

Thames Water (Kemble) Finance Plc

Interim report and financial statements
For the six months ended 30 September 2017

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Directors and advisors

Directors

S Wheeler
P Kerr
T Lewis
T Bolton

Registered auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

Company Secretary and registered office

D Hughes
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Interim management report

This interim management report comprises a business and financial overview of Thames Water (Kemble) Finance Plc ("the Company") for the six month period ended 30 September 2017 and constitutes unaudited key financial data and a narrative review of performance over this period. This report has been prepared solely to provide additional information to the Company's shareholders to assess the performance and future outlook of the Company, and should not be relied upon by any other party or for any other purpose.

These condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2017 which have been filed with the Registrar of Companies.

The Directors consider that the interim report and financial statements, taken as a whole, is fair, balanced and understandable, and alongside the Annual Report and Financial Statements for the year ended 31 March 2017, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2017.

Business review

The Company was established to make certain financing arrangement on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF"). To 30 September 2017, the Company has raised a total of £575 million of external debt which it has subsequently on-lent under mirrored terms to KWF along with an additional annual margin of £10,000.

During the period, the Company raised £nil (30 September 2016: £nil) through the issuance of new listed debt securities. Both senior secured bonds issued by the Company are rated by Moody's and Fitch. On 6 October 2017 Moody's affirmed the credit rating on these bonds of B1 with a stable outlook. On 11 October 2016 Fitch affirmed the credit rating of the bonds at BB with stable outlook.

Financial results

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

For the six month period ended 30 September 2017 the Company made a profit before tax of £5,000 (30 September 2016: £4,000), which arises due to the charge of £5,000 (30 September 2016: £5,000) margin.

As at 30 September 2017 the Company had net assets of £101,000 (31 March 2017: £97,000). 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, the Directors continue to adopt the going concern basis in preparing these condensed financial statements.

Directors

The Directors who held office during the period ended 30 September 2017 and to the date of this report were:

S Wheeler
S Ledger (resigned 29 September 2017)
P Kerr

The Directors appointed after 30 September 2017 and to the date of this report were:

T Lewis (appointed 13 October 2017)
T Bolton (appointed 13 October 2017)

During the period under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2016: none).

Interim management report (continued)

Dividends

In the six months to 30 September 2017 the Company has not paid any dividends (30 September 2016: £nil) and the Directors do not recommend the payment of a dividend.

Political and charitable donations

No political or charitable donations were made by the Company during the six months to 30 September 2017 (30 September 2016: £nil).

Principal risks and uncertainties

During the six months ended 30 September 2017 there have been no changes to the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2017. The Directors consider that the principal risk for the remainder of the financial year to be the Company's ability to maintain sufficient financial strength. This is essential based on KWF's reliance on the Company to have access to future funding that does not create a detrimental pressure on the Group's key financial covenants.

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

Future outlook

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

Approved by the Board of Directors on 27 November 2017 and signed on its behalf by:



S Wheeler
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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

The Directors have complied with the Disclosure and Transparency Rules. However, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The Directors confirm to the best of their knowledge:

- the condensed set of financial statements has been produced in accordance with IAS 34 *Interim Financial Reporting*; and
- The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year, their impact on the condensed set of interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the year.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 27 November 2017 and signed on its behalf by:



S Wheeler
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water (Kemble) Finance Plc for the six month period ended 30 September 2017

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2017 which comprises the condensed income statement, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IAS 34 Interim Financial Reporting as adopted by the EU.

Scope of review

We conducted our review in accordance with International Standards on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We have read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors.


As disclosed within the Accounting Policies the next annual financial statements of the Company will be prepared in accordance with International financial Reporting Standards as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.



Simon Weaver
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
27 November 2017

Condensed income statement

For the six month period ended

	Note	30 September 2017 £'000	30 September 2016 £'000
Finance income	2	21,298	21,249
Finance expense	3	(21,293)	(21,245)
Profit on ordinary activities before taxation		5	4
Taxation on profit on ordinary activities	4	(1)	(1)
Profit on ordinary activities after taxation		4	3

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

The Company has no recognised gains or losses in either period and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 12 to 15 are an integral part of these condensed financial statements.

Condensed statement of financial position

As at

	Note	30 September 2017 £'000	31 March 2017 £'000
Non-current assets:			
Intercompany loans receivable	5	572,121	571,439
Other financial assets		37	37
		572,158	571,476
Current assets:			
Intercompany loans receivable	5	17,670	17,700
Other financial assets		71	66
		17,741	17,766
Current liabilities:			
Borrowings	6	(17,670)	(17,700)
Group relief payable		(7)	(6)
		(17,677)	(17,706)
Net current assets		64	60
Non-current liabilities:			
Borrowings	6	(572,121)	(571,439)
		(572,121)	(571,439)
Net assets		101	97
Equity:			
Share capital		50	50
Retained earnings		51	47
Total equity		101	97

The accounting policies and notes on pages 12 to 15 are an integral part of these condensed financial statements.

The financial statements were approved by the Board of Directors on 27 November 2017 and signed on its behalf by:



Stephen Wheeler
Director

Registered number: 07516930 (England & Wales)

Condensed statement of changes in equity

For the six month period ended

	Share capital £'000	Retained earnings £'000	Total equity £'000
1 April 2016	50	39	89
Profit on ordinary activities after taxation	-	3	3
30 September 2016	50	42	92
Profit on ordinary activities after taxation	-	5	5
31 March 2017	50	47	97
Profit on ordinary activities after taxation	-	4	4
30 September 2017	50	51	101

The accounting policies and notes on pages 12 to 15 are an integral part of these condensed financial statements.

Condensed statement of cash flows

For the six month period ended

	30 September 2017 £'000	30 September 2016 £'000
Operating activities:		
Profit on ordinary activities after taxation	4	3
Less finance income	(21,298)	(21,249)
Add finance expense	21,293	21,245
Add tax charge on profit on ordinary activities	1	1
Cash generated from operations	-	-
Corporation tax (paid)/received	-	2
Net cash outflow from operating activities	-	2
Investing activities:		
Interest received	20,642	20,639
Net cash inflow from investing activities	20,642	20,639
Financing activities:		
Interest paid	(20,642)	(20,642)
Net cash outflow from financing activities	(20,642)	(20,642)
Net decrease in cash and cash equivalents	-	(1)
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	-	(1)

The accounting policies and notes on pages 12 to 15 form an integral part of these condensed financial statements.

Accounting policies

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

General information

Thames Water (Kemble) Finance Plc ("the Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, 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 condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as adopted by the European Union ("EU"). The condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2017 prepared under International Financial Reporting Standards ("IFRS") as adopted by the EU and which have been filed with the Registrar of Companies.

The auditor's report on the Financial Statements for the year ended 31 March 2017 was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing to records and returns), or section 498(3) (failure to obtain necessary information and explanations).

The policies applied in these condensed interim financial statements are based on the IFRS, IAS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective and ratified by the EU as of 27 November 2017, the date that the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that became effective and are adopted for 31 March 2018 could result in revisions to accounting policies applied in these interim financial statements, and if applicable, the opening balance sheet included herein.

Basis of Preparation

The condensed interim financial statements for the six months ended 30 September 2017, set out on pages 8 to 15, have been prepared on the going concern basis, under the historical cost convention, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period. Corporation tax for the six month period ended 30 September is accrued using the corporation tax rate that would be applicable to the expected total annual profit or loss. A number of amendments to IFRSs became effective for the financial year beginning 1 April 2017, however the Company did not have to change its accounting policies or make material retrospective adjustments as a result of applying these new standards.

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

Notes to the condensed financial statements

1. 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.

2. Finance income

	30 September 2017 £'000	30 September 2016 £'000
Interest receivable on intercompany loans receivable	21,298	21,249

Finance income represents interest receivable on external borrowings that are lent on identical terms to KWF with an additional £10,000 annual margin (period ended 30 September 2016: annual margin £10,000).

3. Finance expense

	30 September 2017 £'000	30 September 2016 £'000
Interest payable on loans and borrowings	20,612	20,647
Amortisation of bond fees	681	598
Total	21,293	21,245

4. Taxation

The current tax charge for the period ended 30 September 2017 of £950 (30 September 2016: £1,000) is payable in respect of group relief and has been calculated based upon the standard rate of corporation tax in the UK of 19% (30 September 2016: 20%).

There are no recognised deferred tax assets or liabilities in the current or prior periods as the Company has no temporary differences.

5. Intercompany loans receivable

	30 September 2017 £'000	31 March 2017 £'000
Amounts owed by group undertakings:		
Kemble Water Finance Limited	572,121	571,439
Interest owed by group undertakings:		
Kemble Water Finance Limited	17,670	17,700
Total	589,791	589,139
Disclosed within non-current assets	572,121	571,439
Disclosed within current assets	17,670	17,700

Notes to the condensed financial statements (continued)

5. Intercompany loans receivable (continued)

The intercompany loans due from KWF are charged interest equivalent to external borrowing rate with an annual margin of £10,000 (2016: £10,000). There are no amounts past their due by dates.

All loans and receivables are held at amortised cost.

6. Borrowings

	30 September 2017 £'000	31 March 2017 £'000
Secured bonds	572,121	571,439
External interest payable	17,670	17,700
Total	589,791	589,139
Disclosed within non-current liabilities	572,121	571,439
Disclosed within current liabilities	17,670	17,700

External borrowings consist of two secured bonds with principal values of £400.0 million and £175.0 million maturing in 2019 and 2022 respectively (amounts above shown net of unamortised fees). The net proceeds were lent to KWF under mirrored terms with the additional margin as stated in note 5.

7. Financial Instruments

Fair value measurements

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

Unless otherwise stated, all of the Company's valuation techniques are level 2 in the current and preceding financial periods – the fair value has been determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The Company does not hold any derivative financial instruments.

Notes to the condensed financial statements (continued)

7. Financial Instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

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

	30 September 2017		31 March 2017	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets:				
Intercompany loans receivable	589,791	634,360	589,139	642,973
Total	589,791	634,360	589,139	642,973
Financial liabilities:				
Borrowings				
- Fixed rate bond	(589,791)	(634,360)	(589,139)	(642,973)
Total	(589,791)	(634,360)	(589,139)	(642,973)

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

The financial liabilities of the Company include bonds that are traded on a public market. Fair values for these have been calculated using the 30 September 2017 quoted price. The book value of the bonds represents the amortised cost in line with the measurement principles of IAS 39 *Financial Instruments: Recognition and Measurement*.

8. Immediate and ultimate parent and controlling party

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

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

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