

Thames Water (Kemble) Finance Plc

Interim report and financial statements
For the six months ended 30 September 2018

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Directors and advisors

Directors

S Wheeler
T Lewis
T Bolton

Registered auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

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 2018 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 2018 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 2018, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2018.

Business review

The Company was established to make certain financing arrangements on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF"). To 30 September 2018, the Company had raised a total of £575.0 million of external debt which it has subsequently on-lent under mirrored terms to KWF along with an additional annual margin of £10,000. 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.

During the period, the Company raised no new debt (30 September 2017: £nil). At 30 September 2018, the Company had in issue £575.0 million of listed debt (30 September 2017: £575.0 million) in the form of bonds. All bonds issued by the Company are rated B1 by Moody's with a negative outlook (31 March 2018: B1 with stable outlook) and BB- by Fitch with a negative outlook (31 March 2018: 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 2018 the Company made a profit before tax of £5,000 (30 September 2017: £5,000), which arises due to the margin of £5,000 (30 September 2017: £5,000), as defined in Business review section above.

As at 30 September 2018 the Company had net assets of £109,000 (31 March 2018: £105,000). 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 2018 and to the date of this report were:

S Wheeler
T Lewis
T Bolton

The Director who held office during the six month period ended 30 September 2018 and resigned before the date of this report was:

P Kerr (resigned 13 April 2018)

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 (30 September 2017: none).

Interim management report (continued)

Dividends

In the six months to 30 September 2018 the Company has not paid any dividends (30 September 2017: £nil) and the Directors do not recommend the payment of a dividend (30 September 2017: £nil).

Political and charitable donations

No political or charitable donations were made by the Company during the six months to 30 September 2018 (30 September 2017: £nil).

Principal risks and uncertainties

During the six months ended 30 September 2018 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 2018. We acknowledge, however, the potential for deterioration in the risk environment with regards to uncertainty around Brexit as the UK completes the final stages of withdrawal from the EU and through the ensuing transition phase. 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 5 December 2018 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 confirm that these condensed set of interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim report includes a fair review of the information required by DTR 4.2.7 namely: an indication of important events that have occurred during the first six months and 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 financial year. As the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 5 December 2018 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

Report on the condensed set of financial statements

Our conclusion

We have reviewed Thames Water (Kemble) Finance Plc's condensed set of financial statements (the "interim financial statements") in the interim report and financial statements of Thames Water (Kemble) Finance Plc for the 6 month period ended 30 September 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed statement of financial position as at 30 September 2018;
- the condensed income statement for the period then ended;
- the condensed statement of cash flows for the period then ended;
- the condensed statement of changes in equity for the period then ended; and
- the accounting policies and explanatory notes to the interim financial statements.

The interim financial statements included in the interim report and financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in the accounting policies the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Company is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report and financial statements, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report and financial statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report and financial statements based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard 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 United Kingdom. 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.

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.

We have read the other information contained in the interim report and financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Condensed income statement

For the six month period ended

		30 September 2018 £'000	30 September 2017 £'000
	Note		
Finance income	2	21,344	21,298
Finance expense	3	(21,339)	(21,293)
Profit on ordinary activities before taxation		5	5
Taxation on profit on ordinary activities	4	(1)	(1)
Profit on ordinary activities after taxation		4	4

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 16 are an integral part of these condensed financial statements.

Condensed statement of financial position

As at

		30 September 2018 £'000	31 March 2018 £'000
	Note		
Non-current assets:			
Intercompany loans receivable	5	173,854	572,647
Other financial assets		37	37
		173,891	572,684
Current assets:			
Intercompany loans receivable	5	417,190	17,700
Other financial assets		81	76
		417,271	17,776
Current liabilities:			
Borrowings	6	(417,190)	(17,700)
Group relief payable		(9)	(8)
		(417,199)	(17,708)
Net current assets		72	68
Non-current liabilities:			
Borrowings	6	(173,854)	(572,647)
		(173,854)	(572,647)
Net assets		109	105
Equity:			
Share capital		50	50
Retained earnings		59	55
Total equity		109	105

The accounting policies and notes on pages 12 to 16 are an integral part of these condensed financial statements.

The financial statements were approved by the Board of Directors on 5 December 2018 2018 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 2017	50	47	97
Profit on ordinary activities after taxation	-	4	4
30 September 2017	50	51	101
Profit on ordinary activities after taxation	-	4	4
31 March 2018	50	55	105
Profit on ordinary activities after taxation	-	4	4
30 September 2018	50	59	109

The accounting policies and notes on pages 12 to 16 are an integral part of these condensed financial statements.

Condensed statement of cash flows

For the six month period ended

	30 September 2018 £'000	30 September 2017 £'000
Operating activities:		
Profit on ordinary activities after taxation	4	4
Less finance income	(21,344)	(21,298)
Add finance expense	21,339	21,293
Add tax charge on profit on ordinary activities	1	1
Cash generated from operations	-	-
Corporation tax (paid)/received	-	-
Net cash outflow from operating activities	-	-
Investing activities:		
Interest received	20,642	20,642
Net cash inflow from investing activities	20,642	20,642
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	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	-	-

The accounting policies and notes on pages 12 to 16 form an integral part of these condensed financial statements.

Accounting policies

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 2018 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 2018 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 5 December 2018, 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 2019 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 2018, set out on pages 8 to 16, have been prepared on the going concern basis, under the historical cost convention, and in compliance with the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

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 2018 is accrued using the corporation tax rate that would be applicable to the expected total annual profit or loss.

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.

Accounting policies (continued)

New accounting policies and financial reporting changes

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

The following issued standards have not yet been adopted by the Company:

- IFRS 16 Leases, which will be effective on 1 January 2019 (and thus to the Company 1 April 2019), subject to EU endorsement.

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

IFRS 9 'Financial Instruments' applicable from 1 April 2018

IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, introduces new requirements for recognition, classification and measurement, a new impairment model for financial assets based on expected credit losses, and simplified hedge accounting. The Company has adopted IFRS 9 as at 1 April 2018 and applied the new rules retrospectively, including the practical expedients permitted in the standard. As a result, comparatives have not been restated. Management has conducted an assessment of the impact of IFRS 9 and concluded on the following impact below:

Classification and Measurement

The review included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS 9. Management's assessment concludes that there are no changes in classification or measurement of its assets and liabilities as a result of adopting IFRS 9.

Impairment Methodology

IFRS 9 introduces a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses, as was required under IAS 39. Management has assessed the impact and concluded that there is no impact as a result of adopting IFRS 9.

Hedge Accounting

The Company does not hold any derivative instruments.

IFRS 15 'Revenue from Contracts with Customers' applicable from 1 April 2018

IFRS 15 Revenue which has been endorsed by the European Union (EU), became effective from 1 January 2018, and therefore the Company from 1 April 2018. IFRS 15 replaces a number of standards and interpretations including IAS 18 Revenue. The Company does not apply any of the standards which IFRS 15 replaces and therefore IFRS 15 has no impact to the Company.

IFRS 16 impact assessment

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

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 2018 £'000	30 September 2017 £'000
Interest receivable on intercompany loans receivable	21,344	21,298

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 2017: annual margin £10,000).

3. Finance expense

	30 September 2018 £'000	30 September 2017 £'000
Interest payable on loans and borrowings	21,339	21,293
Total	21,339	21,293

4. Taxation

The current tax charge for the period ended 30 September 2018 of £950 (30 September 2017: £950) 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 2017: 19%).

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 2018 £'000	31 March 2018 £'000
<i>Amounts owed by group undertakings:</i>		
Kemble Water Finance Limited	573,374	572,647
<i>Interest owed by group undertakings:</i>		
Kemble Water Finance Limited	17,670	17,700
Total	591,044	590,347
Disclosed within non-current assets	173,854	572,647
Disclosed within current assets	417,190	17,700
Total	591,044	590,347

Notes to the condensed financial statements (continued)

5. Intercompany loans receivable (continued)

The intercompany loans due from KWF are unsecured and are charged interest equivalent to external borrowing rates with an annual margin of £10,000 (30 September 2017: £10,000). There are no amounts past their due by dates.

Intercompany loans receivable consist of two loans with principal values of £400.0 million and £175.0 million maturing in 2019 and 2022 respectively (amounts above shown net of unamortised fees).

All loans and receivables are held at amortised cost.

6. Borrowings

	30 September 2018 £'000	31 March 2018 £'000
Secured bonds	573,374	572,647
External interest payable	17,670	17,700
Total	591,044	590,347
Disclosed within non-current liabilities	173,854	572,647
Disclosed within current liabilities	417,190	17,700
Total	591,044	590,347

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.

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

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.

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 2018		31 March 2018	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets:				
Intercompany loans receivable	591,044	597,189	590,347	614,073
Total	591,044	597,189	590,347	614,073
Financial liabilities:				
Borrowings				
- Fixed rate bond	(591,044)	(597,189)	(590,347)	(614,073)
Total	(591,044)	(597,189)	(590,347)	(614,073)

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 2018 quoted price. The book value of the bonds represents the amortised cost in line with the measurement principles of IFRS 9 *Financial Instruments*.

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.