Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance Limited

Annual report and financial statements
For the year ended 31 March 2018

Contents

Directors and advisors

Directors

S Wheeler
T Lewis
T Bolton

Registered auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

Company secretary & registered office

D Hughes
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Strategic report

The Directors present their Strategic Report for Thames Water Utilities Finance Limited ("the Company") for the year ended 31 March 2018.

Review of the business and strategy

The Company's principal activity is to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"), the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year. The ultimate parent undertaking is KWH. The major transactions of the Company constitute the raising of finance and subsequent lending of debt at mirrored terms to TWUL.

The Company manages the market risks associated with raising debt using derivative financial instruments and ultimately passes on the proceeds to TWUL.

The Company is part of a securitisation group of companies which comprises the Company, TWUL, Thames Water Utilities Holdings Limited ("TWUH"), Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH") (the "Securitisation Group"). The payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by all companies within the Securitisation Group. The guaranteed debt as at 31 March 2018 was £11.2bn (2017: £10.6bn).

Credit rating

We continue to maintain a strong investment grade credit rating assigned by external rating agencies Moody's and Standard and Poor ("S&P").

In May 2018, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") but placed us on negative outlook (2017: stable outlook). This continues to be a strong investment grade credit rating supporting our ratings of A3 and Baa3 for our Class A and Class B debt respectively. The change to negative outlook reflects a change in assessment of the stability and predictability of the UK water regulatory regime rather than a reflection of our operational performance.

In September 2017, S&P, assigned us a credit rating of BBB+ and BBB- (2017: A- and BBB) in respect of our Class A debt and our Class B debt respectively and placed us on stable outlook (2017: negative outlook). These ratings allow us to access efficiently priced debt to fund our investment programmes, whilst keeping bills affordable for our customers.

Gearing and interest cover

As part of the Whole Business Securitisation agreement with our secured creditors, we are required to keep gearing and interest cover within the Securitisation Group within certain limits. Under these covenant conditions, a gearing level above 85.0% or an interest cover ratio of below 1.1x would impose certain conditions, including a restriction on distributions.

The Securitisation Group's investments are funded by a combination of equity from shareholders and from borrowings under long term secured financing arrangements including bank loans and bonds. Its gearing is 81.3% (2017: 81.5%), measured by comparing the sum of our net debt (covenant basis) of £11,140.4m (2017: £10,549.5m) against stated Regulatory Capital Value ("RCV") of £13,704.8m (2017: £12,944.0m).

Interest cover measures the ratio of operating cashflow to net interest expense. As of 31 March 2018, this ratio was 1.6x (2017: 1.7x) versus a covenant level of 1.1x (2017: 1.1x).

Results and performance

During the year, finance income increased to £173.3m (2017: £147.9m) arising on interest due from TWUL on intercompany lending. Finance expenses as a result of raising funds on TWUL'S behalf amounted to £161.4m (2017: £141.4m).

Strategic report (continued)

Results and performance (continued)

For the financial year ended 31 March 2018, the Company made a profit before tax of £44.5m (2017: loss before tax of £68.4m) principally due to a fair value gain of £32.6m on derivatives (2017: fair value loss of £74.9m) which are marked to market through the income statement. The fair value gain during the current period is due to a decrease in the projected inflation forecast affecting RPI-related transactions and includes a £11.3m credit resulting from use of more sophisticated modelling techniques to calculate credit risk adjustments that are required when valuing derivative financial instruments. On this basis the Company's performance is in line with expectations and the Directors have no concerns regarding the performance or position of the Company.

The Company manages market risks associated with financing activities by using derivative financial instruments and does not pass on the year-on-year movement in derivative fair values to TWUL as the derivatives are in relation to debt obligations which the Company expects to hold to maturity.

The Company did not pay any dividends during the year (2017: £nil) and the Directors do not recommend payment of a final dividend (2017: £nil).

Principal risks and uncertainties

The Company is a financing subsidiary of TWUL and is part of the securitisation group. All financing transactions and obligations are passed on to TWUL by way of intercompany loans.

The Company's operations expose it to a variety of capital and financial risks. 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.

The treasury function is managed as a cost centre, not a profit centre. The operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of liquidity, credit and market risks associated with the financing activities of the Group. The treasury policy and procedures are incorporated within the financial control procedures of the Group.

There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. The Board has considered the consequences that Brexit could have upon the Company and have concluded that whilst it does not represent a new risk in itself, it may impact a number of existing risks on an individual basis e.g. market risk, credit risk and liquidity risk.

Capital risk management

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the Company's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

The capital structure of the Company consists of net debt and equity. The Company's net debt is comprised of cash and cash equivalents, bonds, derivative financial instruments and intercompany loans from immediate parent undertaking.

The Company is part of a securitisation group of companies. The Securitisation Group is required to comply with certain financial and non-financial covenants. The financial covenants include an interest cover ratio and a RCV to net debt ratio. The securitisation group complied with these ratios throughout the financial year.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Company against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used to an extent to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

Strategic report (continued)

Principal risks and uncertainties (continued)

Financial risk management

(i) Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

Financial instruments entered by the Company include fixed rate bonds, RPI linked bonds and swaps. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. RPI linked instruments are exposed to movements in the RPI index. All debt raised by the Company are lent to TWUL, a regulated water company with RPI linked revenue which form partial economic hedges for RPI linked borrowings.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to its immediate parent entity Thames Water Utilities Limited and cash flows receivable from counterparties to the derivative financial instruments. Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables including, where appropriate, a review of the budget and forecasts of the counterparty entity. Additionally, payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by all companies within the securitisation group.

Under the terms of the Whole Business Securitisation agreement, counterparties to the Company's short term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. In respect of the derivative counterparties there is also a mechanism for the counterparty to post collateral when amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained.

Details of the Company's borrowings and other financial instruments are disclosed in notes 9 and 10 respectively.

Key performance indicators

The Company's activities are monitored in line with the performance of the Securitisation Group. The key performance indicators of the securitisation group are discussed in greater detail in the annual report and financial statements of the main trading subsidiary, TWUL, the annual report and consolidated financial statements of the ultimate controlling company, Kemble Water Holdings Limited, both of which are available from the address shown on page 30 and Companies House. TWUL's financial statements are also available online at www.thameswater.co.uk.

Strategic report (continued)

Future outlook

The Company has not issued any new external debt since 2006, and continues to hold the debt that was issued and the accompanying intercompany loans lent to TWUL up to maturity. Debt issued by the Company matures between 2020 and 2055.

The Company expects to repay its debt as it falls due by way of TWUL repaying the relevant proportion of its intercompany loan with the Company. The next tranche of debt due for repayment is a £200m 5.05% fixed rate bond due in June 2020.

Approved by the Board of Directors on 27 June 2018 and signed on its behalf by:

Stephen Wheeler
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2018. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to access the Company's performance and strategy.

The registered company number is 02403744.

Future outlook

The future outlook of the Company is discussed in the Strategic Report.

Going concern

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company and the requirement for ongoing support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board has also taken into account potential contingent liabilities and other risk factors that would impact the securitisation group. TWUL has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

The Directors believe, after due and careful enquiry, and taken into account the support of the parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements.

Dividends

The Company did not pay any dividends in the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

Directors' indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors (which extend to the performance of any duties as Director of any associated company) and these remain in force at the date of this report.

Directors

The Directors who held office during the year ended 31 March 2018 and to the date of this report were:

S Wheeler
T Lewis (Appointed 27 September 2017)
T Bolton (Appointed 27 September 2017)

The Director who held office during the year ended 31 March 2018 and resigned before the date of this report was:

P Kerr (Resigned 13 April 2018)
S Ledger (Resigned 29 September 2017)
S Zhang (Resigned 15 September 2017)

During the year, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2017: none).

Political and charitable donations

No political or charitable donations were made by the Company during the year (2017: £nil).

Directors' report (continued)

Financial risk management

The Company has access to the Chief Executive and the Executive Team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Limited Group on a day-to-day basis on behalf of the Directors of individual group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG LLP is the Company's auditor at the date of this report. PricewaterhouseCoopers LLP will replace KPMG LLP with effect from the financial year ending 31 March 2019. The appointment is subject to approval by shareholders at the next Annual General Meeting in June 2018.

Approved by the Board of Directors on 27 June 2018 and signed on its behalf by:

Stephen Wheeler
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited

1 Our opinion is unmodified

We have audited the financial statements of Thames Water Utilities Finance Limited ("the Company") for the year ended 31 March 2018 which comprise the Income statement, the Statement of financial position, the Statement of changes of equity, the Statement of cash flows and the related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors for the financial year ended 31 March 2009. The period of total uninterrupted engagement is for the 10 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited (continued)

2 Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Valuation of financial derivatives (£231.6m; 2017: £264.1m) *Refer to accounting policies and note 10 (financial instruments).*	**Subjective Valuation** The financial derivative liability represents 7% of the company's total liabilities at 31 March 2018. IFRS 13 requires the use of an exit price to value derivatives, defining this as the price that would be received to sell an asset or be paid to transfer a liability. This exit price must include credit risk, both the counterparty credit risk and the company's own credit risk. Given the length of the swaps that the company enters in to, the impact of these adjustments is material. In the current year the Company has updated the methodology used to value the credit risk adjustments. The complexity and level of judgment required in credit risk calculations, in particular the estimation of the Company's own credit risk, increases the risk of error.	Our procedures included: **Accounting analysis:** Utilising our own valuation specialists to assess the appropriateness of the methodologies used and inputs driving the valuations; and the accounting treatment for complex instruments. As part of their procedures, our valuation specialists benchmarked the Company's valuation methodologies against externally derived data; **Benchmarking assumptions:** Testing the fair value estimates through the use of our own valuation experts' determination of independent fair value estimates, establishing an acceptable range to benchmark the Company's valuations against; **Assessing transparency**: Testing the accuracy of the fair value disclosures, including assessing the Fair Value Hierarchy (Level 1,2,3) as stipulated by the relevant standards and comparing to the Company's conclusions. Our results The results of our testing were satisfactory and we consider the valuation of financial instruments to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Thames Water Utilities Finance Limited is part of a group headed by Kemble Water Holdings Limited. Materiality of £22m (2016: £22m), as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.74% of the Company's total assets (2017: 0.75%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.1m (2017: £1.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds

Our audit of the company was undertaken to the materiality level specified above and was all performed at the company's head office in Reading.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited (continued)

5 We have nothing to report on the strategic report and the directors' report

The Directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited (continued)

7 Respective responsibilities (continued)

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities)/ irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Weaver (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 June 2018

Income statement

For the year ended 31 March

	Note	**2018 £m**	2017 £m
Finance income	4	**173.3**	147.9
Finance expense	5	**(161.4)**	(141.4)
Net gain/(loss) on financial instruments	6	**32.6**	(74.9)
Profit/(Loss) on ordinary activities before taxation		**44.5**	(68.4)
Tax (charge)/credit	7	**(7.5)**	9.8
Profit/(Loss) for the financial year		**37.0**	(58.6)

All amounts relate to continuing operations.

The Company has no gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 17 to 30 are an integral part of these financial statements.

Statement of financial position
As at 31 March

	Note	**2018** £m	2017 £m
Non-current assets			
Intercompany loans receivable	8	**2,891.4**	2,836.7
Deferred tax asset	11	**34.8**	42.9
		2,926.2	2,879.6
Current assets			
Intercompany loans receivable	8	**53.4**	51.6
Group relief receivable		**1.5**	0.9
		54.9	52.5
Current liabilities			
Interest bearing loans and borrowings	9	**(61.9)**	(56.8)
		(61.9)	(56.8)
Net current liabilities		**(7.0)**	(4.3)
Non-current liabilities			
Interest bearing loans and borrowings	9	**(2,863.3)**	(2,823.9)
Derivative financial liabilities	10	**(231.6)**	(264.1)
		(3,094.9)	(3,088.0)
Net liabilities		**(175.7)**	(212.7)
Equity			
Share capital	12	**0.1**	0.1
Retained losses		**(175.8)**	(212.8)
Total deficit		**(175.7)**	(212.7)

The accounting policies and notes on pages 17 to 30 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 June 2018 and signed on its behalf by:

Stephen Wheeler
Director

Registered number: 02403744 (England & Wales)

Statement of changes in equity

For the year ended 31 March

	Share capital £m	Retained losses £m	Total equity £m
Balance at 1 April 2016	0.1	(154.2)	(154.1)
Loss for the financial year	-	(58.6)	(58.6)
Balance at 31 March 2017	0.1	(212.8)	(212.7)
Profit for the financial year	-	37.0	37.0
Balance at 31 March 2018	**0.1**	**(175.8)**	**(175.7)**

The accounting policies and notes on pages 17 to 30 are an integral part of these financial statements

Statement of cash flows

For the year ended 31 March

	2018 £m	2017 £m
Cash flows from operating activities		
Profit/(Loss) for the year	**37.0**	(58.6)
Less finance income	**(173.3)**	(147.9)
Add finance expense	**161.4**	141.4
(Less)/add (gain)/loss on fair value of financial instruments	**(32.6)**	74.9
Add/(less) tax charge/(credit) on profit	**7.5**	(9.8)
Net cash from operating activities	**-**	-
Cash flows from investing activities		
Interest received	**116.7**	116.0
Net cash inflow from investing activities	**116.7**	116.0
Cash flows from financing activities		
Interest paid	**(116.7)**	(116.0)
Net cash outflow from financing activities	**(116.7)**	(116.0)
Net movement in cash and cash equivalents	**-**	-
Cash and cash equivalents at the beginning of the year	**-**	-
Cash and cash equivalents at the end of the year	**-**	-

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 considered material.

General information

Thames Water Utilities Finance Limited (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 act as a financing company to Thames Water Utilities Limited ("TWUL"), the main trading subsidiary of the Kemble Water Holdings Limited Group, which remains unchanged from the previous year.

Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

Basis of preparation

The financial statements for the year ended 31 March 2018, set out on pages 13 to 30, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, 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.

Going concern

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company and the requirement for on-going support from TWUL. This is based upon a review of TWUL's (and that of the securitisation group's) budget, business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board has also taken into account potential contingent liabilities and other risk factors that would impact the securitisation group. TWUL has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

The Directors believe, after due and careful enquiry, and taking into account the support of the parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements.

Finance income and finance expense

Finance income represents the recharge to TWUL of costs and interest incurred in respect of the raising of finance on that company's behalf recognised as it falls due. All interest and debt servicing costs are recharged to TWUL. The Company's finance expense represents the interest costs on loans and borrowings recognised on an accruals basis.

Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise cash and cash equivalent, intercompany loans receivable and borrowings.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Accounting policies (continued)

Non-derivative financial instruments (continued)

Interest bearing loans to other group companies

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing loans issued to other group companies with substantially different terms is accounted for as derecognition of the original financial asset and the recognition of new financial asset. If an exchange of loan or modification of terms is accounted for as derecognition, any costs or fees incurred are recognised as part of the gain or loss on the derecognition. If the exchange or modification is not accounted for as derecognition, any costs or fees incurred adjust the carrying amount of the financial asset and are amortised over the remaining term of the modified financial asset.

Interest bearing borrowings

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial liability and are amortised over the remaining term of the modified financial liability.

Derivative financial instruments

Derivatives are used to manage exposure to movements in interest rates and inflation. A financial instrument is classified as derivative if:

- its value changes in response to the change in a specified interest rate, foreign exchange rate or index of prices or rates,
- it requires no initial net investment or an initial net investment that is smaller than the underlying notional or principal, and
- it is settled at a future date.

Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial guarantees

The Company raises debt in external debt markets through the issuance of secured bonds and issue of loans. The Company, TWUH, TWUL, TWUCF and TWUCFH have guaranteed the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Accounting policies (continued)

Impairment excluding deferred tax assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Income Statement.

Taxation

The Company is resident in the UK for tax purposes. The tax credit/ expense represents the sum of current tax and deferred tax.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the statement of financial position date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

New accounting policies and future reporting changes

No new financial reporting standards have been adopted by the Company that have a material impact on the financial statements in the current year. The following issued standards have not yet been adopted by the Company:

- IFRS 9: Financial instruments, which will be effective on 1 January 2018 (and thus to the Company 1 April 2018);
- IFRS 15 Revenue from Contracts with Customers, which will be effective on 1 January 2018 (and thus to the Company 1 April 2018); and
- 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.

Accounting policies (continued)

New accounting policies and future requirements (continued)

IFRS 9 impact assessment

IFRS 9 Financial instruments which have been endorsed by the European Union (EU), will be effective from 1 January 2018 (and thus 1 April 2018 to the Company). This standard replaces IAS 39 Financial Instruments: Recognition and Measurement and sets out the requirements for classifying, recognising and measuring financial assets and financial liabilities. During the year, management have continued to progress their impact assessment for adoption of the standard, focussing on the nature of financial instruments held and the way in which they are used. Management have concluded that there will be no material impact on adoption of this standard.

IFRS 15 impact assessment

IFRS 15 Revenue which has been endorsed by the European Union (EU), will be effective from 1 January 2018, and 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 will not be applicable 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 apply IAS 17 and therefore IFRS 16 will not be applicable to the Company.

Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the Company’s accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

Fair value of derivatives

The fair value of financial assets and liabilities represents 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 liquidation sale at the measurement date. The fair value of derivatives is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates at the measurement date. The valuations are tested for reasonableness by comparing to bank quotes. The fair value calculations have been adjusted to incorporate the Company’s own and counterparty’s credit risk where appropriate.

Notes to the financial statements

1. Staff numbers and costs

The Company had no employees during the year (2017: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There are no retirement benefits accruing to any Director (2017: £nil).

2. Auditor's remuneration

The auditor's remuneration of £11,508 (2017: £7,311) was borne by Thames Water Limited in both the current and preceding financial year. No other fees were payable to KPMG LLP in respect of this company during the year (2017: £nil).

3. 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 TWUL. Consequently the Directors review the financial information of the Company as a whole and therefore have not included segmental analysis within these financial statements.

4. Finance income

	2018	2017
	£m	£m
Interest receivable on intercompany loans receivable	**167.3**	141.5
Interest income on swaps	**6.0**	6.4
	173.3	147.9

5. Finance expense

	2018	2017
	£m	£m
Interest payable on other loans	**158.7**	138.8
Interest expense on swaps	**2.7**	2.6
	161.4	141.4

6. Net gain/(loss) on financial instruments

	2018	2017
	£m	£m
Gain/(loss) arising on swaps where hedge accounting is not applied	**32.6**	(74.9)
	32.6	(74.9)

Gain/(loss) arising on swaps reflects movements in long term RPI market rates.

Notes to the financial statements (continued)

7. Taxation

	2018	2017
	£m	£m
Current tax:		
Amounts receivable in respect of group relief	**(0.6)**	(0.5)
Deferred tax:		
Origination and reversal of temporary differences	**8.1**	(9.3)
Tax charge/(credit) on profit/loss on ordinary activities	**7.5**	(9.8)

The tax assessed for the period is lower (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018	2017
	£m	£m
Profit/(loss) on ordinary activities before tax	**44.5**	(68.4)
Corporation tax on profit/(loss) on ordinary activities at 19% (2017: 20%)	**8.5**	(13.6)
Effect of tax rate differences	**(1.0)**	3.8
Total tax charge/(credit) for year	**7.5**	(9.8)

Factors affecting the future tax charge

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 March 2018 has been calculated based on these rates.

8. Intercompany loans receivable

	2018	2017
	£m	£m
Amounts owed by group undertakings		
Thames Water Utilities Limited	**2,891.4**	2,836.7
Interest owed by group undertakings		
Thames Water Utilities Limited	**53.4**	51.6
Total	**2,944.8**	2,888.3
Disclosed within non-current assets	**2,891.4**	2,836.7
Disclosed within current assets	**53.4**	51.6

There are no amounts past their due by dates. As these assets relate to intercompany debt owed by a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are considered to be impaired.

All loans and receivables are held at amortised cost.

Notes to the financial statements (continued)

9. Interest bearing loans and borrowings

	2018 £m	2017 £m
Secured bonds	**2,663.3**	2,623.9
Amounts owed to group undertakings	**200.0**	200.0
	2,863.3	2,823.9
Interest payable on secured bonds	**47.5**	47.3
Interest payable on amounts owed to group undertakings	**14.4**	9.5
	61.9	56.8
Total	**2,925.2**	2,880.7
Disclosed within non-current liabilities	**2,863.3**	2,823.9
Disclosed within current liabilities	**61.9**	56.8

Debt issued by the Company matures between 2020 and 2055 (2017: due between 2020 and 2055).

The Company uses derivatives to swap fixed rate debt to index-linked debt, which is on lent to TWUL, a regulated company and the immediate parent Company with index-linked revenues. Details on the derivatives are included in note 10.

TWUL, Thames Water Utilities Cayman Finance Limited, Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds.

Interest on the loan from Thames Water Utilities Limited is charged at a floating rate (2017: floating rate).

Breakdown of secured bonds

	2018 £m	2017 £m
£200.0m 5.05% fixed rate bond due 2020 (c), (e)	**200.0**	200.0
£225.0m 6.59% fixed rate bond due 2021	**225.0**	225.0
£175.0m 3.38% index linked bond due 2021 (a), (d)	**273.5**	263.9
£330.0m 6.75% fixed rate bond due 2028 (a)	**327.4**	327.3
£200.0m 6.50% fixed rate bond due 2032 (a)	**197.7**	197.6
£600.0m 5.13% fixed rate bond due 2037 (a)	**596.4**	596.3
£300.0m 1.68% index linked bond due 2053 (a), (d)	**421.7**	406.9
£300.0m 1.68% index linked bond due 2055 (a), (d)	**421.6**	406.9
£200.0m floating rate loan due 2039 (b), (e), (f)	**200.0**	200.0
Total	**2,863.3**	2,823.9

(a) These loans are shown net of issue costs.
(b) This is an intercompany loan due to Thames Water Utilities Limited, the immediate parent company.
(c) The Company has entered into swap agreements that convert £100.0m of this debt into index-linked debt.
(d) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI).
(e) The index-linked swap associated with this debt has accretion pay downs at five year intervals.
(f) The Company has entered into an index-linked swap, in relation to this debt.

Notes to the financial statements (continued)

10. Financial instruments

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

	2018 **£m**	2017 £m
Financial assets:		
Loans and receivables at amortised cost		
Amounts owed by group undertakings	**2,944.8**	2,888.3
Total	**2,944.8**	2,888.3
Financial liabilities:		
Fair value through profit and loss		
Index-linked swaps	**231.6**	264.1
Other financial liabilities at amortised cost		
Borrowings	**2,925.2**	2,880.7
Total	**3,156.8**	3,144.8

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 inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result we have concluded that it is appropriate to continue to classify the derivatives instruments as Level 2.

The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2018, all of which are classified within financial liabilities:

	Level 2[1]	
	2018 **£m**	2017 £m
Financial liabilities – derivative financial instruments		
Index-linked swaps	**231.6**	264.1

Notes to the financial statements (continued)

10. Financial instruments (continued)

Fair value measurements (continued)

[1] The fair value of derivative financial instruments is measured using discounted cash flows. The future cash flows are estimated based on observable forward inflation rates at the period end and discounted at a rate that reflects credit risk of the Company and the counterparties. During the year, the Company has introduced more sophisticated modelling techniques to calculate credit risk adjustments that are required when valuing derivative financial instruments. These address changes in market practice. The fair value gain on swaps includes a £11.3m credit resulting from use of these improvements.

During the current and preceding year the Company did not enter any new derivative contracts.

Comparison of fair value of financial instruments with their carrying amounts

The tables below set out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities.

	2018		2017	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Financial assets:				
Loans receivable from group entities	**2,944.8**	**4,118.5**	2,888.3	4,300.2
Total	**2,944.8**	**4,118.5**	2,888.3	4,300.2
Financial liabilities:				
Borrowings				
- Fixed rate bond	**1,546.5**	**1,930.2**	1,546.2	2,117.6
- Index-linked bond	**1,116.8**	**1,770.8**	1,077.7	1,718.5
- Amounts owed to group undertakings	**200.0**	**200.0**	200.0	200.0
Interest payable	**61.9**	**61.9**	56.8	56.8
Derivative financial liabilities	**231.6**	**231.6**	264.1	264.1
Total	**3,156.8**	**4,194.5**	3,144.8	4,357.0

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. The bonds are traded on a public market. Fair values for these have been calculated using the 31 March 2018 quoted price. The fair value of loans receivable from group entities represents the market value of the publicly traded underlying bonds, associated derivatives and fair value of one intercompany loan with TWUL.

Capital risk management

Details of the Company's capital risk management strategy can be found in the Strategic Report.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

	2018		2017	
	Borrowings	**Derivative financial liabilities**	Borrowings	Derivative financial liabilities
	£m	**£m**	£m	£m
Opening balance	**(2,880.7)**	**(264.1)**	(2,855.2)	(189.1)
Non-Current	**(2,823.9)**	**(264.1)**	(2,803.7)	(189.1)
Current	**(56.8)**	**-**	(51.5)	
Cash flows				
Interest paid	**114.0**	**2.7**	113.4	2.6
Interest received	**-**	**(6.0)**	-	(6.6)
	114.0	**(3.3)**	113.4	(4.0)
Non-cash changes				
Net interest (charge)/income and fees amortisation	**(119.6)**	**3.3**	(119.2)	3.9
Accretion	**(38.9)**	**-**	(19.7)	-
Fair value changes	**-**	**32.5**		(74.9)
	(158.5)	**35.8**	(138.9)	(71.0)
Closing balance	**(2,925.2)**	**(231.6)**	(2,880.7)	(264.1)
Non-Current	**(2,863.3)**	**(231.6)**	(2,823.9)	(264.1)
Current	**(61.9)**	**-**	(56.8)	-

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. A detail of the nature of each of these risks along with the steps the Company has taken to manage them is described in the Strategic Report.

(a) Market Risk

(i) Interest rate risk

Below is the effective interest rate risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk.

	2018	2017
	£m	£m
Fixed rate	**1,446.5**	1,446.2
RPI linked rate	**1,444.9**	1,390.5
Total	**2,891.4**	2,836.7

Notes to the financial statements (continued)

10. Financial instruments (continued)

The weighted average interest rates of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and the period until maturity for which the rate is fixed or index linked are given below:

	Weighted average interest rate				**Weighted average period until maturity**			
	2018		2017		**2018**		2017	
	%		%		**Years**		Years	
	Fixed	**Index-linked**	Fixed	Index-linked	**Fixed**	**Index-linked**	Fixed	Index-linked
£ Sterling	**5.9**	**5.5**	5.9	3.9	**12.3**	**26.0**	13.3	27.0
Total	**5.9**	**5.5**	5.9	3.9	**12.3**	**26.0**	13.3	27.0

Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2018. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2018		2017	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit / (loss)	**56.0**	**(74.1)**	72.7	(88.1)
Equity	**56.0**	**(74.1)**	72.7	(88.1)

(ii) Inflation risk sensitivity analysis

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2018. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2018		2017	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(97.2)**	**76.1**	(116.5)	97.2
Equity	**(97.2)**	**76.1**	(116.5)	97.2

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses; therefore, the maximum exposure to credit risk at the balance sheet date was £2,944.8 (2017: £2,888.3m) as shown below:

	2018	2017
	£m	£m
Intercompany loans receivable	**2,891.4**	2,836.7
Interest receivable on intercompany loans receivable	**53.4**	51.6
Total	**2,944.8**	2,888.3

Notes to the financial statements (continued)

10. Financial instruments (continued)

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure the liquidity needs of the securitisation group are met through continued access to the capital market. Proceeds of funding activities are on lent to TWUL. The above described financial assets relate to intercompany debt owed by TWUL, which has a high credit rating and therefore the risk exposure is deemed immaterial, and no amounts are impaired.

There are no amounts past their due dates.

(c) Liquidity Risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic Report.

The maturity profile of the interest bearing loans and borrowings disclosed in the statement of financial position are given below. The bonds are repayable between 2020 and 2055.

	2018	2017
	£m	£m
- Within one year	**-**	-
- Between one and two years	**-**	-
- Between two and three years	**200.0**	-
- Between three and four years	**498.5**	200.0
- Between four and five years	**-**	488.9
- After more than five years	**2,164.8**	2,135.0
Total	**2,863.3**	2,823.9

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

	2018	2017
Undiscounted amounts payable	**£m**	£m
- Within one year	**(114.4)**	(113.6)
- Between one and two years	**(115.7)**	(114.9)
- Between two and three years	**(311.4)**	(115.7)
- Between three and four years	**(645.4)**	(311.5)
- Between four and five years	**(82.6)**	(646.3)
- After more than five years	**(5,683.1)**	(5,841.1)
Total	**(6,952.6)**	(7,143.1)

Notes to the financial statements (continued)

10. Financial instruments (continued)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives, based on undiscounted cash flows, is as follows:

Undiscounted amounts payable	**2018 £m**	2017 £m
- Within one year	**6.1**	5.6
- Between one and two years	**(34.6)**	5.5
- Between two and three years	**(19.4)**	(36.0)
- Between three and four years	**2.9**	(20.7)
- Between four and five years	**2.8**	2.0
- After more than five years	**(257.1)**	(275.9)
Total	**(299.3)**	(319.5)

11. Deferred tax asset

The deferred tax asset relates to the cumulative fair value loss as detailed below:

	2018 £m	2017 £m
At the beginning of the year	**42.9**	33.6
Amounts provided during the year on fair value	**(8.1)**	11.8
Impact on deferred tax asset of tax rate change	**-**	(2.5)
At the end of the year	**34.8**	42.9

12. Share capital

	2018 £	2017 £
Allotted, called-up and fully paid		
12,500 ordinary shares of £1 each	**12,500**	12,500
Allotted, called-up and partly paid		
37,500 ordinary shares of £1 each	**37,500**	37,500
Total	**50,000**	50,000

The Company's ordinary shares carry no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Notes to the financial statements (continued)

13. Guarantees

The Company, Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Cayman Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2018 was £11.2bn (2017: £10.6bn).

14. Immediate and ultimate parent and controlling party

TWUL, a company incorporated in the United Kingdom, is the immediate parent company, which owns 100% of the Company's share capital.

Kemble Water Finance Limited, a company incorporated in the United Kingdom is an intermediate parent company and the smallest group to consolidate these financial statements. The Directors consider KWH, a company incorporated in the United Kingdom, to be the ultimate parent and controlling party and the 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 Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

15. Related Parties

Transactions with group entities

The Company was established to make certain financing arrangements on behalf of TWUL. The major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL. Loans receivable from group entities represent cumulative financing proceeds that have been lent on to TWUL.

There are no amounts past their due dates (2017: £nil).

As these assets relate to intercompany debt owed by a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are impaired. All loans and receivables are held at amortised cost.

Interest receivable from TWUL during the year was £167.3m (2017: £141.5m).

Details of the loans receivable as a result of the above transactions can be found in note 8.

Transactions with key management personnel

During the year, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2017: none).