Registered no: 07516930 (England & Wales)

Thames Water (Kemble) Finance plc

Annual report and financial statements
For the year ended 31 March 2023

Contents

Company information

Directors

H Onarheim
S Deeley
S Pugh

Independent auditors

PricewaterhouseCoopers LLP
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Reading
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Company secretary & registered office

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Clearwater Court
Vastern Road
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Strategic Report

The Directors present their Strategic Report for Thames Water (Kemble) Finance plc ("the Company") for the year ended 31 March 2023.

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 (2022: £nil). In July 2022, £118.5 million was received from KWF as repayment of an intercompany loan together with accrued interest; and used to repay £115.1 million of external debt and £3.4 million of related interest. At 31 March 2023, the Company had in issue £400.0 million (principal) of listed debt (2022: £515.1 million) in the form of secured bonds.

In March 2023, Fitch downgraded KWF's and the Company's senior secured debt rating to B (2022: B+) and KWF's Long-Term Issuer Default Rating to B with negative outlook (2022: B+ with negative outlook). In March 2023 Moody's affirmed the rating of the Company's senior secured debt at B1 and changed the outlook to negative (2022: B1 with stable outlook).

Results and performance

The Directors have determined that the profit on ordinary activities before taxation 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 2023, the Company made a profit on ordinary activities before taxation of £391,000 (2022: £409,000), a reduction of £18,000 compared to the previous year mostly attributed to other finance fees not recharged to KWF. Financing costs arising from raising funds on behalf of KWF are recharged to KWF through intercompany loans with an annual margin of £10,000 (2022: £10,000) and a 0.10% margin on the £400.0 million intercompany loan. Net assets of the Company at the financial year ended 31 March 2023 were £884,000 (2022: £547,000). On this basis the Directors have no significant 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 the 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 key elements of the treasury policies and procedures are incorporated in the Group's annual report and consolidated financial statements.

Copies of the Group's annual report and consolidated 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 credit rating of the Company's debt 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' respectively.

(a) 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.

(b) 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 markets 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 Notes 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. 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. 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.

<u>Likely consequences of decisions in the long-term</u>

The Board's decision in the prior year to update the debt issuance programme documentation was consistent with the purpose of the Company being in a position to act as a financing vehicle for its parent. The decision in the prior year to issue £400.0 million of debt due in 2026 enables the Company to earn a 0.10% margin from lending the proceeds to its parent. In the current year, the Company repaid £115.1 million of external debt and £3.4 million of related interest, and no new debt was raised.

<u>Stakeholder management</u>

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 Director 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.

<u>Community and environment</u>

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 Group's 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 and consolidated financial statements is available from the address shown in Note 12.

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 15 July 2023 and signed on its behalf by:

S Deeley
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 2023. 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 2023 and up to the date of this report were:

H Onarheim (appointed 24 May 2023)
S Deeley (appointed 24 May 2023)
S Pugh (appointed 24 May 2023)
D Gregg (appointed 22 February 2023, resigned 24 May 2023)
A Black (appointed 22 February 2023, resigned 24 May 2023)
J Mogg (appointed 22 February 2023, resigned 24 May 2023)
D Manuelpillai (resigned 22 February 2023)
T Bolton (resigned 22 February 2023)
M Bamford (resigned 8 July 2022)

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 (2022: none).

Future outlook

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

Going concern

The TW(K)F Directors have considered the nature of the business and do not expect this to significantly change over the next 12 month period, recognising it is a special purpose financing entity with no business operations other than raising external funding for its Guarantor and direct holding company, Kemble Water Finance Limited ("KWF"). TW(K)F relies on Kemble Water Holdings Limited ("KWH"), the ultimate parent company, for ongoing support.

KWH has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements and on this basis the Directors of TW(K)F have adopted the going concern basis in preparing these financial statements.

In making the assessment of KWH's ability to provide the support as required, the Directors of TW(K)F have considered the material uncertainty in relation to the going concern assessment in KWH related to (i) the inability to refinance the £190 million loan facility with KWF (an indirect subsidiary of KWH and the parent company of TW(K)F) before April 2024 and (ii) the breach of the Post Maintenance Interest Cover ("PMICR") covenant for KWF Group in the event of a severe but plausible downside scenario and the availability of or certainty of potential remedies. The KWH Directors have also considered the various options to resolve such uncertainties at KWF which include but are not limited to various refinancing actions which could include additional support from shareholders on a temporary basis. Remedies to address potential non-compliance of the PMICR covenant include utilisation of the associate equity cure via shareholder contributions which underpin the business plan of Thames Water Utilities Limited and the amendment or refinancing of the associated loan facility, both of which require the agreement and support of the loan counterparty. These material uncertainties relating to refinancing requirements and covenant compliance of the KWH Group may cast significant doubt about the ability of TW(K)F to continue as a going concern.

The Directors of TW(K)F, have considered it appropriate to place reliance on the support from KWH despite the uncertainties noted above, based upon a review of the KWH Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The TW(K)F Directors also took into account potential contingent liabilities and other risk factors in making their assessment.

Directors' report (continued)

Going concern (continued)

For these reasons, the TW(K)F Directors' have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for a period of at least 12 months from the date of these financial statements and have therefore concluded that the financial statements should be prepared on a going concern basis. However, the financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Dividends

The Company paid no dividends during the year (2022: £nil). The Directors do not recommend the payment of a final dividend (2022: £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:

(i) 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");
(ii) Performance reporting – the Company Board and Group shareholders receive monthly management reports, including an overview of key performance metrics;
(iii) System of delegated authority – delegated levels of decision making authority are reviewed and approved by the Board;
(iv) 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;
(v) Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk; and
(vi) 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.

Further details relating to Corporate Governance are incorporated in the Group's annual report and financial statements.

Financial risk management

During the year, the Company had access to the Executive Team of TWUL, 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.

Directors’ report (continued)

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 (2022: £nil).

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’ confirmations

Each of the directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors’ report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information

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 Directors’ report was approved by the Board of Directors on 15 July 2023 and signed on its behalf by:

S Deeley
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 UK-adopted international accounting standards 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 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 also 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 TWUL's website. 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 15 July 2023 and signed on its behalf by:

S Deeley
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 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2023; 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 Kemble Water Holdings Limited Board.

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.

Other than those disclosed in note 1 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the accounting policies to the financial statements concerning the company's ability to continue as a going concern.

We note that TW(K)F relies on support from Kemble Water Holdings Limited (KWH) (ultimate parent company) and as at the date of approval of the financial statements there is a material uncertainty relating to going concern at KWH as there are uncertainties relating to (1) the refinancing of the £190m loan facility which is due for repayment in April 2024 at Kemble Water Finance Limited (KWF) (an indirect subsidiary of KWH and the parent company of TW(K)F); and (2) KWF is forecasting to breach the PMICR covenant under a severe but plausible downside scenario. This in turn creates a material uncertainty at TW(K)F as due to the conditions above, it creates a material uncertainty as to whether KWH would be able to extend the support committed if and when required.

These conditions, along with the other matters explained in the accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Understanding and assessing the factors creating a material uncertainty and the consequences of an Event of Default (EOD).
- Assessing whether the directors' statement that they have a reasonable expectation that the potential mitigating actions to the material uncertainties will occur is reasonable.
- Obtaining and understanding the terms of the Group's financing and credit facilities. We have verified the existence of the facilities in place on which management has based its liquidity forecast for a period of in excess of 12 months from the date of the approval of the 31 March 2023 financial statements (the going concern period).
- Testing the mathematical integrity of the cash flow forecasts and the models supporting the forecasts used by management to support the underlying going concern assumption and reconciling these to Board approved budgets.
- Understanding the key assumptions management have applied in developing their base case and plausible and severe downside scenarios and assessing their reasonability.
- Performing a comparison of budget versus actual for the year ended 31 March 2023 and understanding where variances had arisen. Through this testing we obtained reasonable assurance over management's ability to forecast accurately.
- Verifying liquidity forecasts to the Board approved budget and testing that contractual debt principal and interest payments had been appropriately included within the forecasts. We validated management's conclusion that there is insufficient available committed funding without any refinancing or raising of new debt or receipt of the shareholder funding to repay the £190m loan facility held by KWF that matures in April 2024.
- Obtaining covenant compliance certificates, confirming that all the key covenants that impact the continued access to finance have been considered over the relevant time periods and verifying the mathematical accuracy, and testing inputs back to either the year end financial numbers or for forecasted information to the Board approved budget.
- Assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

- Material uncertainty related to going concern
- Valuation of intercompany loans receivable

Materiality

- Overall materiality: £4,067,500 (2022: £5,225,000) based on 1% of total assets.
- Performance materiality: £3,050,625 (2022: £3,919,000).

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.

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.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Material uncertainty related to going concern is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of intercompany loans receivable Judgement is required to assess if intercompany loans receivable can be recovered in full or if an expected credit loss provision is required. Given the magnitude of the amount due as at 31 March 2023 of £406m (2022: £522m) this has been an area of focus for our audit. Refer to Note 7 of the financial statements.	We obtained an understanding and assessed the design and implementation of financial controls relating to the valuation of intercompany loans receivable. We have verified that management have appropriately applied IFRS 9 to determine the expected credit loss. 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. the assessment of the carrying value of goodwill. We have verified that other assumptions and estimates management have made for this assessment are reasonable. 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.

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.

The entity consists of one operating segment and is managed from a single location based in the United Kingdom.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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 company materiality	£4,067,500 (2022: £5,225,000).
How we determined it	1% of total assets
Rationale for benchmark applied	The entity functions to service group financing requirements. Therefore, using total assets as a benchmark is appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £3,050,625 (2022: £3,919,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Kemble Water Holdings Limited Board that we would report to them misstatements identified during our audit above £406,750 (2022: £522,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2023 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 financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, 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 financial statements such as UK corporation tax legislation and 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 the posting of journal entries to manipulate the financial results in the year. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and inquiries of group management, internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments in particular in relation to the valuation of intercompany loans receivable. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where appropriate along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 Kemble Water Holdings Limited Board, 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 5 years, covering the years ended 31 March 2019 to 31 March 2023.

KE Finn

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
15 July 2023

Income statement
For the year ended 31 March

	Note	**2023 £'000**	2022 £'000
Finance income	4	**21,283**	26,311
Finance expense	5	**(20,892)**	(25,902)
Profit on ordinary activities before taxation		**391**	409
Taxation on profit on ordinary activities	6	**(54)**	(78)
Profit for the financial year		**337**	331

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.

Statement of financial position
As at 31 March

	Note	2023 £'000	2022 £'000
Non-current assets			
Intercompany loans receivable	7	**398,948**	398,658
		398,948	398,658
Current assets			
Intercompany loans receivable	7	**6,930**	123,405
Other financial assets		**15**	5
Cash and cash equivalents		**858**	477
		7,803	123,887
Current liabilities			
Borrowings	8	**(6,783)**	(123,291)
Amounts payable in respect of group relief		**(132)**	(78)
		(6,915)	(123,369)
Net current assets		**888**	518
Non-current liabilities			
Borrowings	8	**(398,952)**	(398,629)
		(398,952)	(398,629)
Net assets		**884**	547
Equity			
Called up share capital	10	**50**	50
Retained earnings		**834**	497
Total equity		**884**	547

The financial statements were approved by the Board of Directors on 15 July 2023 and signed on its behalf by:

S Deeley
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 2021	50	166	216
Profit for the year, being total comprehensive income	-	331	331
At 31 March 2022	50	497	547
Profit for the year, being total comprehensive income	-	337	337
At 31 March 2023	**50**	**834**	**884**

Statement of cash flows
For the year ended 31 March

	2023 £'000	2022 £'000
Cash flows from operating activities		
Profit for the year	**337**	331
Less finance income	**(21,283)**	(26,311)
Add finance expense	**20,892**	25,902
Taxation on profit on ordinary activities	**54**	78
Movement in other financial assets	**-**	143
Movement in group relief payable	**-**	(35)
Net cash generated by operating activities	**-**	108
Investing activities		
Loans repaid by group companies	**115,113**	-
Interest received	**22,281**	24,206
Fees received	**63**	163
Net cash generated by investing activities	**137,457**	24,369
Financing activities		
Repayment of borrowings	**(115,113)**	-
Interest paid	**(21,882)**	(23,836)
Fees paid	**(81)**	(164)
Net cash outflow used in financing activities	**(137,076)**	(24,000)
Net movement in cash and cash equivalents	**381**	477
Cash and cash equivalents at beginning of year	**477**	-
Cash and cash equivalents at end of year	**858**	477

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 public limited company, limited by shares, incorporated 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

The financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Basis of preparation

The financial statements for the year ended 31 March 2023, set out on pages 16 to 33, 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 role of other group's companies 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.

<u>Going concern</u>

The TW(K)F Directors have considered the nature of the business and do not expect this to significantly change over the next 12 month period, recognising it is a special purpose financing entity with no business operations other than raising external funding for its Guarantor and direct holding company, Kemble Water Finance Limited ("KWF"). TW(K)F relies on Kemble Water Holdings Limited ("KWH"), the ultimate parent company, for ongoing support.

KWH has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements and on this basis the Directors of TW(K)F have adopted the going concern basis in preparing these financial statements.

In making the assessment of KWH's ability to provide the support as required, the Directors of TW(K)F have considered the material uncertainty in relation to the going concern assessment in KWH related to (i) the inability to refinance the £190 million loan facility with KWF (an indirect subsidiary of KWH and the parent company of TW(K)F) before April 2024 and (ii) the breach of the Post Maintenance Interest Cover ("PMICR") covenant for KWF Group in the event of a severe but plausible downside scenario and the availability of or certainty of potential remedies. The KWH Directors have also considered the various options to resolve such uncertainties at KWF which include but are not limited to various refinancing actions which could include additional support from shareholders on a temporary basis. Remedies to address potential non-compliance of the PMICR covenant include utilisation of the associate equity cure via shareholder contributions which underpin the business plan of Thames Water Utilities Limited and the amendment or refinancing of the associated loan facility, both of which require the agreement and support of the loan counterparty. These material uncertainties relating to refinancing requirements and covenant compliance of the KWH Group may cast significant doubt about the ability of TW(K)F to continue as a going concern.

The Directors of TW(K)F, have considered it appropriate to place reliance on the support from KWH despite the uncertainties noted above, based upon a review of the KWH Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The TW(K)F Directors also took into account potential contingent liabilities and other risk factors in making their assessment.

For these reasons, the TW(K)F Directors' have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for a period of at least 12 months from the date of these financial statements and have therefore concluded that the financial statements should be prepared on a going concern basis. However, the financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Accounting policies (continued)

New accounting policies

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

Finance income and finance expense

Finance income represents the recharge to KWF of costs and interest incurred by the Company in respect of the raising of finance on KWF's behalf including a margin based on the terms of the relevant intercompany loan.

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, borrowings, other financial assets, and amounts payable in respect of group relief.

Cash and cash equivalents

Cash and cash equivalents – cash at bank and in hand are held at amortised cost and include cash on hand and deposits held at call with financial institutions.

Intercompany loans receivable

Intercompany 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.

Borrowings

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.

Other financial assets

Other financial assets include amounts owed by immediate parent company KWF and is recognised at amortised cost using the effective interest rate method.

Amounts payable in respect of group relief

Amounts payable in respect of group relief represents amounts owed for the benefit of tax losses received from other entities within the Group.

Accounting policies (continued)

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

(b) the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
(c) the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

As at 31 March 2023, no embedded derivatives were recognised (31 March 2022: none).

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. During the year ended 31 March 2023, no amounts were offset in the financial statements (2022: £nil).

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.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax, and is recognised in the income statement.

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.

Accounting policies (continued)

Taxation (continued)

Deferred taxation (continued)

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 Company intends to settle its current tax assets and liabilities on a net basis.

Future standards and amendments

IFRS 17 'Insurance Contracts' impact assessment

IFRS 17 'Insurance Contracts', which replaces IFRS 4 'Insurance Contracts', establishes new principles for the recognition, measurement, presentation, and disclosure of insurance and reinsurance contracts and is mandatory for annual reporting periods beginning on or after 1 January 2023. This standard is not expected to have a material impact on the entity in the current or future reporting periods.

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 remuneration of the auditors, PricewaterhouseCoopers LLP, was borne by Thames Water Limited and was not recharged to the Company in both the current and preceding financial year. The total amount payable relating to the Company was £20,865 (2022: £19,500). This consists of £18,190 of statutory audit fees (2022: £17,000) and £2,675 (2022: £2,500) of other assurance related services.

2. Employees and Directors

Employees

The Company had no employees during the year (2022: 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' remuneration costs are borne by other members of the Kemble Water Group of Companies and no recharge is made to the Company 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

For the year ended 31 March	**2023** **£'000**	2022 £'000
Interest income on intercompany loans receivable	**21,220**	26,148
Other finance fees recharged to KWF	**63**	163
	21,283	26,311

The interest income on intercompany loans receivable reflects the recharge of financing costs arising from raising funds on behalf of KWF including a 0.10% margin on the £400.0 million intercompany loan and an annual margin of £10,000 (2022: £10,000).

5. Finance expense

For the year ended 31 March	**2023** **£'000**	2022 £'000
Interest expense on borrowings	**(20,810)**	(25,739)
Other finance fees	**(82)**	(163)
	(20,892)	(25,902)

Notes to the financial statements (continued)

6. Taxation on profit on ordinary activities

For the year ended 31 March	**2023** **£'000**	2022 £'000
Current tax:		
Amounts payable in respect of group relief	**54**	78
Tax charge on profit on ordinary activities	**54**	78

The tax charge for the year ended 31 March 2023 is lower than (2022: equal to) the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	2023 **£'000**	2022 £'000
Profit on ordinary activities before taxation	**391**	409
Corporation tax at 19% (2022: 19%) on profit on ordinary activities before taxation	**74**	78
Effects of:		
Transfer pricing adjustment (recharge of management expenses from KWF)	**(20)**	-
Total tax charge	**54**	78

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. As the Company has no deferred tax balances, and no unrecognised deferred tax balances, there is no impact on these financial statements.

Notes to the financial statements (continued)

7. Intercompany loans receivable

As at 31 March	**2023 £'000**	2022 £'000
Amounts owed by Group undertakings		
Kemble Water Finance Limited	**398,948**	513,686
Interest receivable on amounts owed by Group undertakings		
Kemble Water Finance Limited	**6,930**	8,377
Total	**405,878**	522,063
Disclosed within non-current assets	**398,948**	398,658
Disclosed within current assets	**6,930**	123,405

The intercompany loans due from KWF are charged interest equivalent to the external borrowing rate with an annual margin of £10,000 (2022: £10,000) and a margin of 0.10% on the £400.0 million secured bond on lent to KWF.

During the year, £118.5 million was received from KWF as repayment of an intercompany loan together with accrued interest, and used to repay £115.1 million of external debt and £3.4 million of related interest.

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 Directors consider the credit risk exposure immaterial and no amounts are considered to be impaired, hence there is no need to book an impairment provision, refer to Note 9 (b) Credit Risk.

Intercompany loans 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)

8. Borrowings

As at 31 March	**2023** **£'000**	2022 £'000
Bonds	**398,952**	513,657
Interest payable on borrowings	**6,783**	8,263
Total	**405,735**	521,920
Disclosed within non-current liabilities	**398,952**	398,629
Disclosed within current liabilities	**6,783**	123,291

External borrowings consist of a secured bond with a principal value of £400.0 million maturing in 2026 (2022: £515.1 million (amounts above shown net of unamortised fees). The proceeds were on lent to KWF under mirrored terms with the additional margin as stated in note 7.

In July 2022, £115.1 million external debt and £3.4 million of related interest was repaid.

As at 31 March **Breakdown of bonds:**	**2023** **£'000**	2022 £'000
£175.0m 5.875% fixed rate bond due 2022 (a), (b), (c)	**-**	115,028
£400.0m 4.625% fixed rate bond due 2026 (a), (c)	**398,952**	398,629
Total bonds	**398,952**	513,657

(ii) These bonds are shown net of issuance costs.
(iii) During the year ended 31 March 2021, the Company repurchased £59.9 million debt (out of the £175.0 million external debt due in 2022) at a £2.7 million premium, with the tender price taking into account the above market interest rate on the bond and its trading price prior to the announcement of the tender. The remaining £115.1 million was repaid when due in July 2022.
(iv) The bonds issued by the Company are guaranteed by KWF and the bondholders benefit from security over the assets of KWF.

9. Financial instruments

Categories of financial instruments

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

As at 31 March	**2023** **£'000**	2022 £'000
Financial assets at amortised cost:		
Intercompany loans receivable	**405,878**	522,063
Other financial assets	**15**	5
Cash and cash equivalents	**858**	477
Total	**406,751**	522,545
Financial liabilities at amortised cost:		
Borrowings	**(405,735)**	(521,920)
Amounts payable in respect of group relief	**(54)**	(78)
Total	**(405,789)**	(521,998)

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.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed
Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

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 sets out a comparison of the carrying values and fair values of the Company's financial assets and liabilities.

As at 31 March	**2023**		2022	
	Book value £'000	**Fair Value £'000**	Book value £'000	Fair Value £'000
Financial assets:				
Intercompany loans receivable	**405,878**	**361,594**	522,063	512,298
Other financial assets	**15**	**15**	5	5
Cash and cash equivalents	**858**	**858**	477	477
Total	**406,751**	**362,467**	522,545	512,780
Financial liabilities:				
Borrowings	**(405,735)**	**(360,355)**	(521,920)	(510,700)
Amounts payable in respect of group relief	**(54)**	**(54)**	(78)	(78)
Total	**(405,789)**	**(360,409)**	(521,998)	(510,778)

The fair value of intercompany loans receivable represents the market value of the publicly traded underlying bonds adjusted for any intercompany loan margin. The book value of the intercompany loans receivable represents the amortised cost.

The fair values of borrowings includes bonds that are based on level 1 of the fair value hierarchy, the fair value has been determined using quoted prices in active markets. The book value of the borrowings represents the amortised cost.

Notes to the financial statements (continued)

9. Financial instruments (continued)

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.

The capital structure of the Company consists of net debt and equity as follows:

As at 31 March	2023 £'000	2022 £'000
Bonds	**(398,952)**	(513,657)
Interest payable on borrowings	**(6,783)**	(8,263)
	(405,735)	(521,920)
Cash and cash equivalents	**858**	477
Net debt (statutory basis)	**(404,877)**	(521,443)
Equity attributable to the owners of the Company	**884**	547

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates both changes in liabilities arising from cash flow and non-cash changes.

As at 31 March	2023 Borrowings £'000	2022 Borrowings £'000
Opening balance	**(521,920)**	(520,017)
Non-current	**(398,629)**	(513,181)
Current	**(123,291)**	(6,836)
Cash flows		
Repayment of borrowings	**115,113**	-
Interest paid	**21,882**	23,836
	136,995	23,836
Non-cash changes		
Interest accrued/fees amortised	**(20,810)**	(25,739)
	(20,810)	(25,739)
Closing balance	**(405,735)**	(521,920)
Non-current	**(398,952)**	(398,629)
Current	**(6,783)**	(123,291)

Notes to the financial statements (continued)

9. Financial instruments (continued)

Financial risk management

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

- **Market Risk**

Interest rate risk

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

As at 31 March	**2023** **£'000**	2022 £'000
Fixed rate	**398,952**	513,657
Total	**398,952**	513,657

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:

	2023 **%**	2022 %
Fixed rate	**4.63%**	4.90%
Total	**4.63%**	4.90%

The Company's only external financial instrument is a fixed rate borrowing, which is 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.

Notes to the financial statements (continued)

9. Financial instruments (continued)

Financial risk management (continued)

(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 £406.8 million (2022: £522.5 million) as shown below.

As at 31 March	**2023** **£'000**	2022 £'000
Intercompany loans receivable	**405,878**	522,063
Cash and cash equivalents	**858**	477
Other financial assets	**15**	5
Total	**406,751**	522,545

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.

In March 2023, Fitch downgraded KWF's and the Company's senior secured debt rating to B (2022: B+) and KWF's Long-Term Issuer Default Rating to B with negative outlook (2022: B+ with negative outlook). In March 2023 Moody's affirmed the rating of the Company's senior secured debt at B1 and changed the outlook to negative (2022: B1 with stable outlook).

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 Limited ("KWH") consolidated level an assessment has been performed to consider the recoverability of the loans payable by KWF to the Company under IFRS 9.

Paragraph B5.5.38 of IFRS 9 states that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. As the Company's intercompany loan receivables are considered repayable on demand for the purpose of this assessment, the expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. Various scenarios have been considered in a multiple factor analysis performed at the reporting date with no expected credit loss on the Company's intercompany loan receivables from KWF identified. As such there is no concern over the recoverability of these receivables and the Directors do not consider that there is any need to recognise an impairment provision, with the expectation that the intercompany amount will be materially recovered. This assessment has been made assuming capital markets continue to operate under normal market conditions.

Supporting and consistent with the above assessment, during the year £118.5 million was received from KWF as repayment of an intercompany loan together with accrued interest, and used to repay £115.1 million of external debt and £3.4 million of related interest (see Note 7 Intercompany loans receivable on page 26 for more details). As such given there is no specific concern over the ability to pay the external liabilities from which these intercompany receivables have arisen 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.

The following table summarises cash and cash equivalents held by credit rating of the counterparty.

As at 31 March	**2023** **£'000**	2022 £'000
A	**858**	477
Total	**858**	477

Notes to the financial statements (continued)

9. Financial instruments (continued)

Financial risk management (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 bond is repayable in 2026.

As at 31 March	**2023 £'000**	2022 £'000
- Within one year	**-**	115,028
- Between one and two years	**-**	-
- Between two and three years	**-**	-
- Between three and four years	**398,952**	-
- Between four and five years	**-**	398,629
- After more than five years	**-**	-
Total	**398,952**	513,657

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:

As at 31 March Undiscounted amounts payable	**2023 £'000**	2022 £'000
- Within one year	**(18,500)**	(136,994)
- Between one and two years	**(18,500)**	(18,500)
- Between two and three years	**(18,500)**	(18,500)
- Between three and four years	**(409,250)**	(18,500)
- Between four and five years	**-**	(409,250)
- After more than five years	**-**	-
Total	**(464,750)**	(601,744)

10. Called up share capital

As at 31 March	**2023 £'000**	2022 £'000
Allotted, called-up and fully paid		
50,000 (2022: 50,000) ordinary shares of £1 each	**50**	50
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)

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. Intercompany loans receivable from Group entities represent financing proceeds that have been lent on to KWF and interest income from KWF during the year was £21.3 million (2022: £26.3 million). Details of the intercompany loans receivable can be found in Note 7.

Other financial assets represent amounts owed by immediate parent company KWF. As at 31 March 2023, £15,000 (2022: £5,000) was recognised within other financial assets.

Amounts payable in respect of group relief represents amounts owed for the benefit of tax losses received from other entities within the Group. As at 31 March 2023, £132,337 (2022: £77,757) in respect of group relief was owed to entities within the Group.

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 with TWUL.

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.