Registered no: 07516930 (England & Wales)

Thames Water (Kemble) Finance Plc

Annual report and financial statements
For the year ended 31 March 2020

Contents

Directors and advisors

Directors

T Bolton
D Manuelpillai
M Bamford

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH
United Kingdom

Company secretary & registered office

D Hughes
S Billett
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB
United Kingdom

Strategic Report

The Directors present their Strategic Report for Thames Water (Kemble) Finance Plc ("the Company") for the year ended 31 March 2020.

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"), and this 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.

During the year, the Company raised no new debt (2019: £nil). In April 2019, £414.8 million was received from KWF as repayment of an intercompany loan together with accrued interest, and used to repay £399.3 million of external debt and £15.5 million of related interest. At 31 March 2020, the Company had in issue £175.0 million (principal) of listed debt (2019: £574.3 million) in the form of bonds.

All bonds issued by the Company are rated B1 by Moody's with a stable outlook (2019: B1 with a negative outlook). On 9th April 2020, Fitch downgraded the Company's senior secured debt Long-Term Rating to B+ with negative outlook (2019: BB- with negative outlook). The Directors do not consider that the change in rating reflects a material change in credit risk or significantly impacts the ability of the Company to issue debt via the capital markets.

Results and performance

The Directors have determined that the result before tax and the net assets are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company.

For the financial year ended 31 March 2020, the Company made a profit after tax of £3,100 (2019: £8,100), a reduction of £5,000 from the previous year, due to non-recurring operating expenditure. 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 (2019: £10,000). Net assets of the Company at the financial year ended 31 March 2020 were £116,000 (2019: £113,000). 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 in pages 14 and 15 of the Group's annual report and financial statements.

Copies of the Group's annual report and financial statements may be obtained from The Company Secretary's Office address mentioned in note 12.

Strategic Report (continued)

Principal risks and uncertainties (continued)

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 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 borrowings and equity. Quantitative information in relation to the capital structure is included in Note 8 'Borrowings' and Note 10 'Called up share capital' on pages 26 and 30 respectively.

(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 external 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. Debt raised by the Company is on-lent to its immediate parent entity KWF.

(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 so as to assess its ability to repay debt and pay interest.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained. The Company matches its financial obligations with receivables due from its parent.

Details of the Company's borrowings and other financial instruments are disclosed in note 8 and 9 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. The Company's only external borrowing consists of a secured bond with a principal value of £175.0 million (5.75% fixed rate) maturing in 2022. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Strategic Report (continued)

s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

“A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;

(b) the interests of the Company's employees;

(c) the need to foster the Company's business relationships with suppliers, customers and others;

(d) the impact of the Company’s operations on the community and the environment;

(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly as between members of the Company.”

On appointment, as part of their induction of becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group’s main trading company, Thames Water Utilities Limited.

During the year, the Company has continued to act as a financing company within the Kemble Water Holdings Limited Group. Day-to-day running of the Company is managed by the Company’s management team, consisting of employees from the Group’s main trading company, Thames Water Utilities Limited. During the year, the Board of Directors have approved updates of debt issuance programme documentation and the approval of the Company’s annual report and financial statements. The Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Likely consequences of decisions in the long term

The Board’s decision to update the debt issuance programme documentation is consistent with the purpose of the Company acting as a financing vehicle for its parent.

Stakeholder management

The Company’s stakeholders are considered to be external debt investors and other companies within the Kemble Water Holdings Group with whom intercompany loan relationships exists. The Company places considerable importance on communication with investors and through a Group-wide approach, regularly engages with them on a wide range of topics. The Group’s Head of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and Environment

In raising funding for other Group companies, the Board supports the Group-wide commitment to seeking to continually improve the delivery of water and wastewater services in the most sustainable way, which means complying with regulation, delivering public value and leaving the environment in a better state than we found it at the end of each regulatory period. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group’s annual report is available from the address shown in note 12 on page 30.

Strategic Report (continued)

s172 reporting (continued)

Community and Environment (continued)

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006.

Future outlook

It is expected that the Company will continue with its current business model for the foreseeable future, with the proceeds of the Company's debt raising activities lent to its immediate parent undertaking KWF with a margin charged in addition to the underlying costs.

This Strategic Report was approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

T 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 2020. 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 2020 and up to the date of this report were:

T Bolton
D Manuelpillai (appointed 1 July 2019)
M Bamford (appointed 26 July 2019)

The Directors who held office during the year ended 31 March 2020 and resigned before the date of this report were:

S Wheeler (resigned 19 July 2019)
T Lewis (resigned 26 July 2019)

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 (2019: none).

Future outlook

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

Going concern

The Directors have considered the nature of the business and don't expect this to significantly change over the next 12 month period. In light of COVID-19 risk on the Group, the Directors have obtained a letter of support from Company's ultimate parent company, Kemble Water Holdings Limited (KWH), to support the going concern basis.

The Directors have assessed the Company's ability to continue as a going concern recognising it is a special purpose financing entity with no business operations other than raising external funding for its Guarantor, Kemble Water Finance Limited ("KWF"). As such the Company is wholly reliant on KWF as a source of income. KWF is a holding company with no material, direct business operations and is therefore mainly dependent on its operating subsidiary, Thames Water Utilities Limited to generate the funds necessary for both TW(K)F and KWF to meet their respective financial obligations.

Given the dependency on TWUL, the Directors have considered the going concern assessment made by TWUL Group (TWUL and its subsidiary Thames Water Utilities Finance Plc). The section on page 20, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for the TWUL Group on a going concern basis.

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

Dividends

The Company paid no dividends during the year (2019: £nil). The Directors do not recommend the payment of a final dividend (2019: £nil).

Directors' report (continued)

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 the remainder of the asset management plan ("AMP");
- Performance reporting – the Company Board and Group 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 are 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; and
- 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.

Financial risk management

During the year, the Company had access to the Executive Team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Limited (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 to 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 (2019: £nil).

Disclosure of information to the auditors

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.

Directors' report (continued)

Independent auditors

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.

The financial statements on pages 15 to 30 were approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

T 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 are responsible for the maintenance and integrity of the company's financial statements published on Thames Water Utilities Limited's website, where the Company's annual report and financial statements are published (Thames Water Utilities Limited is a fellow subsidiary of the ultimate parent company Kemble Water Holdings Limited). 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 29 June 2020 and signed on its behalf by:

T 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 2020 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 2020; the Income statement, the Statement of cash flows, and the Statement of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the 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 2019 to 31 March 2020.

Our audit approach

Overview

- Overall materiality: £1.8 million (2019: 5.9 million), 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
- Impact of COVID-19

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

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, 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 company's 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 (£176,454,000) it is considered an area of focus for our audit. Refer to note 9 of the financial statements.	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 (being management of 'Kemble Water Holdings Limited'), for other purposes e.g. long term viability in the group assessment ('group' being the 'Kemble Water Holdings Limited' group). 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

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

Impact of COVID-19

The COVID-19 pandemic is considered to have a significant impact on specific items in the Annual report. The specific areas of the financial statements where we have assessed the impact of COVID-19 are as below:

- Going concern- COVID-19 is likely to have a potential impact-on the group's cash flows, macro-economic impact (financial markets) and in turn the ability of the group to access the financial markets. Refer to the Accounting policies section of the financial statements.
- Recoverability of intercompany loan receivables. Refer to note 9 of the financial statements.

We have also incorporated the guidance for auditors issued by the FRC regarding COVID-19 and applied this where appropriate.

We have considered the impact of COVID-19 on various areas of the Annual report and performed procedures to address the risk around the impact of COVID-19.

We have set out our responses to the risk in respective areas of the financial statements as below:

- Going concern: Management have obtained a letter of support from its ultimate parent company, Kemble Water Holdings Limited ('KWH'). As part of our audit of KWH we have understood how management have factored in the potential impact of COVID-19 on future cash flows and the potential impact of this on covenant compliance including; lower non-household consumption, delays in cash collection of household revenue and impacts on the cost base. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since year end. Further we have assessed the availability of financial resources and the ability of the group to absorb potential adverse circumstances over the going concern period.

  From these procedures we have obtained reasonable assurance on the ability for KWH to provide support to the company and therefore for the company to be a going concern.

- Recoverability of intercompany loan receivables- Refer Key Audit Matter "Valuation of intercompany loans receivable" above.

  Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.

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

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.

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	£1.8 million (2019: 5.9 million).
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 £88,000 (2019: £295,230) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the 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 9, 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

We were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 March 2019 to 31 March 2020.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
29 June 2020

Income statement

For the year ended 31 March

	Note	**2020 £'000**	2019 £'000
Operating expenses		**(5)**	-
Operating loss		**(5)**	-
Finance income	4	**10,573**	42,597
Finance expense	5	**(10,563)**	(42,587)
Profit on ordinary activities before taxation		**5**	10
Tax charge	6	**(2)**	(2)
Profit for the financial year		**3**	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 19 to 30 are an integral part of these financial statements.

Statement of financial position
As at 31 March

	Note	2020 £'000	2019 £'000
Non-current assets			
Intercompany loans receivable	7	**174,254**	173,945
Other financial assets		**37**	37
		174,291	173,982
Current assets			
Intercompany loans receivable	7	**2,200**	417,010
Other financial assets		**91**	86
		2,291	417,096
Current liabilities			
Borrowings	8	**(2,200)**	(417,010)
Group relief payable		**(12)**	(10)
		(2,212)	(417,020)
Net current assets		**79**	76
Non-current liabilities			
Borrowings	8	**(174,254)**	(173,945)
		(174,254)	(173,945)
Net assets		**116**	113
Equity			
Called up share capital	10	**50**	50
Retained earnings		**66**	63
Total equity		**116**	113

The accounting policies and notes on pages 19 to 30 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

T 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 2018	50	55	105
Profit for the year, being total comprehensive income	-	8	8
At 31 March 2019	50	63	113
Profit for the year, being total comprehensive income	-	3	3
At 31 March 2020	**50**	**66**	**116**

The accounting policies and notes on pages 19 to 30 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 March

	2020	2019
	£'000	£'000
Cash flows from operating activities		
Profit for the year	**3**	8
Less finance income	**(10,573)**	(42,597)
Add finance expense	**10,563**	42,587
Add tax charge	**2**	2
Net cash (used in)/generated by operating activities	**(5)**	-
Investing activities		
Interest received	**25,760**	41,291
Loans repaid by group companies	**399,310**	690
Net cash generated by investing activities	**425,070**	41,981
Financing activities		
Repayment of borrowings	**(399,310)**	(690)
Interest paid	**(25,755)**	(41,291)
Net cash outflow used in financing activities	**(425,065)**	**(41,981)**
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 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 address of the registered office is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

The Company's principal activity is to raise finance on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF").

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 29 June 2020, the date that the Board of Directors approved these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS.

The financial statements for the year ended 31 March 2020, set out on pages 15 to 30, have been prepared on the going concern basis, under the historical cost convention.

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.

Going concern

Company

The Directors have considered the nature of the business and don't expect this to significantly change over the next 12 month period. In light of COVID-19 risk on the Group, the Directors have obtained a letter of support from the Company's ultimate parent company, Kemble Water Holdings Limited (KWH), to support the going concern basis.

The Directors have assessed the Company's ability to continue as a going concern recognising it is a special purpose financing entity with no business operations other than raising external funding for its Guarantor, Kemble Water Finance Limited ("KWF"). As such the Company is wholly reliant on KWF as a source of income. KWF is a holding company with no material, direct business operations and is therefore mainly dependent on its operating subsidiary, the Thames Water Utilities Limited Group ("TWUL Group") to generate the funds necessary for both TW(K)F and KWF to meet their respective financial obligations.

Given the dependency on the TWUL Group, the Directors have considered the going concern assessment made by the TWUL Group directors as well as the actions taken by the TWUL Group post the balance sheet date of 31 March 2020. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for the TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL annual report for 2019/20, copies of which may be obtained from the Company Secretary's Office at the address included in note 12.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment

The TWUL Group has considerable financial resources, a strong liquidity position, ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the TWUL Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the TWUL Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the TWUL Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the TWUL Group.

As a consequence of these factors and having accepted the five year plan for 2020-2025 (the Final Determination), the Directors believe that the TWUL Group is well placed to manage its business risks successfully and have a reasonable expectation that the TWUL Group has adequate resources to continue in operational existence for the foreseeable future.

Conclusion

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

Accounting policies (continued)

New accounting policies and financial reporting changes

An amendment to IFRS became effective for the financial year beginning 1 April 2019. We have undertaken an assessment of the impact of adopting the new accounting standard IFRS 16 'Leases' that is now effective.

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 'Leases' replaces IAS 17 'Leases' and related interpretations and sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. The Company does not have any leases and does not intend to enter into any contracts for leases in the future. As a result, management have concluded that IFRS 16 'Leases' does not have any impact on the Company.

Future standards and amendments

<u>IBOR reform</u>

Following the financial crisis, the reform and replacement of benchmark interest rates such as the London Interbank Offer Rate (''LIBOR'') and other interbank offered rates (''IBORs'') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes in the various jurisdictions affected.

We cannot rely on LIBOR being published after the end of 2021. It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR as a reference rate. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

At the time of reporting, industry working groups are reviewing methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Company is establishing a project to oversee the GBP LIBOR transition plan. This transition project will include changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Company currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2020, the Company had no designated hedge relationship and hedge accounting was not applied.

In addition to the IBOR reform, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the financial statements of the 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.

Accounting policies (continued)

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 include cash on hand, short-term deposits 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.

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 rate 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 counterparty credit score, past history of default, current financial performance of the counterparty and potential future changes to the counterparty.

Accounting policies (continued)

Taxation

Tax on the profit or loss for the year 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 year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

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 years. 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 year 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 or estimates 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 £25,000 (2019: £12,000). This consists of £20,800 of statutory audit fees (2019: £9,000) and £4,200 (2019: £3,000) of other assurance related services.

2. Employees and Directors

Employees

The Company had no employees during the year (2019: 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. Directors renumeration costs are borne by other members of the Kemble Water Group of Companies and no recharge is made to Thames Water (Kemble) Finance Plc for their services.

3. Segmental analysis

The Company's income and results arise solely in the United Kingdom and are attributable to one principal activity of the Company, being the raising of finance and subsequent lending of debt to KWF. Consequently the Directors review the financial information of the Company as a whole and therefore have not included segmental analysis within these financial statements.

4. Finance income

	2020	2019
	£'000	£'000
Interest income on intercompany loans receivable	**10,573**	42,597

Finance income represents interest receivable on external borrowings that are lent on identical terms to KWF with an additional £10,000 annual margin (2019: £10,000).

5. Finance expense

	2020	2019
	£'000	£'000
Interest expense on borrowings	**10,563**	42,587
	10,563	42,587

Notes to the financial statements (continued)

6. Tax charge

	2020	2019
	£'000	£'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 2020 is higher than (2019: equal to) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020	2019
	£'000	£'000
Profit on ordinary activities before taxation	**5**	10
Current tax charge at 19% (2019: 19%)	**1**	2
Effects of:		
Disallowable expenditure	**1**	-
Total tax charge at 19% (2019: 19%)	**2**	2

The planned reduction of the UK corporation tax rate from 19% to 17% (to be effective from 1 April 2020) has been cancelled by Finance Bill 2020 which was substantively enacted on 17 March 2020. As the Company does not have any deferred tax assets or liabilities, there are no implications for the financial statements. There are no unrecognised deferred tax balances.

7. Intercompany loans receivable

	2020	2019
	£'000	£'000
Amounts owed by Group undertakings		
Kemble Water Finance Limited	**174,254**	573,255
Interest receivable on amounts owed by Group undertakings		
Kemble Water Finance Limited	**2,200**	17,700
Total	**176,454**	590,955
Disclosed within non-current assets	**174,254**	173,945
Disclosed within current assets	**2,200**	417,010

The intercompany loans due from KWF are charged interest equivalent to the external borrowing rate with an additional annual margin of £10,000 (2019: £10,000). There are no amounts past their due by dates. As these assets relate to intercompany debt owed by a holding company of a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are considered to be impaired, refer to note 9 (b) Credit Risk.

All loans and receivables are held at amortised cost. Terms of the intercompany loans receivable reflect terms of the external borrowing included in note 8.

Notes to the financial statements (continued)

7. Intercompany loans receivable (continued)

In April 2019, £414.8 million was received from KWF as repayment of an intercompany loan together with accrued interest, and used to repay £399.3 million external debt and £15.5 million of related interest. The Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany receivables.

8. Borrowings

	2020	2019
	£000	£000
Secured bonds	**174,254**	573,255
Interest payable on borrowings	**2,200**	17,700
Total	**176,454**	590,955
Disclosed within non-current liabilities	**174,254**	173,945
Disclosed within current liabilities	**2,200**	417,010

External borrowings consist of a secured bond with a principal value of £175.0 million (5.75% fixed rate) maturing in 2022 (amounts above shown net of unamortised fees). The proceeds were lent to KWF under mirrored terms with the additional margin as stated in note 7.

In April 2019, £399.3 million external debt and £15.5 million of related interest was repaid, a total of £414.8 million reduction in borrowings compared with the previous year ended 31 March 2019.

The bond issued by TW(K)F is guaranteed by Kemble Water Finance Limited and benefits from security over the assets, including investments, of Kemble Water Finance Limited.

9. Financial instruments

Categories of financial instruments

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

	2020	2019
	£'000	£'000
Financial assets at amortised cost:		
- Intercompany loans receivable	**176,454**	590,955
Total	**176,454**	590,955
Financial liabilities at amortised cost:		
Borrowings		
- Fixed rate bonds	**176,454**	590,955
Total	**176,454**	590,955

Notes to the financial statements (continued)

9. Financial instruments (continued)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

Unless otherwise stated, all of the Company's valuation techniques are level 1 – the fair value has been determined from inputs of 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 sets 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.

	2020		2019	
	Book value £'000	**Fair Value £'000**	Book value £'000	Fair Value £'000
Financial assets:				
- Intercompany loans receivable	**176,454**	**175,247**	590,955	612,228
Total	**176,454**	**175,247**	590,955	612,228
Financial liabilities:				
Borrowings				
- Fixed rate bonds	**176,454**	**175,247**	590,955	612,228
Total	**176,454**	**175,247**	590,955	612,228

The fair value of intercompany loans represents the market value of the publicly 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 2020 quoted prices. The book value of the bonds represents the amortised cost.

Capital risk management

The Company's capital structure consists of borrowings and equity. 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.

Notes to the financial statements (continued)

9. 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:

	2020	2019
	£'000	£'000
Fixed rate	**176,454**	590,955
Total	**176,454**	590,955

The weighted average interest rate of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	2020	2019
	%	%
Fixed rate maturing 2022	**5.75%**	7.14%
Total	**5.75%**	7.14%

The Company's only external 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. The proceeds are on-lent to KWF on mirrored terms, hence any 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 £176.4 million (2019: £591.0 million) as shown below.

	2020	2019
	£'000	£'000
Intercompany loans receivable	**174,254**	573,255
Interest receivable on intercompany loans receivable	**2,200**	17,700
Total	**176,454**	590,955

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.

Notes to the financial statements (continued)

9. Financial instruments (continued)

(b) Credit Risk (continued)

During March 2020, Moody's concluded their review of ratings for the Group, moving KWF guaranteed debt from negative to stable outlook (still rated B1). During April 2020 Fitch downgraded KWF's rating to B+ from BB-. The directors do not consider that the change in rating reflects a material change in credit risk or impacts the ability of KWF to issue debt via the capital markets. 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. This assessment has been made assuming capital markets continue to operate under normal market conditions and that no renationalisation of the water sector take place over the assessment period.

Further during April 2019, £414.8 million was received from KWF as repayment of an intercompany loan together with accrued interest, and used to repay £399.3 million external debt and £15.5 million of related interest.

As such given there is no specific 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.

(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 in 2022, and some prior year bonds matured in 2019.

	2020	2019
	£000	£000
- Within one year	**-**	399,310
- Between one and two years	**174,254**	-
- Between three and four years	**-**	173,945
Total	**174,254**	573,255

Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2020**	2019
	£000	£000
- Within one year	**(10,062)**	(424,873)
- Between one and two years	**(10,062)**	(10,062)
- Between two and three years	**(180,031)**	(10,062)
- Between three and four years	**-**	(180,031)
Total	**(200,155)**	(625,028)

Notes to the financial statements (continued)

10. Called up share capital

	2020 **£'000**	2019 £'000
Allotted, called-up and fully paid		
13,000 (2019: 13,000) ordinary shares of £1 each	**13**	13
Allotted, called-up and unpaid		
37,000 (2019: 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.

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 financing proceeds that have been lent on to KWF and interest income from KWF during the year was £10.6 million (2019: £42.6 million). Details of the loans receivable can be found in note 7.

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.

12. 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 the smallest group to consolidate these financial statements.

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

Copies of the financial statements for the above entities may be obtained from The Company Secretarial department, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.