
Total contract liabilities	**750.1**	717.0

[1] Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 34).
[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.

	2019 £m	2018 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Advance payments received from unmetered customers	**75.6**	81.1
Deferred revenue from infrastructure charges	**4.9**	4.5
Deferred revenue from other activities	**48.9**	39.2
Total	**129.4**	124.7

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.

	2019 £m	2018 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Developer services	**8.0**	6.4
Service connections	**12.5**	15.0
Requisitions and diversions	**502.1**	486.1
Infrastructure charges	**3.5**	3.7
High speed 2	**21.1**	28.5
Total	**547.2**	539.7

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.

The Group has applied the practical expedient, given in paragraph 121(b) of IFRS 15, not to disclose this amount in relation to water and wastewater charges. Refer to page 31 in the accounting policies section for more information.

2. Operating expenses

		2019			Restated 2018[1]	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Wages and salaries	**253.4**	**-**	**253.4**	223.3	-	223.3
Social security costs	**28.2**	**-**	**28.2**	23.9	-	23.9
Pension costs – defined benefit schemes[1]	**34.7**	**-**	**34.7**	27.1	-	27.1
Pension costs – defined contribution schemes	**11.0**	**-**	**11.0**	8.1	-	8.1
Severance costs	**0.7**	**-**	**0.7**	0.8	-	0.8
Apprenticeship Levy	**1.2**	**-**	**1.2**	1.0	-	1.0
Total employee costs	**329.2**	**-**	**329.2**	284.2	-	284.2
Power	**124.7**	**-**	**124.7**	108.4	-	108.4
Carbon reduction commitment	**4.5**	**-**	**4.5**	4.8	-	4.8
Raw materials and consumables	**59.3**	**-**	**59.3**	55.3	-	55.3
Charge for bad and doubtful debts[2]	**28.9**	**0.3**	**29.2**	28.4	0.4	28.8
Rates	**117.3**	**-**	**117.3**	115.1	-	115.1
Operating lease rental – hire of plant and machinery	**7.6**	**-**	**7.6**	5.2	-	5.2
Operating lease rental – other	**5.8**	**-**	**5.8**	5.6	-	5.6
Research and development expenditure	**3.9**	**-**	**3.9**	3.5	-	3.5
Insurance	**34.6**	**-**	**34.6**	37.1	-	37.1
Legal and professional fees	**31.0**	**-**	**31.0**	22.1	-	22.1
Other operating costs	**561.5**	**-**	**561.5**	601.1	-	601.1
Own work capitalised	**(189.4)**	**-**	**(189.4)**	(198.2)	-	(198.2)
Net operating expenses before depreciation and amortisation	**1,118.9**	**0.3**	**1,119.2**	1,072.6	0.4	1,073.0
Depreciation of property, plant and equipment	**544.8**	**-**	**544.8**	520.1	-	520.1
Amortisation of intangible assets	**22.0**	**-**	**22.0**	27.6	-	27.6
Net operating expenses	**1,685.7**	**0.3**	**1,686.0**	1,620.3	0.4	1,620.7

2. Operating expenses (continued)

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 change in accounting policy for the TWMIPS pension scheme surplus as discussed on page 51.

[2] Charge for bad and doubtful debts is net of £11.8 million relating to excess payments received from customers in the past and recognised during the year (2018: £6.5 million).

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

	PWC LLP 2019 £'000	KPMG LLP 2018 £'000
Fees payable to the Group's auditor:		
Fees payable for the audit of the Company's financial statements	**23**	15
Fees payable for the audit of the financial statements of subsidiaries pursuant to legislation	**678**	461
Fees payable to the Group's auditor for other services:		
Audit related assurance services	**292**	205
PR19 assurance services	**330**	-
Other assurance services	**728**	-
Net operating expenses	**2,051**	1,051

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 liquidation of the Cayman Island entities, new standards IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' and additional work on pensions following the recognition of the TWMIPS surplus and legislation relating to Guaranteed Minimum Pensions.

Other assurance services include certain agreed upon procedures performed by Pricewaterhouse Coopers LLP (2018: KPMG LLP) in connection with the Group's regulatory reporting requirements to Ofwat.

No fees, other than those disclosed, were payable to Pricewaterhouse Coopers LLP (2018: KPMG 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:

	2019 Number	2018 Number
Employed by Thames Water Utilities Limited:		
Operations	**3,489**	3,119
Customer experience	**1,135**	1,003
Support services	**1,101**	1,043
Digital, strategy and transformation	**189**	132
Delivery office	**149**	124
	6,063	5,421
Employed by other group companies:		
Property services	**5**	5
Total	**6,068**	5,426

The Company has no employees (2018: none).

3. Employees and Directors (continued)

Directors

The Directors' emoluments were as follows:

	2019 £'000	2018 £'000
Salary	**463**	833

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.

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 £325,000 (2018: £325,000).

4. Other operating income

	2019 £m	Restated 2018[1] £m
Power income	**13.2**	10.1
Requisitions and diversions charges	**31.5**	24.9
Service connection charges	**21.1**	23.4
Amortisation of deferred income recognised on adoption of assets at nil cost	**4.0**	2.4
Release from deferred income – infrastructure charges	**4.9**	4.5
(Loss) / gain on sale of PPE	**(7.0)**	11.4
Rental income	**2.7**	4.3
Other income	**23.0**	11.2
Total	**93.4**	92.2

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

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50 as well as other restatements which are discussed on pages 43 to 45.

5. Profit on sale of non-retail household business

From 1 April 2017 the Water Act 2014 allowed all non-household customers to choose their supplier of water and wastewater retail services. On 1 April 2017 we disposed of our economic interest in the retail non-household business and transferred our non-household customers to Castle Water Limited, which resulted in the recognition of a profit on sale of the business. The profit on sale of the business of £89.7 million was been recognised within the income statement, and consists of the amounts below:

	2019 £m	2018 £m
Proceeds	-	98.8
Legal fees	-	(1.3)
Asset impairment	-	(6.2)
Transfer/handover costs	-	(1.6)
Profit on sale of non-household business	-	89.7

6. Finance income

	2019 £m	Restated 2018[1] £m
Interest income on bank deposits	**1.5**	0.7
Interest income on swaps	**8.9**	9.2
Other finance income on swaps	**7.5**	-
External trading interest income	**0.9**	0.5
Total	**18.8**	10.4

6. Finance income (continued)

[1] The prior year results of finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018. Refer to page 41 for more information on the presentation of interest on derivatives.

7. Finance expense

	2019 £m	Restated 2018[1] £m
Interest in relation to bank and other loans:		
Interest expense	**(458.2)**	(435.6)
RPI accretion on loans	**(110.1)**	(148.6)
Interest in relation to intercompany borrowings:		
Interest expense	**(561.0)**	(510.0)
Net interest expense on defined benefit obligation	**(6.4)**	(8.8)
Fees		
Fees incurred in relation to liquidation of the Cayman Islands entities[2]	**(5.9)**	-
Gross finance expense	**(1,141.6)**	**(1,103.0)**
Amortisation	**11.6**	11.6
Capitalised borrowing costs	**109.3**	100.7
Total finance expense	**(1,020.7)**	**(990.7)**

[1] The prior year results of finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018. Refer to page 41 for more information on the presentation of interest on derivatives.

[2] Finance expense for 31 March 2019 includes £5.9 million of fees incurred for the liquidation of the Cayman Island entities (2018: £nil).

8. Net (losses) / gains on financial instruments

	2019 £m	2018 £m
Exchange (losses) / gains on foreign currency loans	**(68.0)**	**72.6**
Gains arising on swaps where hedge accounting is not applied	**64.5**	**52.7**
Loss on cash flow hedge transferred from equity	**(34.2)**	**(84.3)**
Total	**(37.7)**	**41.0**

9. Taxation

Tax (credit)/charge in the income statement

		2019			Restated 2018[1]	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Current tax:						
Current year amounts due in respect of group relief	(111.5)	2.8	(108.7)	(98.7)	1.6	(97.1)
Adjustment in respect of prior periods	(2.2)	-	(2.2)	(1.1)	-	(1.1)
	(113.7)	2.8	(110.9)	(99.8)	1.6	(98.2)
Deferred tax[1]:						
Origination and reversal of timing differences	4.4	-	4.4	29.0	-	29.0
Adjustment in respect of prior periods	10.5	-	10.5	1.0	-	1.0
	14.9	-	14.9	30.0	-	30.0
Tax (credit)/charge on (loss)/profit on ordinary activities	(98.8)	2.8	(96.0)	(69.8)	1.6	(68.2)

9. Taxation (continued)

The total tax for the year ended 31 March 2019 is lower (2018: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019				Restated 2018[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[1]	**(594.8)**	**47.2**	**(547.6))**		(359.5)	26.5	(333.0)	
Current tax at 19% (2018: 19%)[1]	**(113.0)**	**9.0**	**(104.0)**	**19.0%**	(68.3)	5.0	(63.3)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.2**	**-**	**4.2**		4.4	-	4.4	
Disallowable expenditure [2]	**2.4**	**-**	**2.4**		1.0	-	1.0	
Non-taxable income [3]	**(5.4)**	**-**	**(5.4)**		(4.9)	-	(4.9)	
Property disposals [4]	**-**	**-**	**-**		(2.2)	-	(2.2)	
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]	**6.2**	**(6.2)**	**-**		3.4	(3.4)	-	
Tax as adjusted for recurring items	**(105.7)**	**2.8**	**(102.9)**	**18.8%**	(66.5)	1.6	(64.9)	19.5%
Non-recurring items:								
Tax rate change on temporary timing differences[6]	**(1.4)**	**-**	**(1.4)**		(3.2)	-	(3.2)	
Adjustments to tax charge in respect of prior periods – group relief [7]	**(2.2)**	**-**	**(2.2)**		(1.1)	-	(1.1)	
Adjustments to tax charge in respect of prior periods – deferred tax [8]	**10.5**	**-**	**10.5**		1.0	-	1.0	
Total tax (credit)/charge	**(98.8)**	**2.8**	**(96.0)**	**17.5%**	(69.8)	1.6	(68.2)	20.5%

[1] The impact of the transition to new accounting standards IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 46 to 50. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

[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 chargeable on gains 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 2019. TWUL will pay £3.8 million to its parent Company for the tax losses, of which £2.8 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 from to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the group's future current tax charge accordingly. The net deferred tax liability at 31 March 2019 has been calculated based on these rates, except on the pension surplus which is provided at 35% (see Note 23). Opening deferred tax balances at 31 March 2018 were also calculated at 17% and 35%. The effect of temporary differences in the year in current tax calculated at 19% and deferred tax calculated at 17% and 35% produces a £1.4 million increase in the total tax credit for the year (2018: increase of £3.2 million).

[7] The prior year current tax credit of £2.2 million is in respect of group relief receivable from the Company's immediate parent company.

[8] The prior year deferred tax charge of £10.5 million is an adjustment to the deferred tax liability in respect of the cost of fixed assets covered by contributions.

The effective tax rate, as adjusted for recurring tax items, of 18.8% is slightly lower than the standard rate of corporation tax for the year of 19.0%.

9. Taxation (continued)

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.

	Underlying	**2019 BTL**	**Total**	Underlying	Restated 2018[1] BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
(Loss)/profit on ordinary activities before taxation[1]	**(594.8)**	**47.2**	**(547.6)**	(359.5)	26.5	(333.0)
Tax at 19% (2018: 19%)	**(113.0)**	**9.0**	**(104.0)**	(63.3)	5.0	(68.3)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.2**	**-**	**4.2**	4.4	-	4.4
Disallowable expenditure	**2.4**	**-**	**2.4**	1.0	-	1.0
Non-taxable income	**(5.4)**	**-**	**(5.4)**	(4.9)	-	(4.9)
Property disposals	**-**	**-**	**-**	(2.2)	-	(2.2)
Tax differential on profits and losses of overseas subsidiaries	**(0.1)**	**-**	**(0.1)**	0.1	-	0.1
Capital allowances for the year less than/(in excess of) depreciation	**45.2**	**-**	**45.2**	9.1	-	9.1
Capitalised borrowing costs allowable for tax [9]	**(20.8)**	**-**	**(20.8)**	(19.1)	-	(19.1)
Tax deduction available on restatement for IFRS 15	**(25.1)**		**(25.1)**	-	-	-
Losses/(profits) on financial derivatives [10]	**(3.6)**	**-**	**(3.6)**	(21.9)	-	(21.9)
Pension cost charge higher than (lower than) pension contributions	**3.7**	**-**	**3.7**	(1.0)	-	(1.0)
Other short term timing differences	**(5.2)**	**-**	**(5.2)**	(0.7)	-	(0.7)
Group relief not paid at standard rate	**6.2**	**(6.2)**	**-**	3.4	(3.4)	-
Adjustments in respect of prior periods	**(2.2)**	**-**	**(2.2)**	(1.1)	-	(1.1)
Current tax (credit)/charge for the year	**(113.7)**	**2.8**	**(110.9)**	(99.9)	1.6	(98.3)

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

[10] 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 2019 the total value of provisions for uncertain corporation tax positions was £nil (restated 2018: £nil).

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

	2019	Restated 2018[1]
	£m	£m
Deferred tax:		
Tax credit/(charge) on actuarial loss/(gain)	**4.3**	(17.1)[1]
Tax (charge)/credit on cash flow hedges	**(4.3)**	(17.1)
Total	**-**	(34.2)

[1] The prior year results have been restated due to the impact of the change in accounting policy for the TWMIPS pension scheme surplus as discussed on pages 51.

10. Goodwill

The Directors have reviewed the carrying value of goodwill in line with the accounting policy on page 35 and do not consider there to be any impairment to this carrying value for the year ended 31 March 2019 (2018: £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 publically listed water utilities is being traded.

The critical assumption is thus the multiple of RCV used. As at 31 March 2019, for the carrying amount of goodwill to exceed the recoverable amount, a reduction of 14.8% (2018: 15%) to the multiplier used would be required.

11. 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 2019 of £1.2 million (2018: £0.4m) and has net liabilities of £11.6 million (2018: £10.4m). 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 2019 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 associates (2018: £nil). The Group had no capital commitments in relation to its interests in associates as at 31 March 2019 (2018: £nil).

12. Intangible assets

	Software £m	Other £m	Assets in development £m	**Total £m**
Cost:				
At 1 April 2017	189.6	1.3	78.9	**269.8**
Additions	-	-	61.8	**61.8**
Transfers	24.8	-	(24.8)	**-**
Write-off of costs from assets in development	-	-	(6.2)	**(6.2)**
At 31 March 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**
Amortisation:				
At 1 April 2017	(128.0)	(0.8)	-	**(128.8)**
Amortisation charge	(27.5)	(0.1)	-	**(27.6)**
At 31 March 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)**
Net book value:				
At 31 March 2019	63.5	0.3	154.4	**218.2**
At 31 March 2018	58.9	0.4	109.7	**169.0**

Other intangible assets include concessions, licences and similar rights and assets.
The write-off of costs in the prior year relate to software under development that is no longer required as a result of the transfer of non-household customers to Castle Water in 2017/18. Additions related to IT projects undertaken include the implementation of new customer relationship management and billing ("CRMB") system and a new meter data management system. £6.6 million borrowing costs were capitalised during the year (2018: £4.3 million). The effective rate of borrowing costs for the year was 4.91% (2018: 5.58%). The gross carrying amount of intangible assets that was fully depreciated at 31 March 2019 amounted to £127.4 million (31 March 2018: £112.8 million).

13. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	**Total £m**
Cost:					
At 1 April 2017	3,664.3	7,339.7	6,747.0	2,089.4	**19,840.4**
Additions	1.1	-	13.2	1,072.7	**1,087.0**
Transfers between categories	18.7	382.4	323.4	(724.5)	**-**
Disposals	(2.6)	(13.1)	(1.8)	-	**(17.5)**
At 31 March 2018	3,681.5	7,709.0	7,081.8	2,437.6	**20,909.9**
Additions	-	0.5	18.8	1,098.2	**1,117.5**
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	7,333.7	2,627.8	**22,003.3**
Depreciation:					
At 1 April 2017	(959.5)	(3,890.6)	(364.8)	-	**(5,214.9)**
Depreciation charge	(59.3)	(332.7)	(128.1)	-	**(520.1)**
Disposals	0.3	8.9	-	-	**9.2**
At 31 March 2018	(1,018.5)	(4,214.4)	(492.9)	-	**(5,725.8)**
Depreciation charge	(60.3)	(350.2)	(134.2)	-	**(544.7)**
Disposals	0.7	13.8	-	-	**14.5**
At 31 March 2019	(1,078.1)	(4,550.8)	(627.1)	-	**(6,256.0)**
Net book value:					
At 31 March 2019	2,772.6	3,640.3	6,706.6	2,627.8	**15,747.3**
At 31 March 2018	2,663.0	3,494.6	6,588.9	2,437.6	**15,184.1**

£102.7 million borrowing costs, net of commissioning, were capitalised during the year (2018: £96.4 million). The effective rate of borrowing costs for the year was 4.91% (2018: 5.58%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2019 amounted to £2,359.6m (31 March 2018: £2,191.8m).

14. Inventories and current intangible assets

	2019 £m	2018 £m
Raw materials and consumables	**9.1**	11.5
Current intangible assets – emissions allowances	**4.4**	6.6
Total	**13.5**	18.1

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.

15. Trade and other receivables

	2019			Restated 2018[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments and accrued income	**-**	**101.9**	**101.9**	-	56.7	56.7
Insurance claims receivable[2]	**30.8**	**-**	**30.8**	32.7	-	32.7
Other receivables	**13.4**	**-**	**13.4**	3.0	-	3.0
	44.2	**101.9**	**146.1**	35.7	56.7	92.4
Current:						
Gross trade receivables	**454.9**	**9.5**	**464.4**	462.5	6.4	468.9
Less doubtful debt provision	**(174.4)**	**(2.2)**	**(176.6)**	(172.6)	(1.7)	(174.3)
Net trade receivables	**280.5**	**7.3**	**287.8**	289.9	4.7	294.6
Amounts owed by associated undertakings	**0.5**	**-**	**0.5**	2.8	-	2.8
Amounts receivable in respect of group relief	**455.7**	**(4.4)**	**451.3**	342.0	(1.6)	340.4
Prepayments and accrued income[1]	**33.3**	**-**	**33.3**	27.5	-	27.5
Other receivables	**32.6**	**1.2**	**33.8**	44.0	0.3	44.3
	802.6	**4.1**	**806.7**	706.2	3.4	709.6
Current:						
Contract assets[1]	**217.5**	**0.9**	**218.4**	186.2	0.4	186.6
Total	**1,064.3**	**106.9**	**1,171.2**	928.1	60.5	988.6

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50.

[2] The prior year results have been restated following the reclassification of the insurance claims receivable from current to non-current, to be classified consistently with the non-current insurance provision. The receivable has been recognised as it is virtually certain that the amount will be paid to the Group.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 31 March 2019 includes £101.9 million (2018: £56.7 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Contract assets at 31 March 2019 includes £144.3 million (restated 2018: £124.0 million) of water and wastewater income not billed. The remaining amount is for accrued capital contributions.

Expected credit loss provision

Movements in the doubtful debts provision were as follows:

	2019 £m	2018 £m
At 1 April 2018	**(174.3)**	(176.4)
Charge for bad and doubtful debts – charged against revenue	**(33.4)**	(28.7)
Charge for bad and doubtful debts – included within operating expenses	**(29.2)**	(28.8)
Excess credits recognised during the year	**(11.8)**	(4.6)
Amounts directly charged to revenue and not included in bad debt expense	**(3.9)**	(2.3)
Amounts written off	**76.0**	66.5
Total at 31 March 2019	**(176.6)**	(174.3)

The ageing of receivables which are past due but not impaired cannot be performed. Ageing of gross receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	**227.8**	281.8
1 – 2 years	**141.3**	83.5
2 – 3 years	**40.9**	47.4
More than 3 years	**54.3**	56.2
Total	**464.3**	468.9

15. Trade and other receivables (continued)

Doubtful debts provision

The ageing of gross BTL receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	4.7	4.9
1 – 2 years	4.8	1.5
Total	9.5	6.4

A collective provision is recorded against assets which are past due but for which no individual provision is made. This is calculated based on historical experience of levels of recovery. Ageing of impaired receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	66.2	66.2
1 – 2 years	40.6	40.9
2 – 3 years	34.9	23.9
More than 3 years	34.9	43.3
Total	176.6	174.3

The ageing of impaired BTL receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	0.8	0.7
1 – 2 years	1.4	1.0
Total	2.2	1.7

Trade and other receivables are part of the Group's financial exposure to credit risk as explained on page 12.

16. Cash and cash equivalents

	2019 Underlying £m	2019 BTL £m	2019 Total £m	2018 Underlying £m	2018 BTL £m	2018 Total £m
Cash at bank and in hand	2.0	0.3	2.9	17.3	0.1	17.4
Short-term deposits	511.7	7.3	518.5	136.5	2.5	139.0
Total	513.8	7.6	521.4	153.8	2.6	156.4

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.

17. Trade and other payables

	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated 2018[1] Underlying £m	Restated 2018[1] BTL £m	Restated 2018[1] Total £m
Non-current:						
Contract liabilities[1]	**636.1**	**-**	**636.1**	589.8	-	589.8
Current:						
Trade payables - operating	**255.8**	**-**	**255.8**	189.9	-	189.9
Amounts owed (from) / to group undertakings	**0.4**	**-**	**0.4**	1.8	-	1.8
Amounts owed to Bazalgette Tunnel Limited	**-**	**11.1**	**11.1**	-	3.5	3.5
Accruals[1]	**330.0**	**-**	**330.0**	336.4	-	336.4
Other taxation and social security	**7.5**	**-**	**7.5**	6.5	-	6.5
Other payables	**85.8**	**-**	**85.8**	78.6	-	78.6
	679.5	**11.1**	**690.6**	613.2	3.5	616.7
Current:						
Contract liabilities[1]	**110.6**	**3.4**	**114.0**	123.1	4.1	127.2
Total	**1,426.2**	**14.5**	**1,440.7**	1,326.1	7.6	1,333.7

Current contract liabilities at 31 March 2019 includes £75.6 million (2018: £75.6 million) of receipts in advance from customers for water and wastewater charges and £5.8 million (restated 2018: £23.6 million) of deferred income. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2019 includes £497.0 million (restated 2018: £481.2 million) of deferred infrastructure charges, £121.4 million of deferred income for nil cost "adopted" assets (2018: £89.1 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 prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50.

18. Borrowings

	2019 £m	2018 £m
Secured bank loans and private placements	**3,973.8**	3,095.4
Bonds	**8,970.8**	8,867.7
Amounts owed to group undertakings	**3,100.6**	3,100.6
	16,045.2	15,063.7
Interest payable on secured bank loans and other financing	**186.1**	180.5
Interest payable on amounts owed to group undertakings	**3,069.9**	2,509.0
	3,256.0	2,689.5
Total	**19,301.2**	17,753.2
Disclosed within current liabilities	**1,550.8**	302.1
Disclosed within non-current liabilities	**17,750.4**	17,451.1

18. Borrowings (continued)

Breakdown of secured bank loans and private placements:

	2019 £m	2018 £m
Thames Water Utilities Limited:		
£60.0m 1.230% index linked loan due 2019 (i)	**78.8**	76.8
£60.0m 1.415% index linked loan due 2020 (i)	**78.5**	76.6
£60.0m 1.513% index linked loan due 2020 (i)	**78.1**	76.2
£60.0m 1.380% index linked loan due 2020 (i)	**77.9**	76.0
£60.0m 1.356% index linked loan due 2020 (i)	**77.9**	76.0
£100.0m floating rate loan due 2020 (a), (c)	**99.9**	99.9
£75.0m 1.350% index linked loan due 2021 (e), (i)	**89.2**	87.0
£215.0m 0.460% index linked loan due 2023 (a), (i)	**248.1**	241.9
£215.0m 0.380% index linked loan due 2032 (a), (b), (i)	**218.9**	228.4
£100.0m 3.280% index linked loan due 2043 (a), (d), (i)	**129.6**	126.4
£100.0m 0.790% index linked loan due 2025 (a), (e), (i)	**109.9**	107.2
£125.0m 0.598% index linked loan due 2026 (a), (e), (i)	**136.7**	133.3
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	**70.0**	69.7
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	**50.0**	49.8
£20.0m Class B floating rate loan due 2026 (a)	**20.0**	19.9
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.4**	38.8
$55.0m 3.380% private placement due 2023 (a), (f)	**42.3**	39.2
$285.0m 3.570% private placement due 2025 (a), (f)	**218.9**	202.8
£216.0m 2.450% private placement due 2028 (a)	**215.4**	215.3
£210m 2.550% private placement due 2030 (a)	**209.3**	209.2
£40m 2.620% private placement due 2033 (a)	**39.8**	39.8
£150.0m floating rate loan due 2024 (a)	**149.5**	-
Thames Water Utilities Limited total	**2,477.1**	2,290.2
Thames Water Utilities Finance plc		
£245.0m 1.031% floating rate loan due 2019 (g)	**245.0**	-
£214.3m 1.397% Class B floating rate loan due 2019 (g)	**214.3**	-
$150.0m 3.870% private placement due 2022 (f)	**115.5**	-
$200.0m 4.020% private placement 2024 (f)	**153.9**	-
$250.0m 4.220% private placement due 2027 (f)	**192.4**	-
Thames Water Utilities Finance plc total	**921.1**	-
Thames Water Utilities Cayman Finance Limited (h)		
$150.0m 4.690% Class B private placement due 2019	-	106.7
$150.0m 3.870% private placement due 2022	-	106.9
$200.0m 4.020% private placement 2024	-	142.6
$250.0m 4.220% private placement due 2027	-	178.3
Thames Water Utilities Cayman Finance Limited	-	534.5
Kemble Water Finance Limited:		
£75.0m floating rate loan due 2022 (a)	**74.0**	73.7
£200.0m floating rate loan due 2025 (a)	**197.6**	197.0
£4.5m fixed rate due 2025 (a)	**4.4**	-
£5.5m fixed rate due 2025 (a)	**5.4**	-
£100.0m fixed rate due 2025 (a)	**98.1**	-
£200.0m fixed rate due 2025 (a)	**196.1**	-
Kemble Water Finance Limited total	**575.6**	270.7
Total secured bank loans and private placements	**3,973.8**	3,095.4

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 two 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 2019 £245.0 million was drawn out of £1.4 billion class a revolving credit facility and £214.3 million was drawn out of class B revolving credit facility. Both amounts were repaid in April 2019.
(h) On 31 August 2018, the debt instruments previously held by TWUCF were transferred to TWUF.
(i) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

18. Borrowings (continued)

Breakdown of bonds:

	2019 £m	2018 £m
Thames Water Utilities Cayman Finance Limited (l)		
£550m 5.375% Class B fixed rate bond due 2025	-	-
£300m 5.750% Class B Fixed rate bond due 2030	-	297.8
£300m 4.375% Fixed rate bond due 2034	-	295.5
€113m 2.300% CPI IL bond due 2022	-	104.6
20bn Yen 3.280% Fixed rate bond due 2038	-	134.2
£50m 3.853% Index linked bond due 2040	-	63.3
£500m 5.500% Fixed rate bond due 2041	-	489.6
£50m 1.980% Index linked bond due 2042	-	67.1
£55m 2.091% Index linked bond due 2042	-	71.0
£40m 1.974% Index linked bond due 2045	-	46.3
£300m 4.625% Fixed rate bond due 2046	-	293.1
£100m 1.846% Index linked bond due 2047	-	134.2
£200m 1.819% Index linked bond due 2049	-	267.9
£200m 1.771% Index linked bond due 2057	-	267.9
£350m 1.760% Index linked bond due 2062	-	468.8
£500m 4.000% Fixed rate bond due 2025	-	495.3
£40m 0.750% index linked bond due 2034	-	42.4
£45m 0.721% index linked bond due 2027	-	47.7
£300m 3.500% fixed rate bond due 2028	-	296.3
£400m 7.738% fixed rate bond due 2058	-	394.1
£250m 1.875% fixed rate bond due 2024	-	247.8
£250m 2.625% fixed rate bond due 2032	-	247.2
£42m floating rate loan due 2017	-	-
£300m 2.375% class B Fixed rate bond due 2023	-	298.5
£250m 2.875% class B Fixed rate bond due 2027	-	246.6
CAD 250m 2.875% fixed rate bond due 2024	-	136.3
Fees	-	(9.7)
Thames Water Utilities Cayman Finance Limited total	-	5,443.8
Thames Water Utilities Finance plc		
£200.0m 5.050% fixed rate due 2020 (c), (g)	**201.0**	201.7
£225.0m 6.590% fixed rate due 2021 (k)	**237.1**	240.5
£175.0m 3.375% index linked due 2021 (b)	**282.4**	273.5
£330.0m 6.750% fixed rate due 2028 (b), (h)	**385.5**	389.0
£200.0m 6.500% fixed rate due 2032 (b), (c), (i)	**244.4**	246.4
£600.0m 5.125% fixed rate due 2037 (b), (c), (j)	**655.2**	656.8
£300.0m 1.680% index linked due 2053 (b), (d)	**435.3**	421.7
£300.0m 1.681% index linked due 2055 (b), (d)	**435.3**	421.6
€113.0m 2.300% CPI index linked bond due 2022 (a), (c)	**104.1**	-
£300.0m 5.750% class B Fixed rate bond due 2030 (b), (e)	**298.1**	-
£300.0m 4.375% fixed rate bond due 2034 (b)	**295.6**	-
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	**139.0**	-
£50.0m 3.853% index linked bond due 2040 (d)	**64.9**	-
£500.0m 5.500% fixed rate bond due 2041 (b)	**489.8**	-
£50.0m 1.980% index linked bond due 2042 (d)	**68.9**	-
£55.0m 2.091% index linked bond due 2042 (b), (d)	**72.8**	-
£40.0m 1.974% index linked bond due 2045 (b), (d)	**46.3**	-
£300.0m 4.625% fixed rate bond due 2046 (b)	**293.3**	-
£100.0m 1.846% index linked bond due 2047 (d)	**137.8**	-
£200.0m 1.819% index linked bond due 2049 (b), (d)	**275.2**	-
£200.0m 1.771% index linked bond due 2057 (b), (d)	**275.2**	-
£350.0m 1.760% index linked due 2062 (b), (d)	**481.5**	-
£500.0m 4.000% fixed rate due 2025 (b)	**495.9**	-
£40.0m 0.750% index linked loan due 2034 (b), (d)	**43.5**	-
£45.0m 0.721% index linked loan due 2027 (b), (d)	**48.9**	-

18. Borrowings (continued)

Thames Water Utilities Finance plc	2019 £m	2018 £m
£300.0m 3.500% fixed rate loan due 2028 ((b)	**296.6**	-
£400.0m 7.738% fixed rate bond due 2058 (b)	**419.9**	-
£250.0m 1.875% fixed rate bond due 2024 (b)	**248.1**	-
£250.0m 2.625% fixed rate bond due 2032 (b)	**247.4**	-
£300.0m 2.375% class B Fixed rate bond due 2023 (b)	**298.8**	-
£250.0m 2.875% class B Fixed rate bond due 2027 (b)	**246.9**	-
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**142.3**	-
Fees (f)	**(9.5)**	-
Thames Water Utilities Finance Limited total	**8,397.5**	2,851.2
Thames Water (Kemble) Finance plc		
£400m 7.75% fixed rate bond due 2019 (b)	**399.3**	399.0
£175m 5.75% fixed rate bond due 2022 (b)	**174.0**	173.7
Thames Water (Kemble) Finance plc total	**573.3**	572.7
Total bonds	**8,970.8**	8,867.7

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 £1.0 million (2018: £1.7 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
(h) This bond includes £58.0 million (2018: £61.6 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
(i) This bond includes £46.6 million (2018: £48.7 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
(j) This bond includes £58.7 million (2018: £60.4 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
(k) This bond includes £12.1 million (2018: £15.5 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
(l) On 31 August, the debt instruments previously held by TWUCF were transferred to TWUF.

The total carrying value of the fair value adjustment to the debt on acquisition of the Thames Water Group by Kemble is £178.1 million (2018: £189.7 million). Capitalised debt issuance costs in relation to the debt portfolio are £86.0 million (2018: £86.2 million).

Breakdown of amounts owed to group undertakings:

Kemble Water Eurobond PLC	2019 £m	2018 £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**

19. Financial instruments

Categories of financial instruments

The carrying values of the primary financial assets and liabilities are as follows:	2019 £m	2018 £m
Financial assets:		
Fair value through profit and loss		
Cross currency swaps	**73.1**	13.2
Index-linked swaps	**78.5**	71.7
Interest rate swaps	**10.7**	-
	162.3	84.9
Amortised cost		
Trade and other receivables (excluding prepayments)	**804.2**	717.8
Short term investments	**-**	-
Cash and cash equivalents	**521.4**	156.4
Total	**1,487.9**	**959.1**

19. Financial instruments (continued)

	2019 £m	2018 £m
Financial liabilities:		
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	**(60.0)**	(69.6)
Interest rate swaps – not hedge accounted	**(180.7)**	(176.2)
Index-linked swaps – not hedge accounted	**(995.5)**	(947.1)
Derivatives designated as hedging instruments		
Forward starting interest rate swaps – cash flow hedges	**(26.2)**	(45.3)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(597.3)**	(531.6)
Borrowings	**(19,301.2)**	(17,753.2)
Total	**(21,160.9)**	(19,523.0)

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 Group's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair 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 derivatives instruments as Level 2. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March:

	Level 2[1]	
	2019 £m	2018 £m
Financial assets - derivative financial instruments:		
Cross currency swaps	**73.1**	**13.2**
Index-linked swaps	**78.5**	**71.7**
Interest rate swaps	**10.7**	**-**
	162.3	**84.9**
Financial liabilities - derivative financial instruments:		
Cross currency swaps	**(60.0)**	**(69.6)**
Interest rate swaps	**(180.7)**	**(176.2)**
Index-linked swaps	**(995.5)**	**(947.1)**
Forward starting interest rate swaps	**(26.2)**	**(45.3)**
	(1,262.4)	**(1,238.2)**
Net total	**(1,100.1)**	**(1,153.3)**

[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.

In mid-2014 the Company executed £2.25 billion of forward-starting fixed to floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. £300.0 million of these swaps commenced during the year (2018: £800.0 million). On commencement these swap were reclassified from forward starting interest rate swaps to interest rate swaps. The fair value movements till commencement were recognised on cash flow hedge reserve. Subsequent to commencement the fair value movement on these swaps has been recognised as changes in fair value through the income statement and the cash flow hedge has been discontinued prospectively. During the year a £8.9 million loss (2018: gain of £16.3 million) was recognised on cash flow hedge reserve and £34.2 million (2018: £84.3 million) was recycled from cash flow hedge reserve to income statement, see Statement of changes in equity. The loss of £34.2 million consisted of £27.4 million loss related to hedged exposure that crystallised during the year and a £6.8 million loss due to hedge accounting discontinuation.

19. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Group's trade and other receivables 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:

	2019		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Derivative financial instruments				
Cross currency swaps	73.1	73.1	4.7	4.7
Index-linked swaps	78.5	78.5	71.7	71.7
Interest rate swaps	10.7	10.7	-	-
	162.3	162.3	76.4	76.4
Current				
Short term investments	-	-	-	-
Cash and cash equivalents	521.4	521.4	156.4	156.4
Derivative financial instruments	-	-	-	-
Cross currency swaps	-	-	8.5	8.5
Total	683.7	683.7	241.3	241.3
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	(3,009.4)	(3,291.1)	(2,974.8)	(3,203.3)
Bonds	(8,570.5)	(10,738.4)	(8,866.7)	(11,150.0)
Amounts owed to group undertakings	(3,100.6)	(3,100.6)	(3,100.6)	(3,100.6)
Interest payable	(3,069.9)	(3,069.9)	(2,509.0)	(2,509.0)
Derivative financial instruments:				
Cross currency swaps	(60.0)	(60.0)	(69.6)	(69.6)
Interest rate swaps	(180.7)	(180.7)	(176.2)	(176.2)
Index-linked swaps	(956.9)	(956.9)	(934.8)	(934.8)
Forward starting interest rate swaps	(26.2)	(26.2)	(45.3)	(45.3)
Current				
Borrowings:				
Secured bank loans and private placements	(964.4)	(977.7)	(120.6)	(122.1)
Bonds	(400.3)	(400.3)	(1.0)	(1.0)
Interest payable	(186.1)	(186.1)	(180.5)	(180.5)
Derivative financial instruments:	-	-		
Index-linked swaps	(38.6)	(38.6)	(12.3)	(12.3)
Interest rate swaps	-	-	-	-
Total	(20,563.6)	(23,026.5)	(18,991.4)	(21,504.7)

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.

19. Financial instruments (continued)

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively 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 TWUF 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:

- An interest cover ratio
- A gearing ratio.
- 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

The Securitisation Group complied with these ratios throughout the financial year.

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

	2019 £m	2018 £m
Cash and cash equivalents	**521.4**	156.4
Secured bank loans, private placements and other financing	**(12,944.6)**	(11,963.1)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and other financing	**(186.1)**	(180.5)
Interest payable on amounts owed to group undertakings	**(3,069.9)**	(2,509.0)
Net debt (statutory basis)	**(18,779.8)**	(17,596.8)
Amounts owed to group undertakings	**3,100.6**	3,100.6
Interest payable on secured bank loans, private placements and other financing	**186.1**	180.5
Interest payable on amounts owed to group undertakings	**3,069.9**	2,509.0
Unamortised debt issuance costs and discount	**(86.0)**	(86.2)
Derivative financial liabilities	**(222.0)**	(237.8)
Fair value adjustment on acquisition to loans	**178.1**	189.7
IFRS9 transition adjustment	**25.8**	-
Cash held by non-covenant entities	**(26.6)**	(33.9)
Net debt (covenant basis)	**(12,553.9)**	(11,974.9)

Net debt (covenant basis) excludes parent company loans, accrued interest, unamortised debt issuance costs and discounts, fair value adjustment made to the Thames Water Group's borrowing on acquisition by the Kemble Water consortium, cash held by non-covenant entities 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.

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

	2019 £m	2018 £m
Securitised Class A debt	**(10,646.1)**	(10,121.8)
Securitised Class B debt	**(1,243.3)**	(1,125.6)
Subordinated debt	**(1,159.3)**	(850.0)
Cash net of cash held by non-covenant entities	**494.8**	122.5
Net debt (covenant basis)	**(12,553.9)**	(11,974.9)
Equity	**(4,000.9)**	(3,526.4)

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.

	2019		2018	
	Borrowings £m	**Derivative financial liabilities £m**	Borrowings £m	Derivative financial liabilities £m
Opening balance	**(17,753.2)**	**(1,238.2)**	(16,716.0)	(1,421.8)
Non-Current	**(17,451.1)**	**(1,225.9)**	(11,252.0)	(1,398.0)
Current	**(302.1)**	**(12.3)**	(5,464.0)	(23.8)
Cash flows				
New loans raised	**(1,452.7)**	**-**	(2,238.3)	-
Repayment of borrowings	**670.2**	**-**	1,799.8	-
Derivative settlement	**-**	**(2.8)**	-	28.4
Interest paid[1]	**436.8**		405.2	
Interest received	**-**	**(8.5)**	-	(8.5)
	(345.7)	**(11.3)**	(33.3)	19.9
Non-cash changes				
Net interest (charge)/income and fees amortisation	**(1,010.0)**	**8.9**	(940.5)	9.2
Foreign exchange movement	**(68.0)**	**-**	72.6	-
Accretion	**(110.1)**	**-**	(148.6)	-
IFRS9 adjustment	**(25.8)**	**-**	-	-
Fair value changes	**-**	**(21.8)**	-	154.5
Fair value amortisation	**11.6**	**-**	11.6	-
Other	**-**	**-**	1.0	-
	(1,202.3)	**(12.9)**	(1,003.9)	163.7
Closing balance	**(19,301.2)**	**(1,262.4)**	(17,753.2)	(1,238.2)
Non-Current	**(17,750.4)**	**(1,223.8)**	(17,451.1)	(1,225.9)
Current	**(1,550.8)**	**(38.6)**	(302.1)	(12.3)

[1] Interest paid of £436.8 million (2018: £405.2 million) includes £109.3 million of capitalised borrowing costs (2018: £100.7 million) and excludes £0.5 million of bank charges (2018: £0.3 million).

Financial risk management

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. 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 12. 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:

(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 excluding £250.0 million (2018: £550.0 million) forward starting swaps which will commence after year end.

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**

As at 31 March 2018:	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	**9,352.8**	**364.1**	**5,394.9**	**15,111.8**
Total	**9,352.8**	**364.1**	**5,394.9**	**15,111.8**

19. Financial instruments (continued)

Financial risk management (continued)

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 excluding £250.0 million (2018: £550.0 million) forward starting swaps which will commence after year end:

	Weighted average interest rate		Weighted average period until maturity	
	2019	2018	**2019**	2018
	%	%	**Years**	Years
Fixed	**6.7**	6.7	**13.0**	14.1
Index-Linked	**4.4**	5.7	**20.9**	21.9

(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.

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2019. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2019		2018	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**275.0**	**(338.0)**	276.6	(328.0)
Equity	**287.7**	**(350.9)**	300.7	(354.2)

(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 2019. This analysis assumes that all other variables in the valuation remain constant.

	2019		2018	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
Profit	**(20.9)**	**8.4**	(5.4)	2.0
Equity	**(20.9)**	**8.4**	(5.4)	2.0

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2019. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2019		2018	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(635.7)**	**511.4**	(607.3)	515.1
Equity	**(635.7)**	**511.4**	(607.3)	515.1

19. Financial instruments (continued)

(b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, its loan with its immediate parent entity Thames Water Utilities Holdings Limited, 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 16. 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 explained on page 88.

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

	2019 £m	2018 £m
A+	**88.1**	61.0
A	**36.0**	15.8
AA-	**38.2**	8.1
Total	**162.3**	84.9

(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 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 nature and management of the Group's liquidity risk is provided on page 12.

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

	2019 £m	2018 £m
Within one year	**1,364.7**	121.6
Between one and two years	**215.9**	895.3
Between two and three years	**739.1**	216.6
Between three and four years	**409.3**	722.9
Between four and five years	**1,113.4**	406.1
After more than five years	**12,202.8**	12,701.2
Total	**16,045.2**	15,063.7

(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:

19. Financial instruments (continued)

Undiscounted amounts payable	2019 £m	2018 £m
Within one year	**(2,416.3)**	(1,820.6)
Between one and two years	**(627.3)**	(1,344.4)
Between two and three years	**(1,175.1)**	(607.2)
Between three and four years	**(795.0)**	(1,149.9)
Between four and five years	**(1,540.6)**	(794.9)
After more than five years	**(23,831.5)**	(24,842.4)
Total	**(30,385.8)**	(30,559.4)

(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	2019 £m	2018 £m
Within one year	**(46.9)**	5.2
Between one and two years	**(19.5)**	(48.4)
Between two and three years	**24.9**	(15.7)
Between three and four years	**(68.6)**	17.7
Between four and five years	**(137.4)**	(48.4)
After more than five years	**(1,521.5)**	(1,690.0)
Total	**(1,769.0)**	(1,779.6)

Cash flow hedges

The Group has designated a number of contracts which qualify as hedges in accordance with IFRS9 *Financial Instruments as* cash flow hedges. The accounting policy on cash flow hedges is explained on page 41.

In mid-2014 the Company executed £2.25 billion of forward-starting fixed to floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. This protects the Company against adverse movements in underlying interest rates by matching debt issuance against a derivative instrument with fixed cash flow.

During the year £300.0 million (2018: £800.0 million) of forward starting swaps commenced. These were reclassified from forward starting interest rate swaps to interest rate swaps and the cash flow hedge for these swaps has been discontinued prospectively, see Fair value measurements section above for more details. On commencement, the fair value of these swaps was £28.0 million, which included £21.2 million recognised on the cash flow hedge reserve and £6.8 million recycled to the income statement.

The Groups cash flow hedge reserve disclosed on the statement of changes in equity on page 29 relate to forward starting interest rate swaps.

	2019 £m	2018 £m
At 1 April 2018	**(138.9)**	(222.4)
Loss on cash flow hedge	**(8.9)**	16.3
Cash flow hedge transferred to income statement	**34.2**	84.3
Deferred tax	**(4.3)**	(17.1)
At 31 March 2019	**(117.9)**	(138.9)

	2019 £m	2018 £m
Carrying amount	**26.2**	45.3
Notional amount	**250.0**	550.0
Maturity date	**September 2024**	March 2024 (£300.0 million) September 2024 (£250.0 million)
Hedge ratio		1:1
Change in fair value during the year	**5.5**	8.1
Change in the value of hedged item used to determine hedge effectiveness	**5.6**	8.3

19. Financial instruments (continued)

Undiscounted amounts payable	2019 £m	2018 £m
Within one year	**(2.4)**	-
Between one and two years	**(4.9)**	(6.5)
Between two and three years	**(4.9)**	(8.4)
Between three and four years	**(4.9)**	(8.4)
Between four and five years	**(4.9)**	(8.4)
After more than five years	**(2.4)**	(10.4)
Total	**(24.4)**	(42.1)

In respect of the above cash flow hedges, a loss of £8.9 million was recognised in other comprehensive income in the year (2018: gain of £16.3 million). The amount reclassified from equity to income statement for the year was £34.2 million (2018: £84.3 million).

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 1 April 2017 (Restated[1,2])	(1,152.4)	50.6	195.4	77.4	**(829.0)**
Credit/(charge) to income	(6.6)	(1.3)	(19.5)	(2.6)	**(30.0)**
Credit/(charge) to equity	-	(17.1)	(17.1)	-	**(34.2)**
At 31 March 2018 (Restated[1,2])	(1,159.0)	32.2	158.8	74.8	**(893.2)**
Restatement for IFRS9[1]	-	-	-	4.5	**4.5**
Charge to income	15.0	3.7	(3.4)	(30.2)	**(14.9)**
Charge to equity	-	4.3	(4.3)	-	**-**
At 31 March 2019 (liability)/asset	(1,144.0)	40.2	151.1	49.1	**(903.6)**

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' is discussed on pages 46 to 50.

[2] The impact of the change in accounting policy for the TWMIPS pension scheme surplus is discussed on page 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 £40.2m deferred tax asset carried forward is the net of an asset of £57.5m (17% of the TWPS pension scheme deficit of £338.8m) less a liability of £16.0m (35% of the surplus on the MIPS pension scheme of £45.8m) and a liability of £1.3m (17% of the SUURBS surplus of £7.7m). 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.

20. Deferred tax (continued)

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:

	2019 £m	Restated 2018 £m
Deferred tax asset	**240.4**	265.8
Deferred tax liability	**(1,144.0)**	(1,159.0)
Total	**(903.6)**	(893.2)

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 17% (2018: 17%) is:

	2019 £m	2018 £m
Deferred tax asset not recognised in respect of tax losses	**6.6**	6.1

21. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Capital Infrastructure provision £m	Other provisions £m	**Total £m**
At 31 March 2018	5.7	63.6	21.8	43.1	**134.2**
Utilised during the period	(5.7)	(15.2)	-	(8.4)	**(29.3)**
Charge/(credit) to income statement	4.6	10.9	-	(9.9)	**5.6**
Charge/(credit) to capital project	-	-	(1.3)	-	**(1.3)**
Transfer from current liabilities	-	-		0.5	**0.5**
At 31 March 2019	4.6	59.3	20.5	25.3	**109.7**

Emissions provisions relate to the obligation to purchase carbon emissions allowances, see note 14.

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 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.

The AMP4 provision represents agreed settlement in respect of an information request received from Ofwat issued under section 203 of the Water Industry Act 1991 concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10. The provision is utilised against contributions made to various charity schemes. The associated outflows are expected to arise over AMP6.

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 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 in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

22. Share capital and other reserves

Share capital

	2019 £m	2018 £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

	2019 £m	Restated 2018 £m
Cash flow hedge reserve	**(118.0)**	(139.0)
Retained earnings	**(3,883.9)**	(3,388.4)
Total	**(4,001.9)**	(3,527.4)

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.

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 £11.0 million (2018: £8.1 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £1.5 million (2018: £1.1 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"). 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. 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.	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 £41.3 million (restated 2018: £36.1 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 loss of £23.4 million (restated 2018: gain of £87.0 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 £45.8 million (restated 2018: £50.6 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £338.8 million (2018: £300.8 million) is recognised in the statement of financial position for the TWPS scheme. A pension asset of £7.7 million (2018: £7.1 million) is recognised in the statement of financial position for the SUURBS scheme As at 31 March 2019, the net pension deficit is £285.3 million (restated 2018: £242.7 million). The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

In addition to the cost of the 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 2019 these related payments amounted to £0.1million (2018: £0.5 million).
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 2016 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 £364.9 million (2013: £288.3 million) with the market value of the assets being £1,905.5 million (2013: £1,699.8 million).

23. Retirement benefit obligations (continued)

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:

	2019			Restated 2018[1]		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Current service cost	**18.1**	**3.6**	**-**	19.4	3.8	-
Past service cost including curtailments[2]	**6.8**	**2.2**	**-**	-	-	-
Scheme administration expenses	**-**	**-**	**-**	2.7	1.2	-
Effect of restriction of surplus	**2.7**	**1.3**	**-**	-	0.9	-
Net interest cost/(income)	**7.9**	**(1.3)**	**(0.2)**	9.5	(0.5)	(0.2)
Total	**35.5**	**5.8**	**(0.2)**	31.6	5.4	(0.2)

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

	2019			Restated 2018[1]		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Operating expenses	**27.6**	**7.1**	**-**	22.1	5.0	-
Net finance expense/(income)	**7.9**	**(1.3)**	**(0.2)**	9.5	(0.5)	(0.2)
Total	**35.5**	**5.8**	**(0.2)**	31.6	4.5	(0.2)

[1] In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted only of the TWPS scheme. Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. As a result, the Group and

Company have recognised the surplus for the TWMIPS scheme and have restated the comparative periods. Refer to page 51 for the adjustments to the comparative periods.

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

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:

	2019 £m	Restated 2018 £m
Cumulative actuarial gains recognised at 1 April	**(471.7)**	(558.7)
Actual return less expected return on pension scheme assets	**76.5**	2.9
Experience gain /(loss) arising on scheme liabilities	**1.3**	(10.9)
(Loss)/gain arising due to change in assumptions	**(158.0)**	66.6
Gain arising due to change in demographic assumption	**56.8**	28.6
Total actuarial (loss)/gain	**(23.4)**	87.2
Cumulative actuarial losses recognised at 31 March	**(495.1)**	(471.7)

23. Retirement benefit obligations (continued)

Statement of financial position

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

	2019			Restated[1] 2018		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Fair value of scheme assets	**1,508.2**	**805.2**	**15.4**	1,442.9	805.6	14.6
Present value of defined benefit obligations	**(1,847.0)**	**(759.4)**	**(7.7)**	(1,743.7)	(755.0)	(7.5)
(Deficit)/surplus	**(338.8)**	**45.8**	**7.7**	(300.8)	50.6	7.1
Net pension deficit			**(285.3)**			(243.1)

IFRIC 14 considerations

For some defined benefit pension schemes IFRIC 14: *The limit on a defined benefit asset, minimum funding requirements and their interaction* potentially limits the surplus that can be recognised on the balance sheet or requires additional liabilities to be recognised where future deficit contributions are greater than the unadjusted accounting deficit.

[1] In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted only of the TWPS scheme. Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. As a result, the Group have recognised the surplus for the TWMIPS scheme and have restated the comparative periods. Refer to page 51 for the adjustments to the comparative periods.

Reconciliation of defined benefit plan assets and liabilities

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

	2019			2018		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,743.7**	**755.0**	**7.5**	1,776.2	806.8	8.0
Current service cost	**18.1**	**3.6**	**-**	19.4	3.8	-
Past service cost including curtailments	**6.8**	**2.2**				
Interest cost	**45.7**	**19.1**	**0.2**	46.4	20.1	0.2
Contributions from scheme members	**0.1**	**-**	**-**	0.4	-	-
Benefits paid	**(47.9)**	**(40.0)**	**(0.4)**	(52.8)	(37.8)	(0.4)
Termination benefits	**0.1**	**-**	**-**	0.5	-	-
Actuarial losses/(gains)	**80.4**	**19.5**	**0.4**	(46.4)	(37.9)	(0.3)
At 31 March	**1,847.0**	**759.4**	**7.7**	1,743.7	755.0	7.5

23. Retirement benefit obligations (continued)

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

	2019			2018		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,442.9**	**805.6**	**14.6**	1,411.4	828.5	14.3
Interest income on scheme assets	**37.8**	**20.4**	**0.4**	36.9	20.6	0.4
Contributions by sponsoring employers	**18.8**	**3.1**	**0.4**	41.3	0.7	0.4
Contributions from scheme members	**0.1**	**-**	**-**	0.4	-	-
Administration costs paid from scheme assets	**(2.7)**	**(1.3)**	**-**	(2.7)	(1.2)	-
Benefits paid	**(47.9)**	**(40.0)**	**(0.4)**	(52.8)	(37.8)	(0.4)
Contributions for termination benefits	**0.1**	**-**	**-**	0.5	-	-
Gains/(losses) on assets above interest	**59.1**	**17.4**	**0.4**	7.9	(5.2)	(0.1)
At 31 March	**1,508.2**	**805.2**	**15.4**	1,442.9	805.6	14.6

Analysis of assets

	2019				2018			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total (%)**	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	**33.5**	**-**	**33.5**	**1.4**	34.8	-	34.8	1.5%
Rest of World	**335.9**	**2.2**	**338.1**	**14.6**	344.0	1.8	345.8	15.3%
Private Equity	**-**	**-**	**-**	**0.0**	-	1.1	1.1	0.0%
Bonds								
Government – UK	**21.2**	**-**	**21.2**	**0.9**	47.0	-	47.0	2.1%
Government – Rest of World	**203.8**	**-**	**203.8**	**8.8**	195.3	-	195.3	8.6%
Corporates – UK	**10.0**	**-**	**10.0**	**0.4**	9.4	-	9.4	0.4%
Corporates – Rest of World	**215.5**	**-**	**215.5**	**9.3**	193.6	-	193.6	8.6%
Property								
UK	**6.2**	**1.4**	**7.6**	**0.3**	5.7	103.4	109.1	4.8%
Rest of world	**4.4**	**-**	**4.4**	**0.2**	3.9	-	3.9	0.2%
Alternative assets								
Liability driven instruments	**1,262.4**	**-**	**1,262.4**	**54.6**	1,105.5	-	1,105.5	48.8%
Other (including derivatives)	**113.1**	**2.4**	**115.5**	**5.0**	106.5	3.1	109.6	4.8%
Cash	**101.4**	**-**	**101.4**	**4.4**	108.0	-	108.0	4.8%
Total market value of assets	**2,307.4**	**6.0**	**2,313.4**	**99.9**	2,153.7	109.4	2,263.1	99.9%

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 2019.
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.

23. Retirement benefit obligations (continued)

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

	2019			2018		
	TWPS	**TWMIPS**	**SUURBS**	TWPS	TWMIPS	SUURBS
Price inflation – RPI	**3.25%**	**3.30%**	**3.30%**	3.15%	3.15%	3.15%
Price inflation – CPI	**2.25%**	**2.30%**	**2.30%**	2.15%	2.15%	2.15%
Rate of increases in salaries	**-**	**-**	**-**	-	-	-
Rate of increase to pensions in payment – RPI	**3.25%**	**3.30%**	**3.30%**	3.15%	3.15%	3.15%
Rate of increase to pensions in payment – CPI	**2.25%**	**2.30%**	**2.30%**	2.15%	2.15%	2.15%
Discount rate	**2.40%**	**2.35%**	**2.35%**	2.65%	2.60%	2.60%

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.

	2019		2018	
	TWPS Years	**TWMIPS Years**	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**26.9**	**26.0**	27.4	26.6
Female	**28.9**	**28.5**	29.4	29.0
Life expectancy from age 60 currently age 40:				
Male	**28.4**	**27.6**	29.0	28.1
Female	**30.5**	**30.1**	31.0	30.6

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					
	2019			2018		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Change in discount rate (+ 1% p.a.)	**325.0**	**90.0**	**0.8**	315.0	90.0	0.8
Change in rate of inflation (-1% p.a.)	**210.0**	**75.0**	**0.8**	205.0	75.0	0.8
Change in life expectancy (-1 year)	**75.0**	**30.0**	**0.3**	70.0	30.0	0.3

23. Retirement benefit obligations (continued)

Future expected cash flows

The Group made a pension deficit repair payment of £22.7 million on 1 April 2019 in relation to 2018/19 having made a similar payment of £22.0 million on 31 March 2018 in relation to 2017/18. The Group expects to contribute approximately £22.8 million in aggregate to the defined benefit pension schemes in the next financial year. The average duration of the benefit obligation at the end of the year is 20 years for TWPS and 13 years for TWMIPS (2018: 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)	22.8	23.1	23.3	23.5	23.7	24.0	24.2	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.

GMP Equalisation

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. Guaranteed Minimum Pensions ("GMPs") built up in our pension schemes between their commencement and 5 April 1997. They form a part of the overall pension and need to be provided before April 1997 as a condition of our opting out of the earnings related part of the state pension, as a result of which Thames Water and the pension scheme members paid reduced rate national insurance contributions up to April 2016. GMPs are subject to increase in payment and in deferment at different rates from the increases to benefits in excess of GMPs.

Even though state pension ages are now the same for men and women, GMPs for women are generally higher than those for men. Despite the equalisation of state pension ages, GMPs are still required to come into payment on the 60th birthday of women and the 65th birthday for men. As such GMPs are unequal between men and women of identical ages, salary histories and periods of service. The Lloyds case requires this inequality to be remedied and has given rise to additional pension liabilities for the Group.

24. Capital commitments

	2019 £m	2018 £m
Property, plant and equipment	**395.7**	377.3
Intangible assets	**17.2**	15.2
Contracted for but not provided	**412.9**	392.5

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

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably. The company does not have any contingent liabilities.

26. Operating leases

Lease payments under operating leases of £13.4 million (2018: £10.8 million) were recognised as an expense in the year.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £m	2018 £m
Within one year	**10.7**	10.1
Between one and five years	**37.9**	34.8
After more than five years	**56.2**	67.6
Total	**104.8**	112.5

Operating lease payments represent rentals payable by the Group for certain office properties, and plant and equipment. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is probable that this option will be exercised, we have only included lease payments up to the assumed lease exit date.

27. 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;
- 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.

28. 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 2019 was £11.9 billion (2018: £11.2 billion).

At 31 March 2019 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20.0m million (2018: £20.0 million). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8 million (2017: £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 2019 amounts to £585.0 million (2018: £275.0 million). The total amount of guaranteed secured debt raised at the Thames Water (Kemble) Finance Plc level outstanding at 31 March 2019 is £574.0 million (2018: £575.0 million).

Thames Water Insurance Company Limited, a wholly owned subsidiary of the Group, has no letters of credit in issue (2018: £0.8 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.

29. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2019			Restated 2018[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	**(496.0)**	**44.4**	**(451.6)**	(289.7)	24.9	(264.8)
Less profit on the sale of non-household retail business	**-**	**-**	**-**	(89.7)	-	(89.7)
Less finance income	**(18.8)**	**-**	**(18.8)**	(10.4)	-	(10.4)
Add finance expense	**1,020.7**	**-**	**1,020.7**	990.7	-	990.7
Less net gains/(add net losses) on fair value of financial instruments	**37.7**	**-**	**37.7**	(41.0)	-	(41.0)
Taxation on (loss)/profit on ordinary activities	**(98.8)**	**2.8**	**(96.0)**	(69.8)	1.6	(68.2)
Operating profit	**444.8**	**47.2**	**492.0**	490.1	26.5	516.6
Depreciation on property, plant and equipment	**544.8**	**-**	**544.8**	520.1	-	520.1
Amortisation of intangible assets	**22.0**	**-**	**22.0**	27.6	-	27.6
(Profit)/loss on sale of property, plant and equipment	**7.0**	**-**	**7.0**	(11.4)	-	(11.4)
Difference between pension charge and cash contribution	**12.4**	**-**	**12.4**	(14.4)	-	(14.4)
Decrease/(increase) in inventory	**5.9**	**-**	**5.9**	3.6	-	3.6
Decrease/(increase) in trade and other receivables	**10.3**	**(48.3)**	**(38.0)**	(6.3)	(28.7)	(22.4)
Decrease/(increase) in contract assets	**(30.9)**	**(0.9)**	**(31.8)**	21.9	-	21.9
Increase in trade and other payables	**72.3**	**7.6**	**79.9**	8.9	-	8.9
(Increase)/decrease in contract liabilities	**33.6**	**(0.6)**	**33.0**	51.3	3.2	54.5
Decrease in group relief payable	**-**	**-**	**-**	2.2	(2.2)	-
(Decrease)/increase in provisions	**(24.6)**	**-**	**(24.6)**	(12.3)	-	(12.3)
Cash generated from operations	**1,097.6**	**5.0**	**1,102.6**	1,093.9	(1.2)	1,092.7

Non-cash transactions

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases. Assets transferred from developers and customers for nil consideration were recognised at their fair value.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 46 to 50 as well as other restatements which are discussed on pages 43 to 45.

Movement in cash and cash equivalents

	2019 £m	**2018 £m**
Unrestricted cash movement	**(14.6)**	9.5
Movement in short-term deposits	**379.5**	50.4
Total	**364.9**	59.9

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

30. 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.

31. 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.

	2019 **£'000**	2018 £'000
Short term employee benefits	**6,485**	6,553
Post-employment benefits	**542**	451
Other long-term benefits	**-**	31
Termination benefits	**282**	222
Other	**202**	999
Total	**7,511**	8,256

Company

During the year, the Company paid interest of £561.0 million (2018: £510.0 million) on a loan from Kemble Water Eurobond plc ("KWE"), the Company's immediate parent. As at 31 March 2019, the amount payable to KWE, including loan principal and interest thereon, was £5.6 billion (2018: £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 £1.0 million (2018: £56.0 million) and total net interest payable during the year was £605.6 million (2018: £554.0 million).

As at 31 March 2019 net amounts owed by the Company to parent and subsidiary undertakings were £6,393.2 million (2018: £6,149.9 million). As at 31 March 2019 and 31 March 2018, 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.

32. Post balance sheet events

Subsequent to 31 March 2019, two further dormant companies were liquidated and hence removed from the Group. These companies were Thames Water Nominees Limited and Thames Water Developments Limited. Their removal had an immaterial financial impact on the Company.

33. Restatements to the prior year

This is the first reporting year that the Group has presented its financial statements under IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', with the date of transition being 1 April 2018. These accounting policies replace IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 18 'Revenue' respectively.

The Group's accounting policies under IFRS 15 have been applied retrospectively at the date of transition and therefore the Group's previously reported results have been restated. The Group has taken a 'modified retrospective' approach in respect of the transition to IFRS 9 and such previously reported results have not been restated for this change in policy.

In addition, the Group have restated the prior years as a result of changes in accounting policies and amendments to our accounting approach. Refer to page 51 for more information on adjustments that have impacted prior years.

Reconciliation of consolidated profit and loss for the year ended 31 March 2018

		As previously stated			Transition	Adjustment	Restated 2018		
		Underlying	BTL	Total	Underlying	Underlying	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	1	2018.2	26.9	2045.1			2,018.2	26.9	2,045.1
Operating expenses	2	(1,621.2)	(0.4)	(1,621.6)		0.9	(1,620.3)	(0.4)	(1,620.7)
(Loss)/profit on the sale of property, plant and equipment		11.4	-	11.4			11.4	-	11.4
Other operating income	4	92.8	-	92.8	(12.0)		80.8	-	80.8
Operating profit		501.2	26.5	527.7	(12.0)	0.9	490.1	26.5	516.6
Profit on the sale of retail non-household business	5	89.7	-	89.7			89.7	-	89.7
Finance income	6	116.0	-	116.0		(105.6)	10.4	-	10.4
Finance expense	7	(1,096.3)	-	(1,096.3)		105.6	(990.7)	-	(990.7)
Net (losses) / gains on financial instruments	8	41.0	-	41.0			41.0	-	41.0
(Loss) / profit on ordinary activities before taxation		(348.4)	26.5	(321.9)	(12.0)	0.9	(359.5)	26.5	(333.0)
Taxation on loss/(profit) on ordinary activities	9	68.1	(1.6)	66.5	2.0	(0.3)	69.8	(1.6)	68.2
(Loss)/profit for the year		(280.3)	24.9	(255.4)	(10.0)	0.6	(289.7)	24.9	(264.8)

Reconciliation of other comprehensive income for the year ended 31 March 2018

		As previously stated			Transition	Adjustment	Restated 2018		
		Underlying	BTL	Total	Underlying,	Underlying	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Loss)/profit for the year		(280.3)	24.9	(255.4)	(10.0)	0.6	(289.7)	24.9	(264.8)
Other comprehensive income									
Will not be reclassified to the income statement:									
Net actuarial gains/(losses) on pension schemes	23	74.2	-	74.2	-	13.0	87.2	-	87.2
Deferred tax (charge)/credit on net actuarial gain/loss	20	(12.6)	-	(12.6)	-	(4.5)	(17.1)	-	(17.1)
May be reclassified to the income statement:									
Gains/(losses) on cash flow hedges		16.3	-	16.3	-	-	16.3	-	16.3
Cash flow hedges transferred to income statement	8	84.3	-	84.3	-	-	84.3	-	84.3
Deferred tax (charge)/credit on cash flow hedges	20	(17.1)	-	(17.1)	-	-	(17.1)	-	(17.1)
Other comprehensive income/(loss) for the year		145.1	-	145.1	(10.0)	8.5	153.6	-	153.6
Total comprehensive (loss)/income for the year		(135.2)	24.9	(110.3)	(10.0)	8.5	(136.1)	24.9	(111.2)

33. Restatements to the prior year (continued)

Reconciliation of consolidated statement of financial position for the year ended 31 March 2018

		As previously stated			IFRS 15 Adjustment			Restated 2018		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets										
Goodwill	10	1,468.1	-	1,468.1				1,468.1	-	1,468.1
Interest in joint venture	11	-	-	-				-	-	-
Intangible assets	12	169.0	-	169.0				169.0	-	169.0
Property, plant and equipment	13	15,184.1	-	15,184.1				15,184.1	-	15,184.1
Trade and other receivables	15	3.0	56.7	59.7			32.7	35.7	56.7	92.4
Pension asset SUURBS	23	7.1	-	7.1				7.1	-	7.1
Pension asset TWMIPS	23	-	-	-			50.6	50.6	-	50.6
Derivative financial assets	19	76.4	-	76.4				76.4	-	76.4
		16,907.7	56.7	16,964.4			83.3	16,991.0	56.7	17,047.7
Current assets										
Inventories and current intangible assets	14	18.1	-	18.1				18.1	-	18.1
Assets held for sale		-	-	-				-	-	-
Contract asset	15	-	-	-	225.9	0.4	(39.7)	186.2	0.4	186.6
Trade and other receivables	15	964.8	3.8	968.6	(225.9)	(0.4)	(32.7)	706.3	3.4	709.7
Cash and cash equivalents	16	153.8	2.6	156.4				153.8	2.6	156.4
Derivative financial assets	19	8.5	-	8.5				8.5	-	8.5
Short term investments		-	-	-				-	-	-
		1,145.2	6.4	1,151.6	-	-	(72.4)	1,072.8	6.4	1,079.2
Current liabilities										
Contract liabilities	17	-	-	-	(123.1)	(4.1)		(123.1)	(4.1)	(127.2)
Trade and other payables	17	(809.3)	(7.6)	(816.9)	134.6	4.1	61.5	(613.2)	(3.5)	(616.7)
Borrowings	18	(302.1)	-	(302.1)				(302.1)	-	(302.1)
Derivative financial liabilities	19	(12.3)	-	(12.3)				(12.3)	-	(12.3)
		(1,123.7)	(7.6)	(1,131.3)	-	-	61.5	(1,050.7)	(7.6)	(1,058.3)
Net current (liabilities)/assets		21.5	(1.2)	20.3	-	-	(10.9)	22.1	(1.2)	(20.9)
Non-current liabilities										
Contract liabilities	17	-	-	-	(589.8)			(589.8)	-	(589.8)
Trade and other payables	17	(445.8)	-	(445.8)	445.8			-	-	-
Borrowings	18	(17,451.1)	-	(17,451.1)				(17,451.1)	-	(17,451.1)
Derivative financial liabilities	19	(1,225.9)	-	(1,225.9)				(1,225.9)	-	(1,225.9)
Deferred tax	20	(898.0)	-	(898.0)	22.5		(17.7)	(893.2)	-	(893.2)
Provisions for liabilities and charges	21	(112.4)	-	(112.4)			(21.8)	(134.2)	-	(134.2)
Retirement benefit obligations TWPS	23	(300.8)	-	(300.8)				(300.8)	-	(300.8)
		(20,434.0)	-	(20,434.0)	-	-	(39.5)	(20,595.0)	-	(20,595.0)
Net (liabilities)/assets		(3,504.8)	55.5	(3,449.3)	(110.0)	-	32.9	(3,581.9)	55.5	(3,526.4)
Equity										
Called up share capital	22	1.0	-	1.0				1.0	-	1.0
Cash flow hedge reserve	22	(139.0)	-	(139.0)				(139.0)	-	(139.0)
Retained earnings	22	(3,366.8)	55.5	(3,311.3)	(110.0)		32.9	(3,443.9)	55.5	(3,388.4)
Total equity		(3,504.8)	55.5	(3,449.3)	(110.0)	-	32.9	(3,581.9)	55.5	(3,526.4)

33. Restatements to the prior year (continued)

Reconciliation of consolidated statement of cashflow for the year ended 31 March 2018

	2018			IFRS 15 restatement		Adjustment	Restated 2018		
	Underlying	BTL	Total	Underlying	BTL	Underlying	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
(Loss)/profit for the financial year	(280.3)	24.9	(255.4)	(10.0)		0.6	(289.7)	24.9	(264.8)
Less profit on the sale of non-household retail business	(89.7)	-	(89.7)				(89.7)	-	(89.7)
Less finance income	(116.0)	-	(116.0)			105.6	(10.4)	-	(10.4)
Add finance expense	1,096.3	-	1,096.3			(105.6)	990.7	-	990.7
Less net gains/(add net losses) on fair value of financial instruments	(41.0)	-	(41.0)				(41.0)	-	(41.0)
Taxation on (loss)/profit on ordinary activities	(68.1)	1.6	(66.5)	(2.0)		0.3	(69.8)	1.6	(68.2)
Operating profit	501.2	26.5	527.7	(12.0)	-	0.9	490.1	26.5	516.6
Depreciation on property, plant and equipment	520.1	-	520.1				520.1	-	520.1
Amortisation of intangible assets	27.6	-	27.6				27.6	-	27.6
Write-off of costs from assets in development	-	-	-				-	-	-
Profit on sale of property, plant and equipment	(11.4)	-	(11.4)				(11.4)	-	(11.4)
Difference between pension charge and cash contribution	(14.4)	-	(14.4)				(14.4)	-	(14.4)
Decrease/(increase) in inventory	3.6	-	3.6				3.6	-	3.6
Decrease/(increase) in trade and other receivables	21.2	(28.7)	(7.5)	(21.9)		7.0	(6.3)	(28.7)	(22.4)
Decrease/(increase) in contract assets				21.9			21.9	-	21.9
Increase in trade and other payables	44.1	3.2	47.3	(39.3)	(3.2)	4.1	8.9	-	8.9
(Increase)/decrease in contract liabilities				51.3	3.2		51.3	3.2	54.5
Decrease in group relief payable	2.2	(2.2)	-				2.2	(2.2)	-
(Decrease)/increase in provisions	(1.2)	-	(1.2)			(11.1)	(12.3)	-	(12.3)
Cash generated from operations	1,093.0	(1.2)	1,091.8	-	-	0.9	1,093.9	(1.2)	1,092.7

33. Restatements to the prior year (continued)

Reconciliation of consolidated statement of cashflow for the year ended 31 March 2018

		2018		IFRS 15 restatement		Adjustment		2018	
	Underlying	BTL	Total	Underlying	BTL	Underlying	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash generated from operations	1,093.0	(1.2)	1,091.8				1,093.9	(1.2)	1,092.7
Payments for group relief	(0.3)	-	(0.3)				(0.3)	-	(0.3)
Net cash generated by/(used in) operating activities	1,092.7	(1.2)	1,091.5	-	-	-	1,093.6	(1.2)	1,092.4
Investing activities:									
Interest received	106.8	-	106.8			**(97.2)**	9.6	-	9.6
Decrease in current asset investments	1.0	-	1.0				1.0	-	1.0
Net proceeds from sale of intercompany entities	-	-	-				-	-	-
Purchase of property, plant and equipment	(1,100.6)	-	(1,100.6)				(1,100.6)	-	(1,100.6)
Purchase of intangible assets	(61.7)	-	(61.7)				(61.7)	-	(61.7)
Proceeds from sale of property, plant and equipment	18.8	-	18.8				18.8	-	18.8
Net cash used in investing activities	(1,035.7)	-	(1,035.7)	-	-	**(97.2)**	(1,132.9)	-	(1,132.9)
Financing activities:									
New loans raised	2,238.3	-	2,238.3				2,238.3	-	2,238.3
Repayment of borrowings	(1,799.8)	-	(1,799.8)				(1,799.8)	-	(1,799.8)
Interest paid	(401.6)	-	(401.6)	-		**97.2**	(304.4)	-	(304.4)
Facility fees paid	(4.4)	-	(4.4)				(4.4)	-	(4.4)
Derivative settlements	(28.4)	-	(28.4)				(28.4)	-	(28.4)
Net cash generated by/(used in) financing activities	4.1	-	4.1	-	-	**97.2**	101.3	-	101.3
Net increase/(decrease) in cash and cash equivalents	61.1	(1.2)	59.9				61.1	(1.2)	59.9
Net cash and cash equivalents at beginning of year	92.7	3.8	96.5				92.7	3.8	96.5
Net cash and cash equivalents at end of year	**153.8**	**2.6**	**156.4**	-	-	-	153.8	2.6	156.4

33. Restatements to the prior year (continued)

Reconciliation of consolidated statement of financial position for the year ended 31 March 2017 and 1 April 2017

		As previously stated			Transition		Adjustment	Restated 2017[1]		
		Underlying	BTL	Total	Underlying	BTL	Underlying	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets										
Goodwill	10	1,468.1	-	1,468.1				1,468.1	-	1,468.1
Interest in joint venture	11	-	-	-				-	-	-
Intangible assets	12	141.0	-	141.0				141.0	-	141.0
Property, plant and equipment	13	14,625.5	-	14,625.5				14,625.5	-	14,625.5
Trade and other receivables	15	2.8	30.4	33.2			36.0	38.8	30.4	69.2
Pension asset SUURBS	23	6.3	-	6.3				6.3	-	6.3
Pension asset TWMIPS	23						21.7	21.7	-	21.7
Derivative financial assets	19	170.6	-	170.6				170.6	-	170.6
		16,414.3	30.4	16,444.7			57.7	16,472.0	30.4	16,502.4
Current assets										
Inventories and current intangible assets	14	21.7	-	21.7				21.7	-	21.7
Assets held for sale		1.0	-	1.0				1.0	-	1.0
Contract asset	15				247.8	0.4	(32.7)	215.1	0.4	215.5
Trade and other receivables	15	885.9	0.8	886.7	(247.8)	(0.4)	(36.0)	602.1	0.4	602.5
Cash and cash equivalents	16	1.0	-	1.0				1.0	-	1.0
Derivative financial assets	19	-	-	-				-	-	-
Short term investments		92.7	3.8	96.5				92.7	3.8	96.5
		1,002.3	4.6	1,006.9	-	-	(68.7)	933.6	4.6	938.2
Current liabilities										
Contract liabilities	17	-	-	-	(126.2)	(0.2)		(126.2)	(0.2)	(126.4)
Trade and other payables	17	(913.4)	(4.4)	(917.8)	136.0	0.2	65.6	(711.8)	(4.2)	(716.0)
Borrowings	18	(5,464.1)	-	(5,464.1)				(5,464.1)	-	(5,464.1)
Derivative financial liabilities	19	(23.8)	-	(23.8)				(23.8)	-	(23.8)
		(6,401.3)	(4.4)	(6,405.7)	(9.8)	-	65.6	(6,325.9)	(4.4)	(6,330.3)
Net current (liabilities)/assets		(5,399.0)	0.2	(5,398.8)	(9.8)	-	(3.1)	(5,392.3)	0.2	(5,392.1)
Non-current liabilities										
Contract liabilities	17	-	-	-	(536.0)			(536.0)	-	(536.0)
Trade and other payables	17	(404.9)	-	(404.9)	404.9			-	-	-
Borrowings	18	(11,252.0)	-	(11,252.0)				(11,252.0)	-	(11,252.0)
Derivative financial liabilities	19	(1,398.0)	-	(1,398.0)				(1,398.0)	-	(1,398.0)
Deferred tax	20	(836.6)	-	(836.6)	20.5		(12.9)	(829.0)	-	(829.0)
Provisions for liabilities and charges	21	(113.6)	-	(113.6)			(32.9)	(146.5)	-	(146.5)
Pension deficit	23	(379.8)	-	(379.8)			15.0	(364.8)	-	(364.8)
		(14,384.9)	-	(14,384.9)	(110.6)	-	(30.8)	(14,526.3)	-	(14,526.3)
Net (liabilities)/assets		(3,369.6)	30.6	(3,339.0)	(100.9)	-	23.8	(3,446.7)	30.6	(3,416.1)
Equity										
Called up share capital	22	1.0	-	1.0				1.0	-	1.0
Cash flow hedge reserve	22	(222.5)	-	(222.5)				(222.5)	-	(222.5)
Retained earnings	22	(3,148.1)	30.6	(3,117.5)	(100.9)	-	23.8	(3,225.2)	30.6	(3,225.2)
Total equity		(3,369.6)	30.6	(3,339.0)	(100.9)	-	23.8	(3,446.7)	30.6	(3,416.1)

Notes to the Company financial statements

34. Investment in subsidiaries

	2019 £m	2018 £m
Cost of shares in subsidiary undertakings	**4,306.7**	4,306.7
Provision for impairment	**(14.4)**	(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 42 to these financial statements.

35. Trade and other receivables

	2019 £m	2018 £m
Other receivables	**8.2**	-
Amounts owed by group undertakings	**170.6**	248.8
Amounts receivable in respect of group relief	**534.3**	416.1
	713.1	664.9
Disclosed within non-current assets	**178.8**	248.8
Disclosed within current assets	**534.3**	416.1

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

36. 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 2017	12.6	**12.6**
(Charge) to income	(1.7)	**(1.7)**
At 31 March 2018	10.9	**10.9**
(Charge)/credit to income	(1.6)	**(1.6)**
At 31 March 2019	9.3	**9.3**

37. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	**0.3**	0.4
Short term deposits	**348.9**	28.5
Total	**349.2**	28.9

38. Trade and other payables

	2019 £m	2018 £m
Other payables	1.2	0.2
Amounts owed to group undertakings	14.9	14.9
	16.1	15.1
Disclosed within non-current liabilities	14.9	14.9
Disclosed within current liabilities	1.2	0.2

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.

39. Borrowings

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

	2019 £m	2018 £m
Secured bank loans and private placements	575.6	270.7
Amounts owed to group undertakings	3,825.3	3,824.6
	4,400.9	4,095.3
Interest payable on secured bank loans, private placements	9.7	4.3
Interest payable on amounts owed to group undertakings	3,121.9	2,558.9
Total	7,532.5	6,658.5
Disclosed within current liabilities	426.7	22.0
Disclosed within non-current liabilities	7,105.8	6,636.5

Amounts owed to group undertakings relate to the following:

- Loans totalling £572.3 million (2018: £572.7 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 (2018: £10,000).
- A loan totalling £3,100.6 million (2018: £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 (2018: £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 (2018: £136.3 million) from fellow subsidiary undertaking, Thames Water Limited, which is repayable on demand and incurs interest at LIBOR + 0.5%.

40. 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 (2018: none).

Categories of financial instruments

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

	2019 £m	2018 £m
Financial assets:		
Amortised cost		
Trade and other receivables	713.1	664.9
Cash and cash equivalents	349.2	28.9
Total	1,062.3	693.8
Financial liabilities:		
Amortised cost		
Trade and other payables	(16.2)	(15.1)
Borrowings	(7,532.5)	(6,658.5)
Total	(6,494.7)	(6,673.6)

40. Financial instruments (continued)

Fair value measurements

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

	2019		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Current				
Cash and cash equivalent	**349.2**	**349.2**	28.9	28.9
Total	**349.2**	**349.2**	28.9	28.9
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(575.6)**	**(620.7)**	(270.7)	(275.0)
Amounts owed to group undertakings	**(3,426.0)**	**(3,426.0)**	(3,824.6)	(3,866.1)
Interest payable	**(3,104.2)**	**(3,104.2)**	(2,541.2)	(2,541.2)
Derivative financial instruments:				
Interest rate swaps	**-**	**-**	-	-
Current				
Borrowings:				
Amounts owed to group undertakings	**(399.3)**	**(399.3)**	-	-
Interest payable	**(27.4)**	**(27.4)**	(22.0)	(22.0)
Total	**7,532.5**	**7,577.6**	(6,658.5)	(6,704.3)

Capital risk management

Details of the Group's capital risk management strategy can be found on page 12. The capital structure of the Company is as follows:

	2019 £m	2018 £m
Cash and cash equivalents	**349.2**	28.9
Secured bank loans	**(575.6)**	(270.7)
Interest payable on secured bank loans	**(9.7)**	(4.3)
Amounts owed to group undertakings	**(3,825.2)**	(3,824.6)
Interest payable on amounts owed to group undertakings	**(3,121.9)**	(2,558.9)
Net debt	**(7,183.2)**	(6,629.6)
Deficit attributable to the owners of the Group	**(2,184.8)**	(1,676.6)

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 12. The Company's activities expose it to credit and liquidity risk.

40. Financial instruments (continued)

(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 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**

As at 31 March 2018:	Total at fixed rates £m	Total at floating rates £m	**Total £m**
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	3,673.3	421.9	4,095.2
Total	3,673.3	421.9	4,095.2

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	
	2019 %	2018 %	**2019 Years**	2018 Years
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	**9.2**	9.6	**15.0**	16.7
Total	**9.2**	9.6	**15.0**	16.7

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 2018. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2019		2018	
	+1% £m	**-1% £m**	+1% £m	-1% £m
Profit	(2.8)	2.8	(2.8)	2.8
Equity	(2.8)	2.8	(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 £704.9 million (2018: £693.8 million).

40. Financial instruments (continued)

(c) Liquidity risk

Details of the nature and management of the Group's liquidity risk is provided on page 12.

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

	2019 £m	2018 £m
Within one year	**399.3**	-
Between one and two years	**-**	399.0
Between two and three years	**-**	-
Between three and four years	**248.0**	-
Between four and five years	**-**	247.4
After more than five years	**3,753.5**	3,448.9
Total	**4,400.8**	4,095.3

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	2019 £m	2018 £m
Within one year	**471.6**	71.4
Between one and two years	**40.7**	440.8
Between two and three years	**40.7**	25.3
Between three and four years	**283.7**	25.3
Between four and five years	**26.6**	268.1
After more than five years	**3,810.1**	3,479.2
Total	**4,673.4**	4,310.1

41. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2019 £m	2018 £m
Loss for the financial year	**(508.2)**	(403.8)
Add finance expense	**627.7**	567.6
Less finance income	**(0.7)**	-
Less investment income	**(1.0)**	(56.0)
Increase in intercompany receivables	**80.2**	(2.0)
Taxation on loss on ordinary activities	**(118.3)**	(107.9)
Cash generated /(used) in operations	**79.7**	(2.1)

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

At 31 March 2019 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 Insurance Company Limited	Insurance Company	Guernsey	Guernsey	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 Limited	Holding 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%
Thames Water Developments Limited*	Property 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 Nominees Limited*	Pension Trustees	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 Puerto Rico Inc	Non-trading Company	Puerto Rico	Puerto Rico	Ordinary	100%
Thames-Dick Superaqueduct Partners Inc	Joint venture	Puerto Rico	Puerto Rico	Ordinary	50.0%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%

42. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings (continue

	Principal undertaking	Country of incorporation	Tax resident	Class of shares held	Proportion of voting rights & shares held
Subsidiaries in liquidation process					
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 Procurement Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
PCI Membrane 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%
Liquidations complete					
Trans4M Limited*	Legacy Investment	United Kingdom	United Kingdom	Ordinary	25%
Chlorination Equipment Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Retail Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
The Water Quality Centre Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Simon N-Viro Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
B O P Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Pipeline Solutions Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Sub-Scan Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Subtronic Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Castings Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Haymills Engineering Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products SGE Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products UPEI Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Coplastix Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Stockdale Filtration Systems Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Memtech (UK) Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Surta Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
S Holdings Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Total Pipeline Solutions Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Coatings Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
T M Products Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Country Wide Collections Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water (UK) Pension Trustees Limited*	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Drainage Services Limited *	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Healthcare Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Consultancy Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Share Scheme Trustees Limited*	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Water Projects International Limited*	Legacy Investment	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Cayman Finance Limited*	Finance company	Cayman Islands	United Kingdom	Ordinary	100%
Thames Water Utilities Cayman Finance Holdings Limited*	Holding Company	Cayman Islands	United Kingdom	Ordinary	100%

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

*During the financial year, management reduced the number of undertakings in the Group's corporate structure. A project was undertaken to eliminate 39 dormant companies which are no longer active. As at 31 March 2019, this resulted in 28 companies completely liquidated, nine companies in the liquidation process and two companies that have not entered liquidation which are due to enter liquidation in June 2019.

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-Dick Superaqueduct Partners Inc (1018 Ashord Avenue, Suite 206, San Juan, 00907, Puerto Rico)
- Thames Water Puerto Rico Inc (FGR Corporate Services Inc, PO Box 363507, San Juan, 009363507, Puerto Rico)
- Thames Water International (Thailand) Limited (999/9 The offices at Central World, 29th Floor, Unit 2973K, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok)
- Thames Water Insurance Company Limited (St. Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey)

INDEX OF DEFINED TERMS

"**2006 ISDA Definitions**" means the definitions published by the International Swaps and Derivatives Association Inc. to be used in the documentation of interest rate and currency exchange transactions;

"**Accounting Principles**" means accounting principles, policies, standards, bases and practices which, at the relevant time; are generally accepted in the United Kingdom;

"**Additional Finance Documents**" means:

(a) in respect of a Loan Facility other than those made available under the Working Capital Facility, the Finance Documents as defined in the facility agreement governing the terms of such Loan Facility; and

(b) any Additional Hedging Agreement;

"**Additional Finance Parties**" means in respect of a Loan Facility other than those made available under the Working Capital Facility Agreement, the Finance Parties (as defined in the relevant Additional Finance Documents); provided that such parties have acceded to the Intercreditor Agreement by executing a Secured Creditor Accession Deed;

"**Additional Hedge Counterparties**" means in respect of any Additional Hedging Agreements, the hedge counterparties under such documents;

"**Additional Hedging Agreement**" means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by an Obligor and an Additional Hedge Counterparty for the purpose of hedging liabilities after the date of this Base Prospectus;

"**Additional Note Documents**" means in respect of an issue of Notes by the Issuer other than the initial issuance of Notes, any additional documents governing the terms of such Notes and any loan drawdown documents pursuant to the Issuer/Guarantor Loan Agreement;

"**Additional Note Parties**" means in respect of an issue of Additional Notes by the Issuer, the Noteholders of such Additional Notes and the Note Trustee (on its own behalf and on behalf of the relevant Noteholders) and any agents in respect of such issue of Notes under the relevant Additional Note Documents; provided that any such agents which are not already party to the Intercreditor Agreement have become Secured Creditors by executing Secured Creditor Accession Deeds;

"**Additional Notes**" means any Notes issued under Additional Note Documents;

"**Affiliate**" means in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company;

"**Agency Agreement**" means the agency agreement relating to the Programme originally dated 25 March 2011 and as amended or restated from time to time between the Issuer, the Guarantor, Deutsche Trustee Company Limited as Note Trustee, Deutsche Bank AG, London Branch as initial Issuing and Paying Agent and the other agents mentioned in it;

"**Alternative Clearing System**" means Euroclear, Clearstream, Luxembourg or any other permitted clearing system;

"**Approved Bank**" means:

(a) any lender under the Working Capital Facility Agreement;

(b) any bank or financial institution which has a rating for its long-term debt obligations of A- or higher by Fitch or A3 or higher by Moody's (or equivalent ratings by such rating agencies in the event of any change in rating scale) or a comparable rating from an internationally recognised credit rating agency; or

(c) any other bank or financial institution which is otherwise approved as such by the Note Trustee (acting as directed by an Extraordinary Resolution of the Noteholders);

"**Arranger**" means NatWest Markets Plc;

"**Auditors**" means one of PricewaterhouseCoopers, Ernst & Young, KPMG or Deloitte & Touche or any other reputable audit firm reasonably acceptable to the Note Trustee;

"**Bearer Note**" means a Note that is in bearer form, and includes any replacement Bearer Note issued pursuant to the Conditions and any temporary Global Note or permanent Global Note;

"**BMR**" means EU Regulation 2016/1011;

"**Business Day**" means a day (other than a Saturday or a Sunday) on which banks are open for general business in London, and:

(a) (in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of that currency; or

(b) (in relation to any date for payment or purchase of euro) any TARGET2 Business Day;

"**Calculation Date**" means each of 31 March and 30 September, starting on 30 September 2011;

"**Calculation Period**" means:

(a) in respect of a Calculation Date falling on 31 March, the immediately preceding 12 months and the immediately succeeding 12 months; and

(b) in respect of a Calculation Date falling on 30 September, the immediately preceding 6 months and the immediately succeeding 6 months;

"**Capital Expenditure**" or "**Capex**" means, for any period, expenditure which should be treated as capital expenditure in accordance with the Accounting Principles (and so that, to the extent the relevant expenditure is financed under a finance lease, the total amount expended by the relevant lessor during such period shall be included as Capital Expenditure);

"**Cash**" means cash in hand or credit balances or amounts on deposit which are freely transferable and freely convertible and are accessible by a member of the Group on demand with any Approved Bank and which is not subject to any security interest (other than one existing under the Transaction Security Documents);

"**Cash Equivalents**" means:

(a) securities denominated in pounds sterling and issued on or unconditionally guaranteed by the government of the United States, the United Kingdom, France or Germany or by any agency of such a government having an equivalent credit rating;

(b) commercial paper denominated in pounds sterling not issued or guaranteed by a member of the Group, for which a recognised trading market exists and maturing within 90 days of being acquired and having a rating of at least A-1 from Fitch and at least P-1 from Moody's;

(c) certificates of deposit or bankers' acceptances maturing within 90 days of being acquired issued by any bank or financial institution having a long term unsecured debt rating of at least A-1 from Fitch and at least P-1 from Moody's; and

(d) any Authorised Investments (as defined in the Master Definitions Agreement from time to time).

"**Central Bank**" means the Central Bank of Ireland as competent authority under the Prospectus Regulation;

"**Certificate**" means a registered certificate representing one or more Registered Notes of the same Series and, save as provided in the Conditions, comprising the entire holding by a Noteholder of his Registered Notes of that Series;

"**Classic Global Note**" or "**CGN**" means a classic global note;

"**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January;

"**Clearstream, Luxembourg**" means Clearstream Banking, S.A.;

"**Commitments**" means:

(a) prior to the taking of Enforcement Action:

(i) in respect of any Loan Facility, the total commitments under such Loan Facility; and

(ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

(iii) in respect of any Hedging Agreement, zero; and

(b) following the taking of Enforcement Action:

(i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;

(ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

(iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement;

"**Common Safekeeper**" means in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes;

"**Common Terms Agreement**" means the common terms agreement entered into on 30 August 2007 between, among others, TWUL and Deutsche Trustee Company Limited, in relation to the Securitisation;

"**Compliance Certificate**" means a certificate supplied by the Issuer and Guarantor to the Note Trustee certifying compliance with, and setting out, among other things, calculation of, the financial covenants set out in the Trust Deed;

"**Conditions**" means, in respect of the Notes of each Series, the terms and conditions applicable thereto which shall be substantially in the form set out in the section entitled "*Terms and Conditions of the Notes*" in this Base Prospectus, as modified, with respect to any Notes represented by a Global Certificate or a Global Note, by the provisions of such Global Certificate or Global Note, shall incorporate any additional provisions forming part of such terms and conditions set out in Part A of the relevant Final Terms or Drawdown Prospectus relating to the Notes of that Series and shall be endorsed on the Definitive Notes, subject to amendment and completion and any reference to a particularly numbered Condition shall be construed accordingly;

"**Couponholder**" has the meaning given to it in the Conditions;

"**Coupons**" means the bearer coupons relating to interest bearing Bearer Notes or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions;

"**CTA**" means the Corporation Tax Act 2010;

"**Cure Investment**" means a subscription by the immediate holding company of the Guarantor for shares in the Guarantor or any subordinated debt made available by one or more of its direct or indirect shareholders to the Guarantor;

"**Currency Hedging Agreement"** means any hedging agreement with a Hedge Counterparty in respect of a currency exchange transaction;

"**Current Commercial Assets**" means trade and other debtors in respect of operating items, prepayments and trading stock;

"**Current Commercial Liabilities**" means trade and other creditors in respect of operating items (not being in respect of Financial Indebtedness) and accrued expenses, accrued costs and deferred income;

"**Customer Rebates**" means, in respect of any financial year, an amount equal to the difference between the total revenue that is projected by TWUL to be raised during such financial year on the basis of the announced changes and the revenue that would have accrued if TWUL had established prices at the full price cap available to it under the Instrument of Appointment;

"**Date Prior**" means, at any time, the date which is one day before the next Periodic Review Effective Date;

"**Dealers**" means Banco Santander, S.A., BNP Paribas, HSBC Bank plc, Morgan Stanley & Co. International plc, NatWest Markets Plc and RBC Europe Limited and any other entity which the Issuer and the Guarantor may appoint as a dealer in accordance with the Dealership Agreement;

"**Dealership Agreement**" means the Dealership Agreement relating to the Programme originally dated 25 March 2011 and as amended or restated from time to time between the Issuer, the Guarantor, the Dealers and any other entity which the Issuer and the Guarantor may appoint as a dealer in accordance with the Dealership Agreement;

"**Default**" means an Event of Default or a Potential Event of Default;

"**Defeasance Account**" means an account in the name of the Issuer or the Guarantor, secured in favour of the Security Trustee on behalf of the Secured Creditors, the proceeds of which shall, prior to an Event of Default, only be used in payment of outstanding Financial Indebtedness of the Obligors and, following an Event of Default, shall be applied in accordance with the priorities set out in clause 11 (*Application of Proceeds*) of the Intercreditor Agreement;

"**Defeasance Cash**" means the amount standing to the credit of the Defeasance Account from time to time;

"**Definitive Note**" means a Bearer Note in definitive form having, where appropriate, Coupons, Receipt(s) and/or a Talon attached on issue and, unless the context requires otherwise, means a Certificate (other than a Global Certificate) and includes any replacement Note or Certificate issued pursuant to the Conditions;

"**Depreciation**" means, in relation to any period of time, the "total RCV run-off" (or other term(s) used to mean the depreciation charges applicable to the RCV) in respect of such period (interpolated as necessary for Out-turn Inflation) as last determined and notified to TWUL by Ofwat at the most recent Periodic Review or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a Periodic Review;

"**Disposal**" means a sale, lease, licence, transfer, loan or other disposal by a person of any asset, undertaking or business (whether by a voluntary or involuntary single transaction or series of transactions);

"**ECOFIN Council**" means the Economic and Financial Affairs Council;

"**EEA Regulated Market**" means a market which complies with the requirements set out in Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;

"**Enforcement Action**" means:

(a) the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case in accordance with the Underlying Credit Documents;

(b) the taking of any steps to enforce or require the enforcement of any Transaction Security (including the crystallisation of any floating charge forming part of the Transaction Security);

(c) the making of any demand against the Issuer or the Guarantor in relation to any guarantee, indemnity or other assurance against loss in respect of any Liabilities or exercising any right to require either the Issuer or the Guarantor to acquire any Liability;

(d) following the occurrence of an Event of Default (as defined in the Intercreditor Agreement), the exercise of any right of set-off against the Issuer or the Guarantor in respect of any Liabilities;

(e) the suing for, commencing or joining of any legal or arbitration proceedings against the Issuer or the Guarantor to recover any Liabilities;

(f) the entering into of any composition, assignment or arrangement with the Issuer or the Guarantor (unless approved by the Majority Secured Creditors); or

(g) the petitioning, applying or voting for, or the taking of any steps (including the appointment of any liquidator, receiver, administrator or similar officer) in relation to, the winding up, dissolution, administration or reorganisation of the Issuer or the Guarantor or any suspension of payments or moratorium of any indebtedness of the Issuer or the Guarantor, or any analogous procedure or step in any jurisdiction;

"**Enterprise Act**" means the Enterprise Act 2002 which received Royal Assent on 7 November 2002, and any subsequent amendments thereto;

"**Entrenched Rights**" means the rights of the Secured Creditors provided by the terms of clause 22.1 of the Intercreditor Agreement and summarised in the section entitled "*Intercreditor, Enforcement and the Working Capital Facility Agreement*" of this Base Prospectus;

"**EURIBOR**" means the Euro-zone Inter-Bank Offered Rate;

"**Euro**" "**euro**" or "**€**" means the currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty on the functioning of the European Community, as amended from time to time;

"**Euroclear**" means Euroclear Bank SA/NV;

"**Euronext Dublin**" means the Irish Stock Exchange plc trading as Euronext Dublin;

"**Eurosystem**" means the European Central Bank and the national central banks of EU Member States that have adopted the Euro;

"**Event of Default**" means an event described in Condition 10 (*Events of Default*) that, if so required by that Condition, has been certified by the Note Trustee to be, in its opinion, materially prejudicial to the interests of the Noteholders;

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located;

"**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders of a single series of Notes duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent. of the votes cast;

"**Facilities**" means the facilities made available to the Guarantor under the Working Capital Facility Agreement;

"**FATCA Withholdings**" has the meaning set out on page 65;

"**FCA**" means the Financial Conduct Authority in the UK;

"**Final Determination**" means the final price determination made by Ofwat on a five-yearly basis;

"**Final Terms**" means in relation to a Tranche, the Final Terms issued specifying the relevant issue details of such Tranche, substantially in the form set out in the section entitled "*Form of Final Terms*" in this Base Prospectus;

"**Finance Documents**" means the Working Capital Finance Documents and the Additional Finance Documents;

"**Finance Party**" has the meaning given to it in the Finance Documents;

"**Financial Indebtedness**" means any indebtedness of any member of the Group for or in respect of the following (without double counting):

(a) monies borrowed or raised and debit balances at banks or other financial institutions:

 (i) which shall be, calculated net of applicable credit balances where such monies are borrowed by a member of the Group as part of netting arrangements with a financial institution; and

 (ii) which shall include accretions by indexation in respect of index-linked swaps entered into by a member of the Group;

(b) any acceptance credit or bill discounting facility (including any dematerialised equivalent);

(c) any bond, note, debenture, loan stock or other similar instrument;

(d) any share in any member of the Group which is not held by another member of the Group and which by its terms (or any the terms of any security into which it is convertible or for which it is exchangeable, in each case at the option of the holder of that security) or upon the happening of any event matures or is mandatorily redeemable or is redeemable at the option of its holder in whole or in part on or prior to the Discharge Date (as defined in the Intercreditor Agreement);

(e) any agreement treated as a finance or capital lease in accordance with the Accounting Principles;

(f) receivables sold or discounted (except to the extent that there is no recourse);

(g) the acquisition cost of any asset or service to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition or construction of that asset or the acquisition of that service (but excluding trade credit on customary commercial terms) and is due more than three months after the date of acquisition or supply;

(h) the net liability under any Treasury Transaction (and, except for non-payment of an amount, the then mark to market value of such Treasury Transaction will be used to calculate its amount);

(i) any other transaction which has the commercial effect of a borrowing and is treated as such under the applicable Accounting Principles;

(j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or other instrument issued by a bank or financial institution in respect of an underlying liability of any person which is of the nature referred to in the above paragraphs; or

(k) any guarantee in respect of an underlying liability of any person which is of the nature referred to in the above paragraphs,

provided that:

(i) any amount owed by one member of the Group to another member of the Group shall not be taken into account;

(ii) any amounts outstanding under an intra-group loan agreement entered into on or about 29 November 2006 between the Guarantor (as borrower) and Kemble Water Structure Limited (as lender) and as subsequently assigned to Kemble Water Eurobond plc and any other amounts referred to in paragraph (e) of the definition of "Permitted Security" shall, in each case, not be taken into account;

(iii) to the extent that an amount otherwise falling under the categories in paragraphs (j) or (k) above by reason of a guarantee given by a member of the Group relates to an obligation of any member of the Non-Reg Group, it shall not be taken into account if and for so long as the relevant obligation is contingent and has not become crystallised; and

(iv) where such Financial Indebtedness is denominated other than in pounds sterling, the nominal amount outstanding will be calculated into an equivalent amount in pounds sterling:

(I) in respect of Financial Indebtedness with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; and

(II) in respect of Financial Indebtedness with no associated Currency Hedging Agreements, by reference to the spot rate at 11.00 a.m. on the date that the calculation of the currency exchange rate is required;

"**Financial Year**" means the annual accounting period of the Group ending on or about 31 March in each year;

"**Fitch**" means Fitch Ratings Ltd., or any successor to the rating agency business of Fitch Ratings Ltd.;

"**Fixed Rate Note**" means a Note on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus);

"**Floating Rate Note**" means a Note on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus;

"**FSMA**" means the Financial Services and Markets Act 2000, as amended from time to time;

"**Fund**" means any unit trust, investment trust, investment company, limited partnership, general partnership or other collective investment scheme, investment professional (as defined in Article 19(5)(d) of the Financial Services and Markets Act (Financial Promotion) Order 2005), high net worth company, unincorporated association or high value trust (as defined in Article 49(2)(a) to (c) of the Financial Services and Markets Act (Financial Promotion) Order 2005), pension fund, insurance company, authorised person under the FSMA or any body corporate or other entity, in each case the assets of which are managed professionally for investment purposes;

"**Global Certificate**" means a Certificate representing Registered Notes of one or more Tranches of the same Series that are registered in the name of a nominee for one or more clearing systems;

"**Global Note**" means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require;

"**Group**" means the Guarantor and its Subsidiaries from time to time, excluding the Non-Reg Group;

"**Group EBITDA**" means the consolidated operating profit of the Group:

(a) before taking into account IP Related Revenue;

(b) before taking into account IP Related Operating Expenses;

(c) before deducting any amount attributable to depreciation or amortisation;

(d) before taking into account any items treated as exceptional or extraordinary items;

(e) before deducting any amount of Tax on profits, gains or income paid or payable by a member of the Group;

(f) before taking into account any accrued interest received, receivable or capitalised to any member of the Group;

(g) before taking into account any accrued interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of Total Net Debt, whether paid, payable or capitalised by any member of the Group;

(h) before taking into account any unrealised or realised gains or losses on any financial instruments;

(i) after adding back (to the extent otherwise deducted) any loss against book value incurred by a member of the Group on the Disposal of any asset during the Test Period and any loss arising on any revaluation of any asset during the Test Period;

(j) after deducting (to the extent otherwise included) any gain over book value arising in favour of a member of the Group on the Disposal of any asset during the Test Period and any gain arising on any revaluation of any asset during the Test Period;

(k) before deducting any Transaction Costs;

(l) after deducting the amount of any profit of any member of the Group which is attributable to minority interests;

(m) after adding back, to the extent not included in the financial statements of the Group, the amount of any dividends or profit distribution (net of withholding tax) received in cash by any member of the Group during such Test Period from companies which are not members of the Group;

(n) after deducting the amount of any profit of any investment or entity (which is not itself a member of the Group) in which any member of the Group has an ownership interest to the extent that the amount of such profit included in the financial statements of the Group exceeds the amount (net of applicable withholding tax) received in cash by members of the Group through distributions by such investment or entity;

(o) after adding back the amount of any cash received by members of the Group through distribution by any investment or entity (which is not itself a member of the Group) in which any member of the Group has an ownership interest to the extent that the amount of such cash (net of applicable withholding tax) exceeds the amount of profit of such investment or entity included in the financial statements of the Group;

(p) after adding back Customer Rebates not collected by TWUL during such Test Period; and

in each case to the extent added, deducted or taken into account, as the case may be, for the purposes of determining profits of the Group from ordinary activities (or in the case of Customer Rebates, to the extent not collected by TWUL).

"**Group Payment Arrangement**" means the arrangement entered into pursuant to Section 59F Taxes Management Act 1970 under which Thames Water Limited has agreed to discharge the Tax liabilities of the Thames Water Group;

"**Group RAR**" means the ratio of Total Net Debt to RCV;

"**Group Tax Relief**" means any right to allocate or reallocate Tax or Relief between members of a group including by way of the surrender of losses under Part 5 CTA;

"**Guarantor**" means Kemble Water Finance Limited;

"**Guarantor Notes**" means the £10,000,000 5.30% senior secured series 1 notes due 2025 issued by the Guarantor on 29 November 2018, the £100,000,000 5.30% senior secured series 1A notes due 2025 issued by the Guarantor on 29 November 2018, the £200,000,000 senior secured series 2 notes due 2025 issued by the Guarantor on 20 December 2018, the £149,800,000 5.39% senior secured series 3 notes due 2026 issued by the Guarantor on 1 April 2019, the £50,000,000 5.26% senior secured notes due 2027 issued by the Guarantor on 23 July 2020 and the £50,000,000 5.27% senior secured notes due 2028 issued by the Guarantor on 14 August 2020;

"**Hedge Counterparty**" means a person which is or becomes a party to the Intercreditor Agreement as a Hedge Counterparty in accordance with the provisions of the Intercreditor Agreement;

"**Hedging Agreement**" means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Guarantor or the Issuer and a Hedge Counterparty for the purpose of hedging interest rate liabilities;

"**Hedging Liabilities**" means the Liabilities owed by the Guarantor to the Hedge Counterparties under or in connection with the Hedging Agreements;

"**Holdco**" means the Guarantor;

"**Holding Company**" of any other person, means a person in respect of which that other person is a subsidiary;

"**ICSD**" means International Central Securities Depositories;

"**IDOK**" means an interim determination of K (as that term is defined in the Instrument of Appointment) as provided for in Part IV of Condition B of the Instrument of Appointment;

"**Index Linked Notes**" means any Notes specified as being index linked notes in the relevant Drawdown Prospectus;

"**Initial Investor Affiliate**" means in relation to an Initial Investor any Fund, Trust or company (including any unit trust, investment trust, limited partnership or general partnership) which is controlled by, which is advised by, or which is, or the assets of which are, managed from time to time by:

(a) that Initial Investor; or

(b) any Fund, Trust or company which is controlled by that Initial Investor and which forms part of that Initial Investor's consolidated group for accounting purposes,

and this shall include any wholly-owned subsidiary of such Fund, Trust or company but, for the avoidance of doubt, shall not include an investee company of an Initial Investor;

"**Initial Investors**" means Stichting Pensioenfonds Zorg en Welzijn, Aquila GP Inc., Infinity Investments S.A., Cicero Investment Corporation, BriTel Fund Trustees Limited as custodian trustee of the BT Pension Scheme, Omers Farmoor Singapore PTE Ltd, Omers Farmoor 2 Holdings B.V., OMERS Farmoor 3 Holdings B.V., QIC Infrastructure Management PTY LTD, Church Water Investment Limited, Torfino IMC Corporation Limited and Wren House Infrastructure Investments Limited (including any successors in title);

"**Insolvency Act**" means the Insolvency Act 1986;

"**Instalment Notes**" means any Notes specified as being instalment notes in the relevant Final Terms;

"**Instrument of Appointment**" or "**Licence**" means the instrument of appointment dated August 1989 granted by the Secretary of State for Environment for TWUL as a water undertaking under Sections 11 and 14 of the Water Act 1989 (now Sections 6, 7, 11 and 12 of the WIA), as modified or amended from time to time;

"**Intercreditor Agreement**" means the intercreditor agreement originally dated 25 March 2011 as amended or restated from time to time between, among others, the Issuer, the Guarantor, the Working Capital Lenders, the Note Trustee and the Security Trustee;

"**Interest**" means, in respect of any period, interest and amounts in the nature of interest or commitments fees paid or received, payable or accruing (as applicable) under any liabilities of the Total Net Debt excluding any Financial Indebtedness in respect of the IP Liability after taking into account any hedging arrangements;

"**Interest Cover Ratio**" means, in respect of a Test Period, the ratio of Group EBITDA for that Test Period to Total Interest Service for the same Test Period;

"**Intermediate Subsidiary**" means, in respect of the Guarantor, any Subsidiary of the Guarantor that is a Holding Company of TWUL but is not a member of the Securitisation Group;

"**Investor's Currency**" means the currency in which the investor's financial activities are principally denominated;

"**IP**" means the company designated by the Secretary of State or Ofwat under the SIP Regulations to deliver the TTT Project;

"**IP Charges**" means the amount which the IP is allowed to charge to TWUL in accordance with the IP Project Licence;

"**IP Liability**" means any liability:

(a) in respect of a historical period, which is shown in the financial statements of TWUL arising as a result of the treatment of the Thames Tideway Tunnel in the financial statements of TWUL and described as such in the notes to the financial statements; or

(b) in respect of a forward looking period, which is anticipated to arise as a result of the treatment of the Thames Tideway Tunnel in the financial statements of TWUL and which is anticipated to be described as such in the notes to the financial statements.

In each case, the IP Liability shall not include any financial liability which arises (or is anticipated to arise) from amounts being overdue for payment or which represents (or is anticipated to represent) a legal repayment obligation of TWUL;

"**IP Project Licence**" means the project licence to be granted to the IP pursuant to section 17FA of the WIA (as given effect by the SIP Regulations);

"**IP Related Operating Expenses**" means that part of payments made or, in respect of a forward looking period, anticipated to be made in respect of amounts of the IP Charges that form part of operating expenses;

"**IP Related Revenue**" means such revenue collected or, in respect of a forward looking period, anticipated to be collected in respect of customer charges permitted under the IP Project Licence;

"**ISDA**" means the International Swaps and Derivatives Association Inc.;

"**Issuer**" means Thames Water (Kemble) Finance PLC;

"**Issuer/Guarantor Loan**" means the loan made pursuant to an Issuer/Guarantor Loan Agreement;

"**Issuer/Guarantor Loan Agreement**" means the loan agreement entered into between the Issuer, the Guarantor and the Security Trustee on or around 7 April 2011 and any other loan agreement entered into between the Issuer, the Guarantor and the Security Trustee in relation to the proceeds of the Notes from time to time;

"**Issuing and Paying Agent**" means the person named as such in the Conditions or any Successor Issuing and Paying Agent, in each case, at its specified office;

"**Junior Group**" means the Holding Companies of the Guarantor;

"**Kemble Shareholders**" means as at the date of this Base Prospectus, the consortium of the following investors: Stichting Pensioenfonds Zorg en Welzijn, Tofino IMC Corporation, Aquila GP Inc., Infinity Investments S.A., Cicero Investment Corporation, BriTel Fund Trustees Limited as custodian trustee of the BT pension scheme, Omers Farmoor 2 Holdings B.V., OMERS Farmoor 3 Holdings B.V., OMERS Farmoor Singapore PTE Ltd, QIC Infrastructure Management Pty Ltd, Church Water Investment Limited and Wren House Infrastructure Investments Limited (including any successors in title);

"**Legal Opinion**" means any legal opinion delivered to the Note Trustee in accordance with the covenants set out in the Trust Deed;

"**Legal Reservations**" means:

(a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;

(b) the time barring of claims under the Limitation Acts, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;

(c) similar principles, rights and defences under the laws of any Relevant Jurisdiction; and

(d) any other matters which are set out as qualifications or reservations as to matters of law of general application in the Legal Opinions;

"**Liabilities**" means all present and future liabilities, obligations and indebtedness at any time of the Issuer or the Guarantor to any Secured Creditor or any Subordinated Lender (both actual and contingent and whether incurred solely or jointly or in any other capacity) together with any of the following matters relating to or arising in respect of those liabilities and obligations:

(a) any refinancing, novation, deferral or extension;

(b) any claim for damages or restitution; and

(c) any claim as a result of any recovery by the Issuer or the Guarantor of a payment or discharge on the grounds of preference,

and any amounts which would be included in any of the above but for any discharge, non-provability or unenforceability of those amounts in any insolvency or other proceedings;

"**LIBOR**" means the London inter-bank offered rate;

"**Licence**" shall have the same meaning as Instrument of Appointment;

"**Licence Holder**" means TWUL or any successor which is a member of the Group;

"**Limitation Ac**ts" means the Limitation Act 1980 and the Foreign Limitation Periods Act 1984;

"**Loan Facility**" means a loan facility made available to the Issuer or the Guarantor;

"**Lock-Up**" has the meaning given to it in "Overview of the Key Documents – Trust Deed – Lock Up";

"**London Stock Exchange**" means the London Stock Exchange plc;

"**Majority Secured Creditors**" means:

(a) in respect of any Special Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing at least in the aggregate 66 2/3 per cent. of Total Commitments; and

(b) in respect of any Ordinary Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing greater than in the aggregate 50 per cent. of Total Commitments;

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement dated 30 August 2007 (as amended and/or restated from time to time) between, among others, TWUL, the Securitisation Issuer and Deutsche Trustee Company Limited;

"**Material Adverse Effect**" means a material adverse effect on or material adverse change in:

(a) the financial condition, assets or business of the Group taken as a whole;

(b) the ability of the Guarantor to perform and comply with its payment obligations under any Finance Document and/or its obligations under the financial covenants set out in the Trust Deed; or

(c) subject in each case to Legal Reservations, the validity, legality or enforceability of any Finance Document or the rights or remedies of any Finance Party thereunder (including, for the avoidance of doubt, the priority and ranking of any Transaction Security);

"**Member State**" means a member state of the European Union;

"**MiFID II**" means Directive 2014/65/EU, as amended;

"**Moody's**" means Moody's Investor Services, Limited, or any successor to the rating agency business of Moody's Investors Service, Limited;

"**Net Working Capital**" means, at any Calculation Date (for which purpose 7 April 2011 shall be deemed not to be a Calculation Date), Current Commercial Assets minus Current Commercial Liabilities;

"**New Global Note**" or "**NGN**" means new global note;

"**New Safekeeping Structure**" or "**NSS**" means the new safekeeping structure which applies to Registered Notes held in global form by a Common Safekeeper for Euroclear and Clearstream, Luxembourg and which is required for such Registered Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations;

"**Non-Reg Group**" means any Subsidiary of the Guarantor which is not a Holding Company of TWUL, other than;

(a) TWUL or a Subsidiary of TWUL; and

(b) the Issuer;

"**Note Documents**" means the Trust Deed, the Issuer/Guarantor Loan Agreement, the Dealership Agreement and the Agency Agreement;

"**Note Trustee**" means Deutsche Trustee Company Limited at the date of this Base Prospectus and, where the context so admits, includes any other note trustee for the time being appointed pursuant to the Trust Deed;

"**Noteholder**" has the meaning given to it in the Conditions;

"**Notes**" means the medium-term notes to be issued by the Issuer pursuant to the Dealership Agreement, guaranteed by the Guarantor, constituted by the Trust Deed and for the time being outstanding or, as the context may require, a specific number of them;

"**Obligors**" means the Issuer and the Guarantor;

"**Official Li**st" means the official list of Euronext Dublin;

"**Ofwat**" means the Water Services Regulation Authority for England and Wales, including any successor body or office;

"**Ordinary Decision**" means any decision of the Majority Secured Creditors which is not a Special Decision;

"**Original Hedge Counterparties**" means those financial institutions who become a party to the Intercreditor Agreement in accordance with clause 5 thereof by providing a Secured Creditor Accession Deed on or before 7 April 2011;

"**Out-turn Inflation**" has the meaning given to it in the MDA;

"**Page**" means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("**Reuters**")) as may be specified in the relevant Final Terms or Drawdown Prospectus as a Relevant Screen Page, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices

"**Participating Member State**" means any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union;

"**Paying Agents**" means the persons (including the Issuing and Paying Agent) referred to as such in the Conditions or any Successor Paying Agents, in each case, at their respective specified offices;

"**Periodic Review**" has the meaning given to it in the MDA;

"**Periodic Review Effective Date**" means the date with effect from which the new K will take effect, following a Periodic Review;

"**Permanent Dealers**" means all Dealers in respect of the Programme and excludes those appointed as such solely in respect of one or more specified Tranches;

"**Permanent Global Note**" means a Global Note representing Bearer Notes of one or more Tranches of the same Series, either on issue or upon exchange of a temporary Global Note, or part of it;

"**Permitted Development**" means the divestiture of part of TWUL's business into a separate licensed entity, provided that:

(a) the resultant change does not cause Group RAR to exceed 0.925:1; and

(b) Ofwat approves the divestiture; and

(c) the resultant change does not have or could not reasonably be expected to have a Material Adverse Effect;

"**Permitted Disposal**" means any disposal:

(a) of assets by the Guarantor or any Intermediate Subsidiary in its ordinary course of trade and on arm's length terms entered into for bona fide commercial purposes for the benefit of its business;

(b) for cash and on arm's length terms by the Guarantor or any Intermediate Subsidiary of any: (i) surplus plant or material and any (ii) obsolete or worn-out assets which in each case in the reasonable opinion of such company are not required for the efficient operation of its business or which are to be replaced by other similar assets comparable or superior as to type, value or quality;

(c) by the Guarantor or any Intermediate Subsidiary of cash where such disposal is not otherwise prohibited by this Agreement;

(d) by the Guarantor or any Intermediate Subsidiary of assets, the disposal of which is permitted by the Finance Documents;

(e) of Cash Equivalents by the Guarantor or any Intermediate Subsidiary on arm's length terms for cash or in exchange for other Cash Equivalents; and

(f) any transactions required as part of a Group reorganisation, including in respect of tax restructurings;

"**Permitted Distribution**" means, in each case provided that no Event of Default has occurred and is continuing:

(a) the payment of a dividend, any other distribution or payment of any amount under any loan from a member of the Group to the Guarantor and/or the Issuer or from the Guarantor to its parent company, in each case where such payment is made by a member of the Group to the Guarantor and/or the Issuer or from the Guarantor to its parent company to enable payments in respect of any employment costs, insurance premia or professional advisers' fees incurred by it, provided that, in the case of employment costs, insurance premia or professional advisers' fees, such costs, premia and fees in aggregate shall not exceed £750,000 (or its equivalent) leaving the Group in any financial year; or

(b)

(i) the surrender of Group Tax Relief by any member of the Group; provided that, in the reasonable commercial opinion of the Group, such Group Tax Relief could not (on a commercially reasonable basis and within the relevant accounting period) be used within the Group;

(ii) the payment on or prior to receiving the Group Tax Relief, by any member of the Group of any amount in respect of Group Tax Relief not exceeding the amount of Tax saved or to be saved by that member of the Group by virtue of that surrender;

(iii) any payments on account of any Tax liabilities paid by Thames Water Limited under the Group Payment Arrangement; provided that, if such payment is made in respect of the Tax liabilities of any member of the Junior Group (a "Junior Group Payment"), Thames Water Limited has received a cash amount equal to such Junior Group Payment from the Junior Group on or prior to making the Junior Group Payment under the Group Payment Arrangement;

(iv) notwithstanding any other provision of this Agreement, any amount due by a member of the Junior Group to a member of the Group in respect of any surrender of Group Tax Relief within (b)(i) may be left outstanding on inter-company account;

"**Permitted Enforcement Action**" means the steps that a Secured Creditor is entitled to take to enforce its rights against an Obligor provided by the terms of the Intercreditor Agreement and summarised in the section entitled "*Intercreditor, Enforcement and the Working Capital Facility Agreement*" of this Base Prospectus;

"**Permitted Financial Indebtedness**" means Financial Indebtedness:

(a) arising under any of the Finance Documents;

(b) arising under any Subordinated Debt;

(c) arising under a foreign exchange transaction for spot or forward delivery entered into in connection with protection against fluctuation in currency rates where that foreign exchange exposure arises in the ordinary course of trade, but not a foreign exchange transaction for investment or speculative purposes;

(d) arising under a Permitted Loan or a Permitted Guarantee;

(e) of any person acquired by the Guarantor or any Intermediate Subsidiary after the date of this Agreement which is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or its maturity date extended in contemplation of, or since, that acquisition, and outstanding only for a period of six months or less following the date of acquisition;

(f) arising under any netting or set-off arrangements permitted pursuant to paragraph (d) of the definition of "Permitted Security", the maximum aggregate net amount of which does not exceed £15,000,000;

(g) arising under the Notes or the Note Documents;

(h) permitted in accordance with the terms of the Intercreditor Agreement;

(i) any Financial Indebtedness ("Existing Financial Indebtedness") entered into by the Guarantor or any Intermediate Subsidiary before the date hereof (or any Financial Indebtedness replacing all or part of any Existing Financial Indebtedness (which term shall include any such replacement Financial Indebtedness), provided that the amount of such replacement Financial Indebtedness does not exceed the amount of the Existing Financial Indebtedness; or

(j) arising after the date hereof provided that:

  (i) the net proceeds of such additional Financial Indebtedness is either:

    (A) applied to repay outstanding Financial Indebtedness on a pound for pound basis; or

    (B) deposited into a Defeasance Account and applied at the relevant time to repay outstanding Financial Indebtedness;

  (ii) such additional Financial Indebtedness does not rank senior to the Facilities and the Notes;

  (iii) such additional Financial Indebtedness is secured and the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantor; and

  (iv) no Lock-Up or Default would occur as a result of the incurrence of such Financial Indebtedness;

"**Permitted Guarantee**" means:

(a) any guarantee arising under any Finance Document, the Notes or the Note Documents;

(b) any guarantee or indemnity (each an "Existing Guarantee") entered into by the Guarantor or any Intermediate Subsidiary before the date hereof (or any guarantee or indemnity replacing all or part of any Existing Guarantee (which term shall include any such replacement guarantee or indemnity), provided that the amount guaranteed or indemnified under such replacement guarantee or indemnity does not exceed the amount guaranteed or indemnified under the Existing Guarantee;

(c) the endorsement of negotiable instruments in the ordinary course of trade;

(d) any guarantee given in respect of the netting or set-off arrangements permitted pursuant paragraph (c) of the definition of Permitted Security;

(e) any guarantee permitted by the definition of Permitted Financial Indebtedness;

(f) any customary indemnity given under the terms of any sale and purchase agreement to any purchaser of an asset, provided that such indemnity is capped at an amount not exceeding the consideration received in respect of such asset (such capped amount, the "Capped Amount"), provided that for so long as such indemnity is outstanding: (i) an amount (the "Ring-Fenced Deposit Amount") equal to the Capped Amount shall be deposited in a new bank account of any member of the Group and such Ring-Fenced Deposit Amount shall not be debited from such account (including for the purposes of paying dividends); and (ii) such Ring-Fenced Deposit Amount shall be excluded from Cash and Cash Equivalents for the purposes of calculating Total Net Debt; and

(g) any guarantee not permitted by the preceding paragraphs and the outstanding principal amount of which does not exceed £2,000,000 (or its equivalent) in aggregate for the Group at any time;

“**Permitted Loan**” means, in respect of the Guarantor or an Intermediate Subsidiary:

(a) any trade credit extended to its customers on normal commercial terms and in the ordinary course of its trading activities;

(b) a loan made to a member of the Group;

(c) a loan made to any member of the Junior Group (provided that Lock-Up shall apply to any such loan);

(d) any loan (each an “Existing Loan”) entered into by the Guarantor or any Intermediate Subsidiary before the date hereof (or any loan replacing all or part of any Existing Loan (which term shall include any such replacement loan), provided that the amount of such loan under such replacement loan does not exceed the amount of the Existing Loan;

(e) a loan made to an employee or director if the amount of that loan when aggregated with the amount of all loans to employees and directors by members of the Group does not exceed £2,000,000 (or its equivalent) at any time;

(f) any loan made pursuant to any Finance Document, the Notes or the Note Documents;

(g) any loan made by the Issuer to the Guarantor pursuant to the Issuer/Guarantor Loan Agreement; and

(h) any loan not otherwise permitted above (other than a loan made by one member of the Group to another member of the Group) if the amount of that loan when aggregated with the amount of all other loans does not exceed £3,000,000 (or its equivalent) at any time;

“**Permitted Security**” means:

(a) any Security or Quasi-Security arising under any Finance Document (including any Transaction Security Document), the Notes or the Note Documents;

(b) any lien arising by operation of law and in the ordinary course of trading and not as a result of any default or omission of the Guarantor or any Intermediate Subsidiary;

(c) any cash management, netting or set-off arrangement entered into by the Guarantor or any Intermediate Subsidiary in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of the Group;

(d) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Guarantor or any Intermediate Subsidiary for the purpose of:

   (i) hedging any risk to which any member of the Group is exposed in its ordinary course of trading; or

   (ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only,

   excluding, in each case, any Security or Quasi-Security under a credit support arrangement in relation to a hedging transaction;

(e) any Security or Quasi-Security over or affecting any asset acquired by the Guarantor or any Intermediate Subsidiary after the date of this Agreement if:

   (i) the Security or Quasi-Security was not created in contemplation of the acquisition of that asset by the Guarantor or such Intermediate Subsidiary;

(ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the Guarantor or such Intermediate Subsidiary; and

(iii) the Security or Quasi-Security is removed or discharged within six months of the date of acquisition of such asset;

(f) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Guarantor or any Intermediate Subsidiary in the ordinary course of trading and not arising as a result of any default or omission by the Guarantor or any Intermediate Subsidiary;

(g) any Security or Quasi-Security arising as a result of a disposal which is not prohibited by the terms of any of the Transaction Documents;

(h) any Security or Quasi-Security permitted under the terms of the Intercreditor Agreement;

(i) any Security or Quasi-Security existing as at the date of this Agreement (the "Existing Security") (or any Security or Quasi-Security replacing all or part of such existing security (or replacement of such Existing Security), provided that the amount secured under such replacement security does not exceed the amount secured under the Existing Security; or

(j) any Security or Quasi-Security securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security or Quasi-Security given by any member of the Group other than any permitted under paragraphs (a) to (i) above) does not exceed £5,000,000 (or its equivalent in other currencies);

"**Permitted Transaction**" means:

(a) any disposal required, Financial Indebtedness incurred, guarantee, indemnity or Security or Quasi-Security given, or other transaction arising, under, or in connection with, the Notes, the Note Documents or any Finance Document;

(b) transactions (other than (i) any sale, lease, license, transfer or other disposal in circumstances where such sale, lease, license, transfer or other disposal is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset and (ii) the granting or creation of Security or the incurring or permitting to subsist of Financial Indebtedness) conducted in the ordinary course of trading on arm's length terms;

(c) any transaction in relation to the acquisition of part of the business of TWUL by the Guarantor or any Intermediate Subsidiary, or in relation to the separation (by contract or otherwise) of part of such business, in each case where such transaction is in preparation for or otherwise in connection with the introduction of retail competition or other market or regulatory reform in the water markets in England, provided that:

(i) the resultant change does not cause Group RAR to exceed 0.925:1; and

(ii) such transaction could not reasonably be expected to have a Material Adverse Effect;

(d) any Permitted Development;

(e) in respect of Thames Water Limited, any transaction in respect of the ordinary course of business of the Non-Reg Group and any disposal of any member of the Non-Reg Group;

(f) any transaction between members of the Group;

(g) any corporate reconstruction of the Group (including, but not limited to any capital reduction of a member of the Group, the insertion of any new holding companies, the removal of holding companies, any tax restructurings or a Permitted Disposal) provided that the Guarantor continues to comply with the financial covenants set out in the Trust Deed; and

(h) any other transaction agreed to by the Note Trustee (if directed to do so by an Extraordinary Resolution of the Noteholders);

"**Positive Value**" means in respect each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or the Guarantor (as applicable) following termination of the relevant Hedging Agreements;

"**Potential Event of Default**" means an event or circumstance that would, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10 (*Events of Default*), become an Event of Default;

"**PRIIPs Regulation**" means Regulation (EU) No 1286/2014, as amended;

"**Programme**" means the £1,000,000,000 guaranteed secured medium term note programme established by the Issuer and listed on the regulated market of Euronext Dublin;

"**Programme Limit**" means the maximum aggregate nominal amount of Notes that may be issued and outstanding at any time under the Programme, as such limit may be increased pursuant to the Dealership Agreement;

"**Prospectus Regulation**" means Regulation (EU) 2017/1129;

"**Quasi-Security**" means:

(a) the sale, transfer or disposal by any other means of assets on terms whereby they are or may be leased to or re-acquired by the Issuer or the Guarantor or any Intermediate Subsidiary;

(b) the sale, transfer or disposal by any other means of receivables on recourse terms;

(c) the entry into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(d) the entry into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset;

"**Rating Agencies**" means Fitch and Moody's;

"**Regulated Market**" means the EEA Regulated Market of Euronext Dublin;

"**RCV**" means, in relation to any date:

(a) the regulatory capital value for such date as last determined (excluding any draft determination of the regulatory capital value by Ofwat) and notified to TWUL by Ofwat at the most recent Periodic Review or IDOK or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or IDOK (interpolated as necessary and adjusted as appropriate for Out-turn Inflation) provided that for any Calculation Period for which there is no Final Determination RCV shall be TWUL's good faith, present estimate of its regulatory capital value on the last day of such Calculation Period; plus

(b) an amount equal to the Variances attributable to investment in Major Capex Projects (each as defined in the MDA);

"**Receiptholder**" means the holders of Receipts;

"**Receipts**" means the receipts for the payment of instalments of principal in respect of Bearer Notes of which the principal is repayable in instalments or, as the context may require, a specific number of them and includes any replacement Receipts issued pursuant to the Conditions;

"**Redemption Amount**" means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, all as defined in the Conditions;

"**Register**" means the register maintained by the Registrar;

"**Registered Holder**" means the person in whose name a Registered Note is registered; "Registered Note" means a Note in registered form;

"**Registrar**" means the person named as such in the Conditions or any Successor Registrar, in each case at its specified office;

"**Regulated Business**" means the business of a "relevant undertaker" (as that term is defined in the WIA) in the United Kingdom carried out by the Group;

"**Regulated Entity**" means Thames Water Utilities Limited and any other member of the Group from time to time which carries out Regulated Business;

"**Regulation S**" means the Regulation S adopted under the Securities Act;

"**Relevant Date**" has the meaning set out on page 65;

"**Relevant Factor**" means an index or formula, the prices of securities or commodities, the movements in currency exchange rates or other factors, used to determine the principal or interest under the Notes;

"**Relevant Jurisdiction**" means, in relation to the Guarantor:

(a) its jurisdiction of incorporation; and

(b) any jurisdiction whose laws govern any of the Transaction Security Documents entered into by it;

"**Relief**" includes any relief, loss, allowance, exemption, set-off, deduction or credit in computing or against profits or Tax;

"**Responsible Person(s)**" means the Issuer and the Guarantor, as applicable;

"**RPI**" means the all items retail prices index (RPI) for the United Kingdom published by the Office for National Statistics or at any future date such other index of retail prices as may have then replaced it for the purposes of Ofwat's determination of price limits for water and sewerage services;

"**Secured Creditor Accession Deed**" means a deed of accession, substantially in the form set out in Schedule 2 (*Form of Secured Creditor Accession Deed*) in the Intercreditor Agreement;

"**Secured Creditor Representative**" means:

(a) in respect of the Initial Notes and any Additional Notes, the Note Trustee;

(b) in respect of the Working Capital Finance Documents, the Working Capital Facility Agent;

(c) in respect of a Loan Facility, the agent in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the relevant Hedge Counterparty; "Secured Creditors" means:

(e) the Note Trustee (on its own behalf and on behalf of the Noteholders) and the initial Noteholders;

(f) the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar;

(g) any Additional Note Parties;

(h) the Working Capital Finance Parties;

(i) any Additional Finance Parties;

(j) the Original Hedge Counterparties;

(k) any Additional Hedge Counterparties; and

(l) the Security Trustee,

provided that, for the avoidance of doubt, Noteholders and holders of coupons in respect of Notes may only act through the Note Trustee;

"**Securities Act**" means the United States Securities Act of 1933 and any subsequent amendments thereto;

"**Securitisation**" has the meaning given to it in "Risk Factors- TWUL is subject to certain restrictions in paying dividends as part of its covenant-based ring-fencing";

"**Securitisation Group**" means Thames Water Utilities Holdings Limited, TWUL, the Securitisation Issuer and such other subsidiaries as constitute Permitted Subsidiaries under the Securitisation Programme from time to time;

"**Securitisation Issuer**" means Thames Water Utilities Finance plc;

"**Securitisation Programme**" means the £10,000,000,000 Multicurrency Programme for the issue of guaranteed wrapped bonds and guaranteed unwrapped bonds issued by Thames Water Utilities Finance plc established on 30 August 2007;

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect;

"**Security Agreement**" means the security agreement between, among others, the Security Trustee, the Issuer and the Guarantor dated on or around 7 April 2011 and as supplemented on 26 March 2015;

"**Security Trustee**" means Deutsche Trustee Company Limited or any other security trustee appointed pursuant to the Intercreditor Agreement;

"**Senior RAR**" means, on any Calculation Date, the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period;

"**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

"**SIP Regulations**" means the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013 (as amended from time to time);

"**Special Decision**" means any decision of the Majority Secured Creditors relating to any matters which:

(a) would release any of the Transaction Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Intercreditor Agreement;

(b) would change:

  (i) any material definitions which relate to the key structural principles on which the voting mechanics of the Special Decisions have been founded; or

  (ii) any of the matters requiring Special Decisions;

(c) would relate to the removal of the Security Trustee in accordance with clause 13.1.7 of the Intercreditor Agreement; or

(d) relate to any Enforcement Action,

provided that, for the avoidance of doubt, the Majority Secured Creditors may not take any decisions relating to Entrenched Rights without the relevant Secured Creditor's consent;

"**Specified Currency**" has the meaning given to it in the relevant Final Terms or Drawdown Prospectus;

"**Specified Denomination**" has the meaning given to it in the relevant Final Terms or Drawdown Prospectus;

"**Stabilising Manager(s)**" means any Dealer designated as a Stabilising Manager; "Sterling", "Pounds" or "£" means the lawful currency of the United Kingdom;

"**Subordinated Debt**" means Financial Indebtedness (ignoring for this purpose the words "(other than indebtedness owed by one member of the Group to another member of the Group)") which is non-cash pay or, if owed by a member of the Group to any direct or indirect shareholder in the Guarantor, which has no mandatory cash pay, which matures after the latest Maturity Date of any Notes and which is otherwise subordinated to the Notes or, if owed by the Guarantor to any direct or indirect shareholder in the Guarantor, on the same basis as the subordination of that shareholder's initial investment into the Guarantor;

"**Subordinated Lender Accession Deed**" means a deed of accession, substantially in the form set out in Schedule 3 (*Form of Subordinated Creditor Accession Deed*) to the Intercreditor Agreement;

"**Subordinated Lenders**" means Kemble Water Eurobond Plc and any person who becomes a Subordinated Lender by executing a Subordinated Lender Accession Deed;

"**Subordinated Liabilities**" means the Liabilities owed by the Obligors to the Subordinated Lenders;

"**Subsidiary**" means a subsidiary within the meaning of section 1159 of the Companies Act 2006 and, for the purpose of the Financial Ratios and in relation to financial statements of the Group, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006;

"**Successor**" means, in relation to an Agent, such other or further person as may from time to time be appointed by the Issuer and the Guarantor as such Agent with the written approval of, and on terms approved in writing by, the Note Trustee and notice of whose appointment is given to Noteholders;

"**Talons**" means talons for further Coupons or, as the context may require, a specific number of them and includes any replacement Talons issued pursuant to the Conditions;

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement UK Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET2 Business Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest);

"**TEFRA**" means the United States Tax Equity and Fiscal Responsibility Act of 1982;

"**temporary Global Note**" means a Global Note representing Bearer Notes of one or more Tranches of the same Series on issue;

"**Test Period**" means:

(a) the period of 12 months ending on 31 March in the then current year;

(b) the period of 12 months starting on 1 April in the same year;

(c) each subsequent 12 month period up to the Date Prior; and

(d) if the Calculation Date falls within the 13 month period immediately prior to the Date Prior, the 12 month period from the Date Prior,

provided that for the Calculation Dates on 30 September 2007 and 31 March 2008, the first Test Period shall be from 1 April 2007 to 31 March 2008, in the case of the Calculation Date on 30 September 2007 the second Test Period shall be the period of 12 months starting on 1 April in the following year, and interest shall be annualised on the basis of the interest charge from the Initial Issue Date to 31 March 2008;

"**Thames Tideway Tunnel**" has the meaning given to it in the TWUL Base Prospectus; "Thames Water Group" means Kemble Water Holdings Limited and its subsidiaries; "Total Commitments" means:

(a) prior to the taking of Enforcement Action: (i) the total commitments under the Finance Documents; plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes issued under the Note Documents; and

(b) following the taking of Enforcement Action: (i) the aggregate principal amount outstanding under the Finance Documents and the Notes issued under the Note Documents (including, if applicable, any accretion due to indexation); plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount expressed in pounds sterling on the basis of the applicable exchange rate (as determined in accordance with the Intercreditor Agreement);

"**Total Interest Service**" for the Group for any period means the aggregate of the Interest paid by the Group for such period less interest received for that period;

"**Total Net Debt**" in respect of the Group at any time means the aggregate at that time of the Financial Indebtedness of the members of the Group less: (i) Cash and Cash Equivalents; and (ii) Defeasance Cash and excluding:

(a) any amount thereof which represents accruing interest (but no capitalised interest);

(b) any amounts outstanding or mark to market under Treasury Transactions (excluding for the avoidance of doubt the accreting portion of any index-linked swaps);

(c) any pensions deficit; and

(d) any Financial Indebtedness in respect of the IP Liability;

"**Tranche**" means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical;

"**Transaction Costs**" means all non-periodic fees, costs and expenses, stamp, registration and other Taxes incurred by the Issuer or any other member of the Group in connection with the Finance Documents or any Note Document.

"**Transaction Documents**" means:

(a) the Trust Deed, the Issuer/Guarantor Loan Agreement and the Agency Agreement;

(b) the Working Capital Finance Documents (other than the Intercreditor Agreement and the Transaction Security Documents);

(c) the Intercreditor Agreement;

(d) the Transaction Security Documents;

(e) any Additional Note Documents;

(f) any Hedging Agreements; and

(g) any other Underlying Credit Documents,

and in each case any agreement specified to be a Transaction Document by the Security Trustee;

"**Transaction Security**" means the Security created, evidenced or expressed to be created or evidenced pursuant to the Transaction Security Documents;

"**Transaction Security Documents**" means:

(a) only in so far as it relates to the definitions of Cash or Cash Equivalents, the Security Agreement, the Supplemental Security Deed and any other document entered into by any member of the Group creating, evidencing or expressed to create or evidence any Security and any other Security granted under any covenant for further assurance in any of the Transaction Documents; and

(b) in any other context not covered by paragraph (a) above, the Security Agreement, the Supplemental Security Deed and any other document entered into at any time by any of the Obligors creating, evidencing or expressed to create or evidence any Security in favour of the Security Trustee for the Secured Creditors (or any of them) and any Security granted under any covenant for further assurance in any of the Transaction Documents;

"**Transfer Agents**" means the persons (including the Registrar) referred to as such in the Conditions or any Successor Transfer Agents, in each case at their specified offices;

"**Treasury Transaction**" means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate, price or index;

"**Trust**" includes a superannuation fund, managed investment scheme or custodial responsibility;

"**Trust Deed**" means the trust deed dated on or around 25 March 2011 as amended and restated on 26 June 2015 and as further amended and restated on or around the date of this Base Prospectus between the Issuer, the Guarantor and the Note Trustee;

"**TTT Project**" means the project to deliver the tunnelling project and association works known as the Thames tideway tunnel;

“**TWUL**” means Thames Water Utilities Limited;

“**TWUL Base Prospectus**” means the base prospectus dated 2 September 2020 in respect of the Thames Water Utilities Finance plc £10,000,000,000 Multicurrency programme for the issuance of Guaranteed Wrapped Bonds and Guaranteed Unwrapped Bonds;

“**TWUL Supplemental Prospectus**” means the supplemental base prospectus prepared by TWUL pursuant to Part 8, Paragraph 51 of the Irish Prospectus Regulations;

“**U.S. Dollars**” or “**$**” means the lawful currency of the United States of America;

“**Water**” means in relation to:

(a) a company, or a group of companies; or

(b) an asset or business; or

(c) any borrowings or other liabilities; or

(d) any payment or dividends or other cashflows,

that the same is or will be comprised in, or derives from, the RCV and therefore includes all of (a) to (d) above which relate to TWUL save for its non-regulated excluded income;

“**WIA**” means the Water Industry Act 1991;

“**Working Capital Facility Agent**” means National Westminster Bank PLC, as facility agent under the Working Capital Facility Agreement;

“**Working Capital Facility Agreement**” means the facility agreement for certain revolving facilities between, among others, the lenders named therein dated on or around 25 October 2018;

“**Working Capital Finance Documents**” has the meaning given to “Finance Documents” in the Working Capital Facility Agreement;

“**Working Capital Finance Parties**” has the meaning given to “Finance Parties” in the Working Capital Facility Agreement; and

“**Working Capital Lenders**” means the “Lenders” as defined in Working Capital Facility Agreement.

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