Registered number: 07516930 (England & Wales)

Thames Water (Kemble) Finance plc

Interim report and financial statements

For the six month period ended 30 September 2022

Contents

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 2022 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 2022 and its performance for the six month period ended 30 September 2022.

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 2022, the Company had in issue £400 million (principal) of listed debt (31 March 2022: £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 2021: £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.

Principal risks and uncertainties

During the six months ended 30 September 2022, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2022 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 material, direct 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 KWF and Thames Water (Kemble) Finance plc ("TW(K)F") to meet their respective financial obligations.

Given the dependency on TWUL Group, the Directors have considered the going concern assessment made by the TWUL directors as well as the actions taken by TWUL Group post the balance sheet date of 30 September 2022. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL 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 the TWUL Group 2022/23 Interim Report, 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

In assessing the appropriateness of the going concern basis, the TWUL directors have considered a range of factors under both a base case and a plausible but severe downside including; liquidity, cashflow projections and covenant compliance and based on this they are satisfied that it is appropriate that the financial statements are prepared on a going concern basis.

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 adequate liquidity headroom based on financial resources in the form of cash, committed bank facilities. As of 30 September 2022, such liquidity consisted of £263 million of cash and cash equivalents, access to £1.8 billion of revolving credit facilities of which £1.0 billion was undrawn and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). This is in addition to the £500 million equity commitment which can be drawn in March 2023, as described below. Additional loan facilities in aggregate of £1.16 billion have been put in place in over the course of November and December 2022. Furthermore during the pandemic, the TWUL Group 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 cash interest cover and gearing ratios. With headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

In June 2022, to support Thames Water in the delivery of its updated business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by the TWUL Group in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. Given the equity commitment of £500 million has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the TWUL directors believe it reasonable that the £500 million of equity support can be taken into account for the going concern assessment, which considers the impact of a severe but plausible downside scenario.

Directors' report (continued)

Going concern (continued)

Summary of TWUL Group going concern assessment (continued)

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints, and cost of living concerns, 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 to a lesser extent lower billable volumes in the non-household sector due to reduced economic activity and consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse weather. To lessen the impact on operational cashflows, various mitigations are available which include, but are not limited to, active working capital management. Under the various scenarios, the business remains compliant with the relevant financial covenants and shows liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

The going concern assessment also takes into account inflation linked swaps with a notional value of around £1.0 billion with maturities of 10 years transacted post the balance sheet date of 30 September 2022. These swaps help manage inflation risk and effectively convert existing debt, which was issued at a fixed nominal rate, into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity.

The TWUL directors have also considered the consequences of a temporary Trigger Event, a feature of the TWUL's Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the TWUL Group's creditworthiness as such, it does not affect the TWUL Group's continued access to its significant existing bank facilities nor would it disrupt the TWUL Group's ability to trade. The cash lockup preserves the value of the TWUL Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the TWUL Group has significant bank facilities which the TWUL directors believe are sufficient to fund its programme and meet its obligations for the duration of a temporary Trigger Event over the assessment period.

Based on the above, the 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 Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Conclusion

The conclusion from the TWUL Board helps to underpin the Directors' belief that KWF has the ability to meet its financial obligations over the assessment period.

The Directors have assessed the Company's liquidity position and ability to comply with its financial covenants which differ from that of TWUL Group. The financial covenants for KWF take into account the effects of the aggregate net debt outstanding as well as the operational cashflows and profits from KWF and its subsidiaries a consolidated basis. In addition to the cash balances available, 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 its special purpose financing subsidiary TW(K)F. The Directors have considered projected cashflows and forecast compliance with the financial covenants during the assessment period.

The debt facilities at KWF and TW(K)F contain an equity cure provision which allows shareholders to inject capital into KWF to remedy financial covenants which were not compliant with the required thresholds. Exercising the equity cure prior to delivery of the compliance certificate would therefore prevent an event of default taking place. An equity cure cannot be exercised in two successive periods. As of signing of the KWF Group Interim Accounts, KWE has sufficient funds which the shareholders can use as an equity cure to remedy in full KWF's financial covenants in the event the assumed severe but plausible scenario were to crystallise. In this downside, the equity cure would be exercised during the assessment period to remedy the interest cover ratio which relates to the £200 million private term loan maturing in July 2025 held with a single counterparty. As an alternative, this loan could be refinanced ahead of maturity without any make whole penalties which would remove the need to exercise the equity cure in the event the assumed downside crystallised. Other remedies include modifying or temporarily waiving the associated interest cover ratio.

The Directors also performed a stress test analysis to establish the impact of a remote downside scenario, which extended the severe but plausible downside scenario analysis by modelling the impact of a temporary dividend lockup and / or Trigger Event at TWUL Group. Under such circumstances, TWUL Group would be prohibited from paying out distributions for the duration of the dividend lockup and / or Trigger Event. Such distributions would typically be used to service the interest payments on the external debt held by KWF and TW(K)F. The Directors believe that the sources of liquidity mentioned above are sufficient to allow KWF and TW(K)F to service the external debt interest for the duration of the cash lockup at TWUL Group.

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 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.

Directors' report (continued)

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 2022	Six month period ended 30 September 2021
Net finance income (£'000)	**204**	205
Profit on ordinary activities before taxation (£'000)	**204**	205
Profit on ordinary activities after taxation (£'000)	**165**	166
Net assets (£'000)	**712**	382
Credit rating*	**Baa2 (stable)/BBB (stable)**	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 2021: £205,000).

Finance expense represents interest payable on external borrowings. As at 30 September 2022, the Company had in issue a total of £400.0 million of external debt (30 September 2021: £515.1 million). In July 2022 the Company repaid £115.1 million of external debt.

Credit rating

In March 2022, Fitch affirmed KWF's and the Company's senior secured debt rating at B+ (30 September 2021: B+) and KWF's Long-Term Issuer Default Rating at B+ with negative outlook (30 September 2021: B+ with negative outlook). In May 2022, Moody's completed a periodic review of the Company's senior secured debt rating which continues at B1 with stable outlook (30 September 2021: B1 with stable outlook).

Dividends

In the six months to 30 September 2022 the Company has not paid any dividends (30 September 2021: £nil) and the Directors do not recommend the payment of a dividend (30 September 2021: £nil).

Directors

The Directors who held office during the period ended 30 September 2022 and at the date of this report were:

T Bolton
M Bamford (resigned 8 July 2022)
D Manuelpillai

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 2021: none).

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

02 December 2022

Condensed income statement

For the six month period ended

	30 September 2022 £'000	30 September 2021 £'000
Finance income	**11,688**	13,172
Finance expense	**(11,484)**	(12,967)
Profit on ordinary activities before taxation	**204**	205
Taxation on profit on ordinary activities	**(39)**	(39)
Profit on ordinary activities after taxation	**165**	166

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 2022 £'000	31 March 2022 £'000
Non-current assets		
Intercompany loans receivable	**398,825**	398,658
	398,825	398,658
Current assets		
Intercompany loans receivable	**6,930**	123,405
Other financial assets	**10**	5
Cash and cash equivalents	**675**	477
	7,615	123,887
Current liabilities		
Borrowings	**(6,783)**	(123,291)
Group relief payable	**(117)**	(78)
	(6,900)	(123,369)
Net current assets	**715**	518
Non-current liabilities		
Borrowings	**(398,828)**	(398,629)
	(398,828)	(398,629)
Net assets	**712**	547
Equity		
Called up share capital	**50**	50
Retained earnings	**662**	497
Total equity	**712**	547

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 2021	50	166	**216**
Profit on ordinary activities after taxation	-	166	**166**
30 September 2021	50	332	**382**
Profit on ordinary activities after taxation	-	165	**165**
31 March 2022	50	497	**547**
Profit on ordinary activities after taxation	-	165	**165**
30 September 2022	50	662	**712**

Condensed statement of cash flows
For the six month period ended

	30 September 2022 £'000	30 September 2021 £'000
Cash flows from operating activities		
Profit on ordinary activities after taxation	**165**	166
Less finance income	**(11,688)**	(13,172)
Add finance expense	**11,484**	12,967
Add tax charge	**39**	39
Net cash generated by operating activities	**-**	-
Investing activities		
Interest received	**12,831**	11,374
Loans repaid by group companies	**115,113**	-
Net cash generated by investing activities	**127,944**	11,374
Financing activities		
Repayment of borrowings	**(115,113)**	-
Interest paid	**(12,633)**	(11,205)
Net cash outflow used in financing activities	**(127,746)**	(11,205)
Net movement in cash and cash equivalents	**198**	169
Cash and cash equivalents at beginning of period	**477**	-
Cash and cash equivalents at end of period	**675**	169