Registered no: 07516930 (England & Wales)

# Thames Water (Kemble) Finance Plc

Annual report and financial statements
For the year ended 31 March 2018

# Contents

# Directors and advisors

**Directors**

S Wheeler
T Lewis
T Bolton

**Registered auditor**

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

**Company secretary & registered office**

D Hughes
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

# Strategic report

The Directors present their Strategic Report for Thames Water (Kemble) Finance Plc ("the Company") for the year ended 31 March 2018.

**Review of the business and strategy**

The Company was established to make certain financing arrangements on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF").

The Directors consider the ultimate parent undertaking to be Kemble Water Holdings Limited ("KWH") and the largest group consolidating the Company is the Kemble Water Holdings Limited Group ("the Group"). This remains unchanged from the previous year. The Company is not individually managed but rather managed as part of the Group as a whole on an inclusive basis. For this reason, the Company's Directors believe that analysis using key performance indicators is not necessary or appropriate for an understanding of the development, performance or position of the Company.

During the year, the Company raised no new debt (2017: £nil). At 31 March 2018, the Company had in issue £575.0m of listed debt (2017: £575.0m) in the form of bonds. All bonds issued by the Company are rated B1 by Moody's with a negative outlook and BB by Fitch with rating watch negative.

**Results and performance**

For the financial year ended 31 March 2018, the Company made a profit after tax of £8,100 (2017: £8,000). Financing costs arising from raising funds on behalf of KWF are recharged to KWF through an intercompany loan, plus an annual margin of £10,000 (2017: £10,000). On this basis the Directors have no concerns regarding the performance or position of the Company. The Company did not pay any dividends during the current year (2017: £nil) and the Directors do not recommend payment of a final dividend (2017: £nil).

**Principal risks and uncertainties**

The Company's operations expose it to a variety of capital and financial risks. The Group's treasury operations are managed centrally, by a specialist team, in the UK. The team operates with delegated authority of, and under policies approved by, the Group's Board of Directors, therefore, risks are managed on a Group wide basis.

The treasury function is managed as a cost centre, not a profit centre. The operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of liquidity, credit and market risks associated with the financing activities of the Group. The treasury policy and procedures are incorporated within the financial control procedures of the Group.

There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. The Board has considered the consequences that Brexit could have upon the Company and have concluded that whilst it does not represent a new risk in itself, it may impact a number of existing risks on an individual basis e.g. market risk, credit risk and liquidity risk.

***Capital risk management***

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the Company's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

The capital structure of the Company consists of net debt and equity. The Company's net debt is comprised of bonds.

# Strategic report (continued)

**Principal risks and uncertainties (continued)**

***Financial risk management***

***(i) Market risk***

Market risk is the risk that changes in market variables, such as inflation and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

Interest rate risk arises on interest-bearing financial instruments. The Company's only financial instruments are fixed rate borrowings, which are held at amortised cost using the effective interest rate method, to be settled at par on maturity.

***(ii) Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises solely from the Company's loans to its immediate parent entity KWF.

Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables including, where appropriate, a review of the budget and forecasts of the counterparty entity.

***(ii) Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company 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 diverse debt maturity profiles are maintained.

Details of the Company's borrowings and other financial instruments are disclosed in note 7 and 8 respectively.

As stated in the accounting policies to these financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

**Key performance indicators**

The Company's activities are monitored in line with the performance of the Group. The key performance indicators of the Group are discussed in greater detail in annual report and financial statements of the main trading subsidiary, Thames Water Utilities Limited and the annual report and consolidated financial statements of the ultimate controlling company, KWH, both of which are available from the address shown on page 24.

**Future outlook**

It is expected that the Company will continue to make certain financing arrangements on behalf of its immediate parent undertaking KWF for the foreseeable future.

Approved by the Board of Directors on 27 June 2018 and signed on its behalf by:

Stephen Wheeler
**Director**

Clearwater Court
Vastern Road
Reading
Berkshire RG1 8DB

# Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2018. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to access the Company's performance and strategy.

The registered company number is 07516930.

**Future outlook**

The future outlook of the Company is discussed in the Strategic Report.

**Dividends**

The Company did not pay any dividends during the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

**Financial risk management**

The Company has access to the Chief Executive and the Executive Team of Thames Water Utilities Limited, who also manage the wider KWH Group on a day-to-day basis on behalf of the Directors of individual group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report.

**Directors**

The Directors who held office during the year ended 31 March 2018 and up to the date of this report were:

S Wheeler (appointed 1 March 2017)
T Lewis (appointed 13 October 2017)
T Bolton (appointed 13 October 2017)

The Director who held office during the year ended 31 March 2018 and resigned before the date of this report was:

P Kerr (resigned 13 April 2018)
S Ledger (resigned 29 September 2017)

During the year under review, none of the Directors had any contracts with the Company or any other body corporate other than their contracts of service.

**Political and charitable donations**

No political or charitable donations were made by the Company during the year (2017: £nil).

**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 a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Directors' indemnity provisions**

The Company has made qualifying third party indemnity provisions for the benefit of its Directors (which extend to the performance of any duties as Director of any associated company) and these remain in force at the date of this report.

## Directors' report (continued)

**Auditor**

KPMG LLP is the Company's auditor at the date of this report. PricewaterhouseCoopers LLP will replace KPMG LLP with effect from the financial year ending 31 March 2019. The appointment is subject to approval by shareholders at the next Annual General Meeting in June 2018.

Approved by the Board of Directors on 27 June 2018 and signed on its behalf by:

Stephen Wheeler
**Director**

Clearwater Court
Vastern Road
Reading
Berkshire RG1 8DB

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent auditor’s report to the members of Thames Water (Kemble) Finance Plc

**1 Our opinion is unmodified**

We have audited the financial statements of Thames Water (Kemble) Finance Plc (“the Company”) for the year ended 31 March 2018 which comprise the Income statement, the Statement of financial position, the Statement of changes of equity, the Statement of cash flows and the related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of Company’s affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors for the financial year ended 31 March 2009. The period of total uninterrupted engagement is for the 10 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

**2 Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**2 Key audit matters: our assessment of risks of material misstatement (continued)**

| | The risk | Our response |
|---|---|---|
| **Amounts owed by Group Undertakings**<br>(£590,347,000; 2017: £589,139,000)<br>*Refer to accounting policies and note 6 (Intercompany loans receivable disclosures).* | **Subjective Valuation**<br>The carrying amount of the intra-group debtor balance represents 100% of the company's total assets at 31 March 2018.<br>Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the company financial statements, this is considered to be the area that had the greatest effect on our overall audit. | Our procedures included:<br><br>**Tests of detail:** Assessing 100% of group debtors to identify, with reference to the relevant debtors' financial statements/draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making; and<br><br>**Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team, and considering the results of that work, on those net assets, including assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable.<br><br>Our results<br>The results of our testing were satisfactory and we consider the carrying value of the amounts owed by group undertakings to be acceptable. |
| **Valuation of financial Instruments**<br>(£590,347,000; 2017: £589,139,000)<br>*Refer to accounting policies and note 8 (financial instruments).* | **Low risk, high value**<br>The carrying amount of the Bond liability represents 100% of the company's total liabilities at 31 March 2018.<br><br>Their valuation is not at a high risk of significant misstatement or subject to significant judgement as the bonds are held at amortized cost using the effective interest rate. However, due to their materiality in the context of the company financial statements, this is considered to be one of the two areas that had the greatest effect on our overall audit. | Our procedures included:<br><br>**Test of detail:** Inspecting and agreeing to third party independence evidence to assess the existence and accuracy of the financial liabilities;<br><br>**Expectation vs. outcome:** Creating an expectation of the bond amortisation expense and year end valuation through recalculating and corroborating to the bond terms data;<br><br>**Test of detail:** Agreement of the intercompany balances between the fellow group companies; and<br><br>**Assessing transparency**: Testing the accuracy of the fair value disclosures including assessing the Fair Value Hierarchy (Level 1,2,3) as stipulated by the relevant standards and comparing to the Company's conclusions.<br><br>Our results<br>The results of our testing were satisfactory and we consider the valuation of financial instruments to be acceptable. |

# Independent auditor's report to the members of Thames Water (Kemble) Finance Plc (continued)

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at £17.8m (2017: £17.8m), determined with reference to a benchmark of the Company's total assets, of which it represents 3% (2017: 3%)

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.9m (2017: £0.9m), in addition to other identified misstatements that warranted reporting on qualitative grounds

Our audit of the company was undertaken to the materiality level specified above and was all performed at the company's head office in Reading.

**4 We have nothing to report on going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

**5 We have nothing to report on the strategic report and the directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**6 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- 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
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**7 Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# Independent auditor's report to the members of Thames Water (Kemble) Finance Plc (continued)

**7 Respective responsibilities (continued)**

***Auditor's responsibilities***

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

*Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities)/ irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

**8 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Simon Weaver (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square
London
E14 5GL

27 June 2018

# Income statement

For the year ended 31 March

| | Note | **2018** **£'000** | 2017 £'000 |
|---|---|---|---|
| Finance income | 3 | **42,501** | 42,420 |
| Finance expense | 4 | **(42,491)** | (42,410) |
| **Profit on ordinary activities before taxation** | | **10** | 10 |
| Tax charge | 5 | **(2)** | (2) |
| **Profit for the financial year** | | **8** | 8 |

The Company's activities above are derived from continuing activities.

The Company has no recognised gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes from pages 15 to 24 form part of these financial statements.

# Statement of financial position

As at 31 March

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| ***Non-current assets*** | | | |
| Intercompany loans receivable | 6 | **572,647** | 571,439 |
| Other financial assets | | **37** | 37 |
| | | **572,684** | 571,476 |
| ***Current assets*** | | | |
| Intercompany loans receivable | 6 | **17,700** | 17,700 |
| Other financial assets | | **76** | 66 |
| | | **17,776** | 17,766 |
| ***Current liabilities*** | | | |
| Borrowings | 7 | **(17,700)** | (17,700) |
| Group relief payable | | **(8)** | (6) |
| | | **(17,708)** | (17,706) |
| **Net current assets** | | **68** | 60 |
| ***Non-current liabilities*** | | | |
| Borrowings | 7 | **(572,647)** | (571,439) |
| | | **(572,647)** | (571,439) |
| **Net assets** | | **105** | 97 |
| ***Equity*** | | | |
| Share capital | 9 | **50** | 50 |
| Retained earnings | | **55** | 47 |
| **Total equity** | | **105** | 97 |

The accounting policies and notes on pages 15 to 24 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 June 2018 and signed on its behalf by:

Stephen Wheeler
**Director**

Registered number: 07516930 (England & Wales)

## Statement of changes in equity

| | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|
| **Balance at 1 April 2016** | 50 | 39 | 89 |
| Profit for the financial year | - | 8 | 8 |
| **Balance at 31 March 2017** | 50 | 47 | 97 |
| Profit for the financial year | - | 8 | 8 |
| **Balance at 31 March 2018** | **50** | **55** | **105** |

The accounting policies and notes on pages 15 to 24 are an integral part of these financial statements.

# Statement of cash flows

For the year ended 31 March

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| **Cash flows from operating activities** | | |
| Profit for the year | **8** | 8 |
| Less finance income | **(42,501)** | (42,420) |
| Add finance expense | **42,491** | 42,410 |
| Add tax charge | **2** | 2 |
| **Cash generated from operations** | **-** | - |
| Tax paid | **-** | - |
| **Net cash generated from operating activities** | **-** | - |
| **Cash flows from investing activities** | | |
| Interest received | **41,283** | 41,283 |
| Loans to group companies | **-** | - |
| **Net cash inflow from investing activities** | **41,283** | 41,283 |
| **Cash flows from financing activities** | | |
| Proceeds from new loans | **-** | - |
| Interest paid | **(41,283)** | (41,283) |
| **Net cash outflow from financing activities** | **(41,283)** | **(41,283)** |
| **Net movement in cash and cash equivalents** | **-** | - |
| Cash and cash equivalents at the beginning of the year | **-** | - |
| **Cash and cash equivalents at the end of the year** | **-** | - |

# Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items which are considered material.

**General information**

Thames Water (Kemble) Finance Plc (the "Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The Company's principal activity is to make certain financing arrangements on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF"), which remains unchanged from previous year.

**Statement of compliance with International Financial Reporting Standards**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

**Basis of preparation**

The financial statements for the year ended 31 March 2018, set out on pages 11 to 24, 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, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The Directors have considered the financial position of the Company and have concluded that it has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. This is based upon a review of the Group's budget, business plan and investment programme together with the cash and committed borrowing facilities available. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

**Finance income and finance expense**

Finance income represents the recharge to KWF of costs and interest incurred in respect of the raising of finance on that company's behalf recognised as it falls due. All interest and debt servicing costs are directly recharged to KWF. Interest costs incurred on the secured bonds are recharged with an additional margin of £10,000 per annum. The Company's finance expense represents the interest costs on loans and borrowings, recognised on an accrual basis, along with the amortisation of bond fees.

**Non-derivative financial instruments**

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise cash and cash equivalent, intercompany loans receivable and borrowings.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

*Interest bearing loans to other group companies*

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

## Accounting policies (continued)

**Non-derivative financial instruments (continued)**

integral part of the effective interest rate. An exchange or modification of interest bearing loans issued to other group companies with substantially different terms is accounted for as derecognition of the original financial asset and the recognition of new financial asset. If an exchange of loan or modification of terms is accounted for as derecognition, any costs or fees incurred are recognised as part of the gain or loss on the derecognition. If the exchange or modification is not accounted for as derecognition, any costs or fees incurred adjust the carrying amount of the financial asset and are amortised over the remaining term of the modified financial asset.

*Interest bearing borrowings*

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs 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. 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. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial liability and are amortised over the remaining term of the modified financial liability.

**Derivative financial instruments**

The Company has no derivative financial instruments.

**Fair value measurement**

The Company measures financial instruments at fair value at each financial reporting date for disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

**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 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.

**Impairment excluding deferred tax assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be measured reliably.

An impairment 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. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Income Statement.

**Taxation**

*Current taxation*

Current tax is the expected tax payable or receivable on the taxable income 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.

# Accounting policies (continued)

**Taxation (continued)**

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

*Deferred taxation*

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 and 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.

**New accounting policies and future reporting changes**

No new financial reporting standards have been adopted by the Company that have a material impact on the financial statements in the current year. The following issued standards have not yet been adopted by the Company:

- IFRS 9: Financial instruments, which will be effective on 1 January 2018 (and thus to the Company 1 April 2018);
- IFRS 15 Revenue from Contracts with Customers, which will be effective on 1 January 2018 (and thus to the Company 1 April 2018); and
- IFRS 16 Leases, which will be effective on 1 January 2019 (and thus to the Company 1 April 2019), subject to EU endorsement.

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 Company.

*IFRS 9 impact assessment*

IFRS 9 Financial instruments which has been endorsed by the European Union (EU), will be effective from 1 January 2018 (and thus 1 April 2018 to the Company). This standard replaces IAS 39 Financial Instruments: Recognition and Measurement and sets out the requirements for classifying, recognising and measuring financial assets and financial liabilities. During the year, management have continued to progress their impact assessment for adoption of the standard, focussing on the nature of financial instruments held and the way in which they are used. Management have concluded that there will be no material impact on adoption of this standard.

*IFRS 15 impact assessment*

IFRS 15 Revenue which has been endorsed by the European Union (EU), will be effective from 1 January 2018, and replaces a number of standards and interpretations including IAS 18 Revenue. The Company does not apply any of the standards which IFRS 15 replaces and therefore IFRS 15 will not be applicable to the Company.

# Accounting policies (continued)

**New accounting policies and future reporting changes (continued)**

*IFRS 16 impact assessment*

IFRS 16 Leases is effective from 1 January 2019, and is subject to EU endorsement. This standard replaces IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company does not apply IAS 17 and therefore IFRS 16 will not be applicable to the Company.

**Significant accounting judgements and key sources of estimation uncertainty**

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The Directors do not consider there to be any critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the current and future financial statements.

# Notes to the financial statements

## 1. Staff numbers and costs

The Company had no employees during the year (2017: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There are no retirement benefits accruing to any Director (2017: £nil).

## 2. Auditor's remuneration

The auditor's remuneration of £6,595 (2017: £3,500) was borne by Thames Water Limited in both the current and preceding financial year. No other fees were payable to KPMG LLP in respect of this Company during the year (2017: £nil).

## 3. Finance income

| | **2018**<br>**£'000** | 2017<br>£'000 |
|---|---|---|
| Interest receivable on intercompany loans receivable | **42,501** | 42,420 |

Finance income represents interest receivable on external borrowings that are lent on identical terms to KWF with an additional £10,000 annual margin (2017: £10,000).

## 4. Finance expense

| | **2018**<br>**£'000** | 2017<br>£'000 |
|---|---|---|
| Interest payable on loans and borrowings | **41,283** | 41,308 |
| Amortisation of bond fees | **1,208** | 1,102 |
| | **42,491** | 42,410 |

## 5. Taxation

| | **2018**<br>**£'000** | 2017<br>£'000 |
|---|---|---|
| **Current tax:** | | |
| Current year amounts payable in respect of group relief | **2** | **2** |
| Tax charge on profit on ordinary activities | **2** | 2 |

The tax assessed for the period is equal to (2017: equal to) the standard rate of corporation tax in the UK of 19% (2017: 20%).

| | **2018**<br>**£'000** | 2017<br>£'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **10** | 10 |
| Current tax at 19% (2017: 20%) | **(2)** | (2) |

# Notes to the financial statements (continued)

## 5. Taxation (continued)

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. As the company has no deferred tax asset or liability at the year end, there is no effect on the financial statements.

## 6. Intercompany loans receivable

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| **Amounts owed by group undertakings** | | |
| Kemble Water Finance Limited | **572,647** | 571,439 |
| **Interest owed by group undertakings** | | |
| Kemble Water Finance Limited | **17,700** | 17,700 |
| **Total loans receivable from group entities** | **590,347** | 589,139 |
| Disclosed within non-current assets | **572,647** | 571,439 |
| Disclosed within current assets | **17,700** | 17,700 |

During the year, the Company raised no new debt (2017: £nil).

The intercompany loans due from KWF are charged interest equivalent to the external borrowing rate with an additional annual margin of £10,000 (2017: £10,000). There are no amounts past their due dates.

All loans and receivables are held at amortised cost.

## 7. Borrowings

| | **2018** | 2017 |
|---|---|---|
| | **£000** | £000 |
| Secured bonds | **572,647** | 571,439 |
| External interest payable | **17,700** | 17,700 |
| Total | **590,347** | 589,139 |
| Disclosed within non-current liabilities | **572,647** | 571,439 |
| Disclosed within current liabilities | **17,700** | 17,700 |

External borrowings consist of two secured bonds with principal values of £400.0m and £175.0m maturing in 2019 and 2022 respectively (amounts above shown net of unamortised fees). The net proceeds were lent to KWF under mirrored terms with the additional margin as stated in note 6.

# Notes to the financial statements (continued)

## 8. Financial instruments

**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 valuation techniques are level 2 in the current and preceding financial periods – the fair value has been determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The Company does not hold any derivative financial instruments.

**Comparison of fair value of financial instruments with their carrying amounts**

The table below set out a comparison of the carrying values and fair values of the Company's other financial assets and liabilities. The fair values of bonds are based on level 1 of the fair value hierarchy, the fair value has been determined using quoted prices in active markets for identical assets or liabilities.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Book value £'000** | **Fair Value £'000** | Book value £'000 | Fair Value £'000 |
| **Financial assets: Loans and receivables** | | | | |
| - Loans receivable from group entities | **590,347** | **614,073** | 589,139 | 642,973 |
| Total | **590,347** | **614,073** | 589,139 | 642,973 |
| **Financial liabilities: At amortised costs** | | | | |
| Borrowings | | | | |
| - Fixed rate bonds | **590,347** | **614,073** | 589,139 | 642,973 |
| Total | **590,347** | **614,073** | 589,139 | 642,973 |

The fair value of intercompany loans represents the market value of the publically traded underlying bonds.

The financial liabilities of the Company include bonds that are traded on a public market. Fair values for these have been calculated using the 31 March 2018 quoted prices. The book value of the bonds represents the amortised cost in line with the measurement principles of IAS 39 "Financial instruments: Recognition and Measurement".

**Capital risk management**

Details of the Company's capital risk management strategy can be found in the Strategic Report.

**Financial risk management**

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

# Notes to the financial statements (continued)

## 8. Financial instruments (continued)

**Financial risk management (continued)**

**(a) Market Risk**

*Interest rate risk*

Below is the effective interest rate risk profile of the debt held by the Company:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Fixed rate | **590,347** | 589,139 |
| Total | **590,347** | 589,139 |

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:

| | **2018** | 2017 |
|---|---|---|
| | **%** | % |
| Fixed rate bond | **7.14%** | 7.14% |
| Total | **7.14%** | 7.14% |

The Company's only financial instruments are fixed rate borrowings, which are held at amortised cost using the effective interest rate method, to be settled at par on maturity, hence increase or decrease in interest rate will not have any impact on profits.

**(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 balance sheet date was £590.3m (2017: £589.1m) as shown below.

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Intercompany loans receivable | **572,647** | 571,439 |
| Interest receivable on intercompany loans receivable | **17,700** | 17,700 |
| Total | **590,347** | 589,139 |

The Company is a financing subsidiary of KWF. Its principal activity is to ensure the liquidity needs of the group are met through continued access to the capital market. Proceeds of funding activities are on lent to KWF. The above described financial assets relate to intercompany debt owed by KWF, which has a high credit rating and therefore the risk exposure is deemed immaterial, and no amounts are impaired.

There are no amounts past their due dates.

# Notes to the financial statements (continued)

## 8. Financial instruments (continued)

### (c) Liquidity Risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic Report.

The maturity profile of the interest bearing loans and borrowings disclosed in the statement of financial position are given below. The bonds are repayable between 2019 and 2022.

| | **2018** **£000** | 2017 £000 |
|---|---|---|
| - Within one year | **-** | - |
| - Between one and two years | **398,966** | - |
| - Between two and three years | **-** | 398,008 |
| - Between three and four years | **-** | - |
| - Between four and five years | **173,681** | - |
| - After more than five years | **-** | 173,431 |
| Total | **572,647** | 571,439 |

*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 | **2018** **£000** | 2017 £000 |
|---|---|---|
| - Within one year | **(41,062)** | (41,062) |
| - Between one and two years | **(425,563)** | (41,062) |
| - Between two and three years | **(10,062)** | (425,563) |
| - Between three and four years | **(10,062)** | (10,062) |
| - Between four and five years | **(180,031)** | (10,062) |
| - After more than five years | **-** | (180,031) |
| Total | **(666,780)** | (707,842) |

## 9. Share capital

| | **2018** **£'000** | 2017 £'000 |
|---|---|---|
| **Allotted, called-up and fully paid** | | |
| 13,000 ordinary shares of £1 each | **13** | 13 |
| **Allotted, called-up and unpaid** | | |
| 37,000 ordinary shares of £1 each | **37** | 37 |
| Total | **50** | 50 |

# Notes to the financial statements (continued)

## 9. Share capital (continued)

The Company 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 Company.

## 10. Immediate and ultimate parent and controlling party

The Company's immediate parent undertaking is Kemble Water Finance Limited, which owns 100% of the Company's share capital and is also the smallest group to consolidate these financial statements.

The Directors consider the ultimate parent company and controlling party is Kemble Water Holdings Ltd, a company incorporated in the United Kingdom, and the largest group to consolidate these financial statements.

Copies of the financial statements of all of the above companies may be obtained from The Company Secretarial Department, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

## 11. Related Parties

*Transactions with group entities*

The Company was established to make certain financing arrangements on behalf of KWF. The major transactions of the Company are raising of finance and subsequent lending of the debt to KWF. Loans receivable from group entities represent cumulative financing proceeds that have been lent on to KWF.

There are no amounts past their due dates.

Interest receivable from KWF during the year was £42.5m (2017: £42.4m).

Details of the loans receivable as a result of the above transactions can be found in note 6.

*Transactions with key management personnel*

During the current and preceding year, none of the Directors had any contracts with the Company or any other body corporate other than their contracts of service.