Registered no: 07516930 (England & Wales)

Thames Water (Kemble) Finance Plc

Annual report and financial statements
For the year ended 31 March 2019

Contents

Directors and advisors

Directors

T Lewis
T Bolton
D Manuelpillai

Registered auditor

PricewaterhouseCoopers LLP
3 Forbury Place
Forbury Road
Reading
RG1 3JH

Company secretary & registered office

D Hughes
S Billett
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 2019.

Review of the business and strategy

The principal activity of the Company is to make certain financing arrangements on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF"), and remains unchanged from the previous year.

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 (2018: £nil). At 31 March 2019, the Company had in issue £574.3m (principal) of listed debt (2018: £575.0m) in the form of bonds. All bonds issued by the Company are rated B1 by Moody's with a negative outlook (2018: B1 with a negative outlook) and BB- by Fitch with a negative outlook (2018: BB with rating watch negative). The downgrade by Fitch reflected their expectation of weakening credit metrics based on KWF's plan to raise more incremental debt and increase its standalone gearing. 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.

Results and performance

For the financial year ended 31 March 2019, the Company made a profit after tax of £8,100 (2018: £8,100). 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 (2018: £10,000). On this basis the Directors have no concerns regarding the performance or position of the Company.

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 which 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 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 policies and procedures are incorporated within the financial control procedures of the Group. Copies of the Group's annual report and financial statements may be obtained from The Company Secretary's Office at address mentioned on note 10.

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, KWF.

(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.

Future outlook

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

This Strategic Report was approved by the Board of Directors on 25 July 2019 and signed on its behalf by:

Tom Bolton
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 2019. 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 number of the Company is 07516930.

Directors

The Directors who held office during the year ended 31 March 2019 and up to the date of this report were:

T Lewis
T Bolton
D Manuelpillai (appointed 1 July 2019)

The Directors who held office during the year ended 31 March 2019 and resigned before the date of this report were:

S Wheeler (resigned 19 July 2019)
P Kerr (resigned 13 April 2018)

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 (2018: none).

Future outlook

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

Dividends

The Company paid no dividends during the year (2018: £nil). The Directors do not recommend the payment of a final dividend (2018: £nil).

Corporate Governance

The Company has full access to the Board of the Group, including access to the risk management and internal control systems. Their 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. The Group's 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.

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

Directors' report (continued)

Financial risk management

During the period, the Company had 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. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate action can be taken in the relevant group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report on pages 2 and 3.

Research and development

The Company undertakes no research and development activity, this remains unchanged from the prior year.

Political and charitable donations

No political or charitable donations were made by the Company during the year (2018: £nil).

Disclosure of information to the auditor

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.

Directors' indemnities

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.

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 25 July 2019 and signed on its behalf by:

Tom Bolton
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 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 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 company and of the profit or loss of the 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, 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 company will continue in business.

The directors are also responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors of the fellow group company Thames Water Utilities Limited are responsible for the maintenance and integrity of the Thames Water Utilities Limited's website, where the Company's annual report and financial statements are published. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors on 25 July 2019 and signed on its behalf by:

Tom Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Thames Water (Kemble) Finance Plc

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water (Kemble) Finance Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit and 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
- 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 financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2019; the Income statement, the Statement of cash flows, the Statement of changes in equity; 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 company 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 company.

Other than those disclosed in note 1 to the financial statements, we have provided no non-audit services to the company in the period from 1 April 2018 to 31 March 2019.

Our audit approach

Overview

- Overall materiality: £5.9 million (2018: N/A), based on 1% of Total assets.

- There is one operating segment and management team based in the United Kingdom. Audit procedures have been performed to the above stated materiality on all balances.

- Valuation of intercompany loans receivable.
- Existence, classification and measurement of financial instruments.

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.

Independent auditors' report to the members of Thames Water (Kemble) Finance Plc (continued)

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to those laws and regulations that have a direct impact on the preparation of the company's financial statements including the Companies Act 2006, the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority and UK tax legislation, 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 inappropriate journal entries to manipulate financial performance and position and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the Groups legal advisors, in order to identify and assess known or suspected instances of non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries that met our predefined risk criteria, in particular journal entries posted with certain unusual account combinations or posted by senior management

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***
Valuation of intercompany loans receivable Judgement is required to assess if amounts owed by group undertakings can be recovered in full and if not what is the expected future recoverability. We have not identified this as an area of significant risk however due to the materiality of the balance (£590,955,000) it is considered an area of focus for our audit.	We have verified that management have appropriately applied IFRS 9 to determine the expected recoverable value. We have verified that estimates made where applicable are consistent with those made by group management for other purposes e.g. long term viability in the group assessment. We have verified that other estimates management have made for this assessment are reasonable and based on historical performance. We have obtained management's model and verified the mathematical accuracy of calculations used. Overall we conclude with the assessment that management have made and that there is no indication of material impairment.
Existence, classification and measurement of financial instruments The company is a financing entity, it issues debt to support the operations of the Kemble Water Holdings group. The external borrowings it holds have been lent on to its immediate parent. Therefore, the bond liability held at year end represents the total liability of the company and it is also the basis of the intercompany loans receivable and the finance expense and income. We have not identified this as an area of significant risk however due to the materiality of the balance (£ 590,955,000) it is considered to be an area of focus for our audit.	We have reviewed the original term sheets of both bonds held. We have tested the subsequent measurement at amortised cost by recalculating the cumulative amortised bond costs. We have tested 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. Overall we have obtained sufficient assurance over the existence, classification and measurement of financial instruments.

Independent auditors' report to the members of Thames Water (Kemble) Finance Plc (continued)

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 company, the accounting processes and controls, and the industry in which it operates.

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 company, the accounting processes and controls, and the industry in which it operates.

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 materiality	£5.9 million (2018: N/A).
How we determined it	1% of Total assets.
Rationale for benchmark applied	The entity is consistently near breakeven and functions to service the group financing arrangements. Therefore, using total assets as a benchmark is appropriate..

We agreed with the Directors that we would report to them misstatements identified during our audit above £295,230 (2018: N/A) as well as misstatements below that amount 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 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 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 company'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.

Independent auditors' report to the members of Thames Water (Kemble) Finance Plc (continued)

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 company and its 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 annual report and financial statements set out on page 6, 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 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 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee of Thames Water Utilities Limited, 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. This is therefore our first year of uninterrupted engagement.

Katharine Finn (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
25 July 2019

Income statement
For the year ended 31 March

	Note	2019 £'000	2018 £'000
Finance income	3	**42,597**	42,501
Finance expense	4	**(42,587)**	(42,491)
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 accounting policies and notes from pages 15 to 25 are an integral part of these financial statements.

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.

Statement of financial position
As at 31 March

	Note	2019 £'000	2018 £'000
Non-current assets			
Intercompany loans receivable	6	**173,945**	572,647
Other financial assets		**37**	37
		173,982	572,684
Current assets			
Intercompany loans receivable	6	**417,010**	17,700
Other financial assets		**86**	76
		417,096	17,776
Current liabilities			
Borrowings	7	**(417,010)**	(17,700)
Group relief payable		**(10)**	(8)
		(417,020)	(17,708)
Net current assets		**76**	68
Non-current liabilities			
Borrowings	7	**(173,945)**	(572,647)
		(173,945)	(572,647)
Net assets		**113**	105
Equity			
Called up share capital	9	**50**	50
Retained earnings		**63**	55
Total equity		**113**	105

The accounting policies and notes on pages 15 to 25 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 25 July 2019 and signed on its behalf by:

Tom Bolton
Director

Registered number: 07516930 (England & Wales)

Statement of changes in equity

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	50	47	97
Profit for the year	-	8	8
At 31 March 2018	50	55	105
Profit for the year	-	8	8
At 31 March 2019	**50**	**63**	**113**

The accounting policies and notes on pages 15 to 25 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 March

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit for the year	**8**	8
Less finance income	**(42,597)**	(42,501)
Add finance expense	**42,587**	42,491
Add tax charge	**2**	2
Cash generated from operations	**-**	-
Tax paid	**-**	-
Net cash generated by operating activities	**-**	-
Investing activities		
Interest received	**41,291**	41,283
Redemption of loans to group companies	**690**	-
Net cash generated by investing activities	**41,981**	41,283
Financing activities		
Repayment of borrowings	**(690)**	-
Interest paid	**(41,291)**	(41,283)
Net cash outflow used in financing activities	**(41,981)**	**(41,283)**
Net movement in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of 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, except as noted below:

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 trading address and 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"), and remains unchanged from the 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").

The policies applied in these 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 25 July 2019, the date that the Board of Directors approved these financial statements.

Basis of preparation

The financial statements for the year ended 31 March 2019, set out on pages 11 to 25, 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 in compliance with the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

Certain cash flows related to the company are transacted by fellow group companies on behalf of the Company. The directors have assessed that the Company is the principal in these transactions and the group's role is for administrative purposes only. As such the company presents all cash flows related to the company in these financial statements in line with IAS 7.

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.

New accounting policies

A number of amendments to IFRSs became effective for the financial year beginning 1 April 2018. We have undertaken an assessment over the impact of adopting the new accounting standards that are now effective, including IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers has been endorsed by the European Union ("EU"), was effective from 1 January 2018, and therefore the Company from 1 April 2018. IFRS 15 replaces a number of standards and interpretations including IAS 18 Revenue. Management has concluded that IFRS 15 does not have a material impact on the Company as no income from revenue was recognised during the year.

IFRS 9 Financial Instruments

The Company 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 Company has undertaken an assessment of our accounting policy as a result of the changes in the standard:

Accounting policies (continued)

New accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Classification and Measurement

The review 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 as a result of adopting IFRS 9.

Impairment Methodology

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.

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. Further details of the assessment performed are given in Note 8 (b) credit risk.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. As a result of this assessment, management have determined that no provision is required.

Future standards and amendments

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 have any leases and does not intend to enter into any contracts for leases in the future. As a result, the standard is expected to have no impact on the Company.

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.

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 accruals 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 equivalents, intercompany loans receivable and borrowings.

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 that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Accounting policies (continued)

Non-derivative financial instruments (continued)

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 integral part of the effective interest rate.

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.

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 of financial assets

There is an annual impairment review for intercompany receivables which assesses the ability of the entity to pay them based on a multi-factor analysis including the counter party credit score, past history of default, current financial performance of the counterparty and potential future changes to the counterparty.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the statement of other comprehensive income.

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.

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.

Accounting policies (continued)

Taxation (continued)

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.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Company 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 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. Auditors' remuneration

The auditors', PricewaterhouseCoopers LLP, remuneration was borne by Thames Water Limited in both the current and preceding financial year. The total amount payable relating to the Company was £12,000 (2018: £6,595 – KPMG LLP). This consists of £9,000 of statutory audit fees and £3,000 of other assurance related services.

2. Employees and Directors

Employees

The Company had no employees during the year (2018: none).

Directors

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 were no retirement benefits accruing in either the current or preceding financial year.

3. Finance income

	2019 £'000	2018 £'000
Interest income on intercompany loans receivable	**42,597**	42,501

Finance income represents interest receivable on external borrowings that are lent on identical terms to KWF with an additional £10,000 annual margin (2018: £10,000).

4. Finance expense

	2019 £'000	2018 £'000
Interest expense on loans and borrowings	**42,587**	42,491
	42,587	42,491

5. Tax charge

	2019 £'000	2018 £'000
Current tax:		
Amounts payable in respect of group relief	**2**	2
Tax charge on profit on ordinary activities	**2**	2

The tax charge for the year ended 31 March 2019 is equal to (2018: equal to) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £'000	2018 £'000
Profit on ordinary activities before taxation	**10**	10
Total tax charge at 19% (2018: 19%)	**(2)**	(2)

Notes to the financial statements (continued)

5. Tax charge (continued)

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted in 2016. This will reduce the company's future current tax charge accordingly. The company does not have any deferred tax assets or liabilities. There are no unrecognised deferred tax balances.

6. Intercompany loans receivable

	2019	2018
	£'000	£'000
Amounts owed by Group undertakings		
Kemble Water Finance Limited	**573,255**	572,647
Interest receivable on amounts owed by Group undertakings		
Kemble Water Finance Limited	**17,700**	17,700
Total	**590,955**	590,347
Disclosed within non-current assets	**173,945**	572,647
Disclosed within current assets	**417,010**	17,700

The intercompany loans due from KWF are charged interest equivalent to the external borrowing rate with an additional annual margin of £10,000 (2018: £10,000). There are no amounts past their due dates.

All loans and receivables are held at amortised cost.

7. Borrowings

	2019	2018
	£000	£000
Secured bonds	**573,255**	572,647
Interest payable on borrowings	**17,700**	17,700
Total	**590,955**	590,347
Disclosed within non-current liabilities	**173,945**	572,647
Disclosed within current liabilities	**417,010**	17,700

External borrowings consist of two secured bonds with principal values of £399.3 million (7.75% fixed rate) and £175.0 million (5.75% fixed rate) 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.

The bonds issued by TW(K)F are guaranteed by Kemble Water Finance Ltd and benefit from security over the assets, including investments, of Kemble Water Finance Ltd.

Following the acquisition by certain affiliates of OMERS Infrastructure European Holdings BV of an additional 4% interest in KWH, the Company was required, under the terms of its £400.0 million bond due in 2019, to offer to redeem the bond at 101% of its principal amount together with accrued interest. Bond holders representing a notional amount of £690,000 accepted this offer and the principal value outstanding of this bond was thereby reduced to £399.3 million from £400.0 million.

Notes to the financial statements (continued)

8. Financial instruments

Categories of financial instruments

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

	2019 **£'000**	2018 £'000
Financial assets at amortised cost:		
- Intercompany loans receivable	**590,955**	590,347
Total	**590,955**	590,347
Financial liabilities at amortised cost:		
Borrowings		
- Fixed rate bonds	**590,955**	590,347
Total	**590,955**	590,347

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 – 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 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.

	2019		2018	
	Book value £'000	**Fair Value £'000**	Book value £'000	Fair Value £'000
Financial assets:				
- Intercompany loans receivable	**590,955**	**612,228**	590,347	614,073
Total	**590,955**	**612,228**	590,347	614,073
Financial liabilities:				
Borrowings				
- Fixed rate bonds	**590,955**	**612,228**	590,347	614,073
Total	**590,955**	**612,228**	590,347	614,073

Notes to the financial statements (continued)

8. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts (continued)

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 2019 quoted prices. The book value of the bonds represents the amortised cost.

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, 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 Company has taken to manage them is described in the Strategic Report.

(a) Market Risk

Interest rate risk

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

	2019	2018
	£'000	£'000
Fixed rate	**590,955**	590,347
Total	**590,955**	590,347

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:

	2019	2018
	%	%
Fixed rate	**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 £591.0 million (2018: £590.3 million) as shown below.

Notes to the financial statements (continued)

8. Financial instruments (continued)

(b) Credit risk (continued)

	2019 £'000	2018 £'000
Intercompany loans receivable	**573,255**	572,647
Interest receivable on intercompany loans receivable	**17,700**	17,700
Total	**590,955**	590,347

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 markets. Proceeds of funding activities are lent on to KWF. The above described financial assets relate to intercompany debt owed by KWF.

There are no amounts past their due dates.

The amount due to TWKF of £591.0 million represents the cash received under the external debt of £399.3 million and £175.0 million, as disclosed in Note 7, that has been on lent to KWF.

Moody's rated KWF guaranteed debt as B1 (negative outlook) and Fitch as BB- (negative outlook). On 31 October 2018, Fitch downgraded KWF guaranteed debt from BB (rating watch negative) to BB- (negative outlook). The downgrade by Fitch reflected their expectation of weakening credit metrics based on KWF's plan to raise more incremental debt and increase its standalone gearing. 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.

As the external debt issuance and rating is based on the performance of the guarantor, KWF, the directors believe it is acceptable to attribute the same internal rating to the back-to-back loan receivable.

At a Kemble Water Holdings (KWH) consolidated level an assessment has been performed to consider the long term viability of the Group over a period of ten years which exceeds the longest maturity of the loans payable by KWF to TWKF. The analysis concluded that, when considering both the potential risk exposures of the group, or "stress tests", and the potential mitigating actions, that the directors of KWH have a reasonable expectation that the Group will be able to continue to meet its liabilities as they fall due over the ten-year period.

Further during April 2019, £414.8 million out of £591.0 million was received from KWF and used to repay £399.3 million external debt and £15.5 million of related interest.

As such given there is no concern over the ability to pay the external liabilities from which these intercompany receivables have arisen and are linked to and a low probability of other events occurring that could lead to an impairment, the directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany receivables.

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.

	2019 £000	2018 £000
- Within one year	**399,310**	-
- Between one and two years	**-**	398,966
- Between three and four years	**173,945**	-
- Between four and five years	**-**	173,681
Total	**573,255**	572,647

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 £000**	2018 £000
- Within one year	**(424,873)**	(41,062)
- Between one and two years	**(10,062)**	(425,563)
- Between two and three years	**(10,062)**	(10,062)
- Between three and four years	**(180,031)**	(10,062)
- Between four and five years	**-**	(180,031)
Total	**(625,028)**	(666,780)

9. Called up share capital

	2019 £'000	2018 £'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

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.

Notes to the financial statements (continued)

10. Immediate and ultimate parent and controlling party

The immediate parent company of Thames Water (Kemble) Finance plc is Kemble Water Finance Limited, a company incorporated in the United Kingdom, which owns 100% of the issued share capital of the Company and is the smallest group to consolidate these financial statements.

The Directors consider the ultimate parent company and controlling party to be Kemble Water Holdings Ltd, a company incorporated in the United Kingdom, and the largest group to consolidate these financial statements. The address of the registered office of both Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts for both entities may be obtained from The Company Secretary's Office at this address.

11. Related Parties

Transactions with group entities

The principal activity of the Company is to make certain financing arrangements on behalf of KWF and as such the major transactions of the Company are the 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 and interest receivable from KWF during the year was £42.6 million (2018: £42.5 million). Details of the loans receivable can be found in note 6.

There are no amounts past their due dates.

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.