

Registered number: 07516930 (England & Wales)

Thames Water (Kemble) Finance plc

Interim report and financial statements

For the six month period ended 30 September 2021

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Directors' report

Introduction

This report comprises a business and financial overview of Thames Water (Kemble) Finance plc ("the Company") for the six month period ended 30 September 2021 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.

The Company is party to various financing agreements which require the Company to prepare unaudited financial statements. This interim report and financial overview has been prepared to meet these requirements and has been approved by the Company's Board as fairly representing the Company's financial position as at 30 September 2021 and its performance for the six month period ended 30 September 2021.

Business review

The Company was established to make certain financing arrangements on behalf of its immediate parent undertaking Kemble Water Finance Limited ("KWF"). At 30 September 2021, the Company had in issue £515.1 million (principal) of listed debt (31 March 2021: £515.1 million) in the form of secured bonds. 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 2020: £nil). In the prior year, the Company issued £400.0 million of debt consisting of £250.0 million (November 2020) and £150.0 million (February 2021) issuances with a maturity of 2026. These issuances were passed onto KWF on the same terms plus a 0.10% margin, hence net finance income for the six month period ended 30 September 2021 has increased by £199,900 to £204,900 (30 September 2020: £5,000).

Principal risks and uncertainties

During the six months ended 30 September 2021, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2021 remain largely unchanged.

Going concern

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

Given the dependency on TWUL Group, the Directors have considered the going concern assessment made by the TWUL Group directors as well as the actions taken by TWUL Group post the balance sheet date of 30 September 2021. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within TWUL's Interim report and condensed consolidated financial statements for the six month period to 30 September 2021, copies of which may be obtained from the Company Secretary's Office at Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Summary of TWUL Group going concern assessment

The TWUL Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The TWUL Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 30 September 2021, such liquidity consists of £107.4 million of cash and cash equivalents, access to £1.72 billion of revolving credit facilities of which £1.03 billion was undrawn, £100 million undrawn Class B facility and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). Furthermore during the pandemic, the TWUL Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the TWUL Group is subject to financial covenants, assessed based on interest cover and gearing ratios. With significant headroom being present under the gearing ratios, the interest cover ratios are the more limiting factor and are mainly affected by operational cashflows.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints and Brexit, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse events related to climate change. To mitigate the impact on operational cashflows, mitigants involving active working capital management and the release of contingencies embedded within the Business Plan have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and shows significant liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

Based on the above, the TWUL Board is satisfied that the TWUL Group has adequate resources, for a period of at least 12 months from the date of approval of the condensed financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the TWUL Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Directors' report (continued)

Going concern (continued)

Conclusion

The conclusion from the TWUL Group Board helps to underpin the Directors' belief that the Company has the ability to meet its financial obligations over the assessment period. To provide additional comfort, the Directors have also sought support from Kemble Water Holdings Limited ("KWH"), the ultimate parent of the Company. KWH has confirmed that it will continue to provide support to enable the Company to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of the condensed financial statements.

The Directors have assessed the Company's liquidity position and ability to comply with its financial covenants which differ from those of TWUL Group. The financial covenants for TW(K)F take into account the effects of the aggregate net debt outstanding as well as the operational cashflows and profits from KWF and its subsidiaries on a consolidated basis. The main relevant subsidiaries include TWUL Group and TW(K)F. In addition to the cash balances available to KWF, the guarantor of the Company's debt, KWF also has in place a committed undrawn working capital facility which can fund at least 18 months of interest payments on the external debt held by KWF and TW(K)F. The Directors have considered projected cashflows and forecast compliance with the financial covenants during the assessment period.

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

Financial review

The key measures of financial performance of the Company are detailed below, all of which are used by the Board of Directors in assessing performance.

	Six month period ended 30 September 2021	Six month period ended 30 September 2020
Net finance income (£'000)	205	5
Profit on ordinary activities before taxation (£'000)	205	5
Profit on ordinary activities after taxation (£'000)	166	4
Net assets (£'000)	382	120
Credit rating*	Baa2 (stable)/BBB+(negative)	Baa2 (stable)/BBB+(negative)

* Representing the consolidated Corporate Family Rating assigned by Moody's to Thames Water Utilities Limited/S&P Class A debt of the securitisation group.

Net finance income

Net finance income comprises finance income offset by finance expense. Finance income represents the interest income on intercompany loans receivable reflecting the recharge of financing costs arising from raising funds on behalf of KWF including a 0.10% margin on £400.0 million intercompany loan and an annual margin of £10,000 (30 September 2020: £10,000).

Finance expense represents interest payable on external borrowings. As at 30 September 2021, the Company had raised a total of £515.1 million of external debt (30 September 2020: £175.0 million) with the movement attributed to the Company issuing £400.0 million of debt in the prior year, consisting of £250.0 million (November 2020) and £150.0 million (February 2021) with a maturity of 2026, partially offset by the Company's repurchase of £59.9 million debt (out of the £175.0 million external debt due 2022) at a premium.

Credit rating

In April 2021, Fitch affirmed KWF's and the Company's senior secured debt rating at B+ (30 September 2020: B+) and KWF's Long-Term Issuer Default Rating at B+ with negative outlook (30 September 2020: B+ with negative outlook). In July 2021, Moody's completed a periodic review of the Company's senior secured debt rating which continues at B1 with stable outlook (30 September 2020: B1 with stable outlook).

Dividends

In the six months to 30 September 2021 the Company has not paid any dividends (30 September 2020: £nil) and the Directors do not recommend the payment of a dividend (30 September 2020: £nil).

Directors

The Directors who held office during the period ended 30 September 2021 and at the date of this report were:

T Bolton
D Manuelpillai
M Bamford

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 2020: none).

T Bolton
Director
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

01 December 2021

Condensed income statement

For the six month period ended

	30 September 2021 £'000	30 September 2020 £'000
Finance income	13,172	5,305
Finance expense	(12,967)	(5,300)
Profit on ordinary activities before taxation	205	5
Taxation on profit on ordinary activities	(39)	(1)
Profit on ordinary activities after taxation	166	4

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

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

Condensed statement of financial position

As at

	30 September 2021 £'000	31 March 2021 £'000
Non-current assets		
Intercompany loans receivable	398,544	513,210
Other financial assets	37	37
	398,581	513,247
Current assets		
Intercompany loans receivable	123,307	6,920
Other financial assets	106	1,527
Cash and cash equivalents	169	-
	123,582	8,447
Current liabilities		
Borrowings	(123,160)	(6,836)
Other financial liabilities	-	(1,426)
Group relief payable	(74)	(35)
	(123,234)	(8,297)
Net current assets	348	150
Non-current liabilities		
Borrowings	(398,547)	(513,181)
	(398,547)	(513,181)
Net assets	382	216
Equity		
Called up share capital	50	50
Retained earnings	332	166
Total equity	382	216

Condensed statement of changes in equity

For the six month period ended

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
1 April 2020	50	66	116
Profit on ordinary activities after taxation	-	100	100
31 March 2021	50	166	216
Profit on ordinary activities after taxation	-	166	166
30 September 2021	50	332	382

Condensed statement of cash flows

For the six month period ended

	30 September 2021 £'000	30 September 2020 £'000
Cash flows from operating activities		
Profit on ordinary activities after taxation	166	4
Less finance income	(13,172)	(5,305)
Add finance expense	12,967	5,300
Add tax charge	39	1
Net cash generated by operating activities	-	-
Investing activities		
Interest received	11,374	5,141
Net cash generated by investing activities	11,374	5,141
Financing activities		
Interest paid	(11,205)	(5,141)
Net cash outflow used in financing activities	(11,205)	(5,141)
Net movement in cash and cash equivalents	169	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	169	-