

Registered number: 07516930 (England & Wales)

Thames Water (Kemble) Finance plc

Interim report and financial statements

For the six month period ended 30 September 2023

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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 2023 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 2023 and its performance for the six month period ended 30 September 2023.

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 2023, the Company had in issue £400.0 million (principal) of listed debt (31 March 2023: £400.0 million) in the form of a secured bond. 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 2022: £nil).

Principal risks and uncertainties

During the six months ended 30 September 2023, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2023 remain largely unchanged.

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 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. The KWF Directors have also considered the various options to resolve such an uncertainty which include but are not limited to various refinancing actions which could include additional support from shareholders on a temporary basis.

Whilst KWF Group is compliant with the Post Maintenance Interest Cover ("PMICR") under a severe but plausible downside scenario, consideration has been given to how potential non-compliance could be remedied. This could involve 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.

The material uncertainty relating to refinancing requirements of the KWF 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.

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 2023	Six month period ended 30 September 2022
Net finance income (£'000)	206	204
Profit on ordinary activities before taxation (£'000)	206	204
Profit on ordinary activities after taxation (£'000)	154	165
Net assets (£'000)	1,038	712
Credit rating*	Baa2 (stable)/BBB (watch negative)	Baa2 (stable)/BBB(stable)

* 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 2022: £204,000).

Finance expense represents interest payable on external borrowings. As at 30 September 2023, the Company had in issue a total of £400.0 million of external debt (30 September 2022: £400.0 million).

Credit rating

In March 2023, Fitch downgraded KWF's and the Company's senior secured debt rating to B (30 September 2022: B+) and KWF's Long-Term Issuer Default Rating to B, both with negative outlook (30 September 2022: B+ with negative outlook). In March 2023, Moody's applied a negative outlook to the Company's senior secured debt rating (previously stable). In July 2023, Moody's downgraded the rating of the Company's senior secured debt from B1 to B2 and maintained the negative outlook (30 September 2022: B1 with stable outlook).

Dividends

In the six months to 30 September 2023 the Company has not paid any dividends (30 September 2022: £nil) and the Directors do not recommend the payment of a dividend (30 September 2022: £nil).

Directors

The Directors who held office during the period ended 30 September 2023 and at 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)

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 2022: none).



S Deeley
Director

Clearwater Court
Vestern Road
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04 December 2023

Condensed income statement

For the six month period ended

	30 September 2023 £'000	30 September 2022 £'000
Finance income	9,636	11,688
Finance expense	(9,430)	(11,484)
Profit on ordinary activities before taxation	206	204
Taxation on profit on ordinary activities	(52)	(39)
Profit on ordinary activities after taxation	154	165

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 2023 £'000	31 March 2023 £'000
Non-current assets		
Intercompany loans receivable	399,125	398,948
	399,125	398,948
Current assets		
Intercompany loans receivable	6,930	6,930
Other financial assets	20	15
Cash and cash equivalents	1,057	858
	8,007	7,803
Current liabilities		
Borrowings	(6,783)	(6,783)
Group relief payable	(184)	(132)
	(6,967)	(6,915)
Net current assets	1,040	888
Non-current liabilities		
Borrowings	(399,127)	(398,952)
	(399,127)	(398,952)
Net assets	1,038	884
Equity		
Called up share capital	50	50
Retained earnings	988	834
Total equity	1,038	884

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 2022	50	497	547
Profit on ordinary activities after taxation	-	165	165
30 September 2022	50	662	712
Profit on ordinary activities after taxation	-	172	172
31 March 2023	50	834	884
Profit on ordinary activities after taxation	-	154	154
30 September 2023	50	988	1,038

Condensed statement of cash flows

For the six month period ended

	30 September 2023 £'000	30 September 2022 £'000
Cash flows from operating activities		
Profit on ordinary activities after taxation	154	165
Less finance income	(9,636)	(11,688)
Add finance expense	9,430	11,484
Add tax charge	52	39
Net cash generated by operating activities	-	-
Investing activities		
Loans repaid by group companies	-	115,113
Interest received	9,450	12,831
Fees received	6	46
Net cash generated by investing activities	9,456	127,990
Financing activities		
Repayment of borrowings	-	(115,113)
Interest paid	(9,250)	(12,632)
Fees Paid	(7)	(47)
Net cash outflow used in financing activities	(9,257)	(127,792)
Net movement in cash and cash equivalents	199	198
Cash and cash equivalents at beginning of period	858	477
Cash and cash equivalents at end of period	1,057	675