Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance Plc

Annual report and financial statements
For the year ended 31 March 2020

Contents

Directors and advisors

Directors

T Bolton
M Bamford
D Manuelpillai

Independent auditors

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Strategic Report

The Directors present their Strategic Report for Thames Water Utilities Finance Plc ("the Company") for the year ended 31 March 2020.

Review of the business and strategy

The principal activity of the Company, to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"), together the "TWUL Group", the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"), remains unchanged from the previous year. The Group's principal activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through TWUL in accordance with its licence of appointment.

The major transactions of the Company constitute the raising of finance and subsequent lending of debt to TWUL, the Company's immediate parent company. The Company is also part of a Securitisation Group of companies ("the Securitisation Group"). This arrangement comprises the Company, its immediate parent, the parent of its immediate parent and its wholly owned direct and indirect subsidiary entities, as follows:

- Thames Water Utilities Holdings Limited;
- Thames Water Utilities Limited;
- Thames Water Utilities Cayman Finance Limited (until 27 September 2018); and
- Thames Water Utilities Cayman Finance Holdings Limited (until 27 September 2018).

During the prior year, a consent solicitation process was launched by the Company and Thames Water Utilities Cayman Finance Limited ("TWUCF") seeking the consent of bondholders for the closure of TWUL's Cayman Islands subsidiaries, including TWUCF. TWUL wanted to make the Group's corporate structure as simple and transparent as possible to support the continued trust and confidence in customers and other stakeholders. The Cayman Islands incorporated subsidiaries no longer served their original purpose and as such TWUL proposed to remove them from the Thames Water Group and replace TWUCF with the Company as the Securitisation Group's issuer of publicly traded debt securities. This was achieved by the substitution of TWUCF with the Company with respect to existing financial instruments held by TWUCF and the conversion of the Company from a private limited liability company to a public limited liability company. The conversion was required because, under UK securities law, bonds and other securities can only be issued by a public limited liability company or "Plc".

Following the successful completion of the consent process, and prior to re-registering the Company as a Plc on 31 August 2018, TWUL invested £207.7 million into the Company by way of share capital subscription. Subsequent to the new share issue the Company completed a capital reduction by way of transferring the whole of the balance on share premium to other reserves.

On 31 August 2018, the debt, derivative and intercompany receivable instruments previously held by TWUCF were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the debt liability transferred was £7,853.5 million, the fair value of the derivatives liability transferred was £94.4 million and the fair value of the intercompany receivables asset transferred was £8,064.1 million. Following transfer, TWUCF and Thames Water Utilities Cayman Finance Holdings Limited were transferred out of the Securitisation Group and liquidated.

The payment of all amounts owing in respect of the external debt issued by any company in the Securitisation Group is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The guaranteed debt within the Securitisation Group as at 31 March 2020 was £13,112.2 million (2019: £11,889.4 million).

Credit rating

In March 2020, Moody's downgraded TWUL's Corporate Family Rating ("CFR") to Baa2 with stable outlook (2019: Baa1 with negative outlook). Moody's also downgraded the Company's senior secured (Class A) debt rating to Baa1 with stable outlook (2019: A3 with negative outlook) and subordinated (Class B) debt rating to Ba1 with stable outlook (2019: Baa3 with negative outlook). In February 2020, S&P affirmed the Company's credit rating of BBB+ and BBB- (2019: BBB+ & BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, with negative outlook (2019: negative outlook). We retain credit ratings that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

Strategic Report (continued)

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 number of financial ratios are tested and a senior gearing level above 85.0%, a Class A gearing level above 75%, a senior interest cover ratio of below 1.1x or a Class A interest cover ratio of below 1.3x would impose certain conditions, including a restriction on distributions from TWUL.

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 82.3% (2019: 82.2%), measured by comparing the sum of the Securitisation Group's net debt (covenant basis) of £12,124.0 million (2019: £11,727.4 million) against TWUL's stated Regulatory Capital Value ("RCV") of £14,729.3 million (2019: £14,273.7 million).

The Securitisation Group is required to comply with certain financial covenants. Interest cover measures the ratio of operating cashflow to net interest expense. As of 31 March 2020, this ratio was 1.8x (2019: 1.5x) versus a covenant level of 1.1x (2019: 1.1x).

Results and performance

During the financial year ended 31 March 2020, finance income increased to £396.1 million (2019: £290.6 million) and finance expense increased to £381.4 million (2019: £290.6 million) mainly reflecting the impact of the transfer of TWUCF's financial instruments during the previous financial year.

For the financial year ended 31 March 2020, the Company made a profit before tax of £97.8 million (2019: loss before tax of £28.0 million) principally due to a profit of £83.1 million on financial instruments (2019: loss of £28.0 million). Net assets of the Company at 31 March 2020 were £94.6 million (2019: £4.5 million) mainly reflecting year-on-year movement in derivative fair values. 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 recharge 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 cash flows of the derivatives are recharged to TWUL via the matching terms of intercompany loans from the Company to TWUL, with the exception of swaps restructured during the year, where the terms of the relevant intercompany loans are yet to be amended, and any swaps which are not linked to external debt.

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 except for derivatives, where the impact of accretion and foreign exchange movement are passed on. Details of principal risks and uncertainties applicable to the Securitisation Group have been included in pages 5 to 11 of the Group.

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, operating 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 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 policies and procedures are incorporated in pages 14 and 15 of the Group's annual report and financial statements.

Copies of the Group's annual report and financial statements may be obtained from the Company Secretary's Office at the address included in note 15.

Strategic Report (continued)

Principal risks and uncertainties (continued)

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 borrowings and equity. Quantitative information in relation to the capital structure is included in 'Note 10 Financial Instruments' on page 35.

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 interest cover ratios and RCV to net debt ratios. The Securitisation Group complied with these ratios throughout the financial year.

The Group's funding policy is to ensure that it has adequate funding at all times to meet the Group's short term and long term requirements. The Group maintains a broad portfolio of debt (diversified by source and maturity) and maintains 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 manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

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 into by the Company include fixed rate debt, floating rate debt, RPI-linked debt 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 and real rates. All debt raised by the Company is lent to TWUL, a regulated water company with RPI-linked revenue which forms a partial economic hedge for RPI linked borrowings.

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency interest rate swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All foreign currency hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate and foreign currency interest rate fluctuations. Further disclosures regarding financial instruments can be found in note 10.

(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 its derivative financial instruments. Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables from TWUL including, where appropriate, a review of TWUL's budget and forecasts. 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.

Strategic Report (continued)

Principal risks and uncertainties (continued)

(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 Securitisation Group 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. The Company matches the majority of its financial obligations with receivables due from its parent.

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

As stated in the accounting policies to these financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

"A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;
(b) the interests of the Company's employees;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between members of the company."

On appointment, as part of their induction of becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group's main trading company, Thames Water Utilities Limited.

During the year, the Company has continued to act as a financing company within the Kemble Water Holdings Limited Group. Day-to-day running of the Company is managed by the Company's management team, consisting of employees from the Group's main trading company, Thames Water Utilities Limited. During the year, the Board of Directors have approved the entering in to new debt facilities, renewal of revolving credit facilities, updates of debt issuance programme documentation, the entering in to intercompany loans, the restructuring of index-linked swaps and the approval of the Company's annual report and financial statements. The Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Strategic Report (continued)

s172 reporting (continued)

Likely consequences of decisions in the long term

The Board's decision to extend revolving credit facilities and to enter into £800m of new term loan facilities (£500m of which were cancelled during the year) were consistent with the purpose of the Company acting as a financing vehicle for its parent, and the on-loan of external borrowings drawn down under debt facilities also enabled the Company to earn a margin on these activities. The Board's decision to restructure index-linked swaps has enabled interest rate risk to be managed appropriately and in line with the objectives of the Company and the wider Group.

Stakeholder management

The Company's stakeholders are considered to be external debt investors and other companies within the Kemble Water Holdings group with whom intercompany loan relationships exists. The Company places considerable importance on communication with investors and through a Group-wide approach, regularly engages with them on a wide range of topics. The Group's Head of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and Environment

In raising funding for other Group companies, the Board supports the Group-wide commitment to seeking to continually improve the delivery of water and wastewater services in the most sustainable way, which means complying with regulation, delivering public value and leaving the environment in a better state than we found it at the end of each regulatory period. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group's annual report is available from the address shown in note 15 on page 43.

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006.

Future outlook

It is expected that the Company will continue with its current business model for the foreseeable future, with the proceeds of the Company's debt raising activities lent to TWUL with a margin charged in addition to the underlying costs following any management of the market risks within the Company.

This Strategic Report was approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

T Bolton
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 2020. 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 number of the Company is 02403744.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

T Bolton
M Bamford
D Manuelpillai (appointed 1 July 2019)

The Directors who held office during the year ended 31 March 2020 and resigned before the date of this report were:

S Wheeler (resigned 19 July 2019)

During the year under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2019: none).

Future outlook

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

Going concern

The Directors have considered the nature of the business and don't expect this to significantly change over the next 12 month period. In light of COVID-19 risk on the Securitisation Group, the Directors have sought a letter of support from the Company's immediate parent company, TWUL, to support the going concern basis.

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net assets of the Company and the ongoing support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan, cash and committed borrowing facilities available and TWUL Group's basis of preparation, see page 21 for more information.

The Directors believe, after due and careful enquiry, and taking into account the support of the parent company, as well as the ultimate 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. Further details on the going concern and long term viability has been included within the financial statements of TWUL. Copies of TWUL's annual report and financial statements may be obtained from the Company Secretary's Office at the address included in note 15.

Dividends

The Company did not pay any dividends in the year (2019: £nil). The Directors do not recommend the payment of a final dividend (2019: £nil).

Directors' report (continued)

Financial risk management

During the year, the Company had access to 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. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate action can be taken in the relevant group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report on pages 4 to 5.

Corporate Governance

As noted above, the Company has full access to the Executive Team of TWUL, including access to the risk management and internal control systems. Their system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Management of risk supports this through a number of key company level internal controls and responses:

- Business planning, budgeting and forecasting. These activities support resilient operations and sustainable and robust finances. The annual budgeting exercise includes a detailed budget for the year and a view for remainder of the asset management plan ("AMP");
- Performance reporting – the Company's Board and Group shareholders receive monthly Group management reports, including an overview of key performance metrics;
- System of delegated authority – delegated levels of decision making authority are reviewed and approved by the Board;
- Insurance – insurance programme and insurance team in place. The Board review and approve the strategic approach being taken to level and type of cover;
- Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk; and
- Code of conduct and Whistleblower hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

The Enterprise Risk Management and Internal Audit teams also provide reporting and assurance over our management of key business risks.

Research and development

The Company undertakes no research and development activity, this remains unchanged from the prior year.

Political and charitable donations

No political or charitable donations were made by the Company during the year (2019: £nil).

Disclosure of information to the auditor

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' report (continued)

Directors' indemnities

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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

The financial statements on pages 16 to 43 were approved by the Board of Directors on 29 June 2020 and signed on its behalf by

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company’s financial statements published on Thames Water Utilities Limited website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Thames Water Utilities Finance plc

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water Utilities Finance plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2020; the Income statement, the Statement of cash flows and the Statement of changes in equity for the year then ended; the Accounting Policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit, Risk and Reporting committee of Thames Water Utilities Limited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 1 to the financial statements, we have provided no non-audit services to the company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview

- Overall materiality: £128.6 million (2019: £114.5 million), based on 1% of Total assets.

- Thames Water Utilities Finance plc consists of one operating segment and is managed from a single location based in the United Kingdom. Audit procedures have been performed to the above stated materiality on all balances.

- Valuation of financial derivatives
- Impact of COVID-19

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Thames Water Utilities Finance plc (continued)

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to those laws and regulations that have a direct impact on the preparation of the company's financial statements including the Companies Act 2006, the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority, UK tax legislation and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate the financial performance or position and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the company's legal advisors, in order to identify and assess known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries that met our predefined risk criteria, in particular journal entries posted with certain unusual account combinations or posted by senior management

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of financial derivatives As at 31 March 2020 the fair value of derivatives in an asset position was £137.5m (2019: £63.3m) and in a liability position was £358.3m (2019: £444.6m). The net fair value of the derivatives was a liability of £220.8m (2019: £381.3m). The valuation of derivatives has been designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex and long dated which can cause additional complexities. Refer to note 10 of the financial statements.	Our procedures included: Obtaining independent confirmations from the external counterparties to confirm the existence and terms of all contracts held. Engaged with our specialist valuations team who have performed independent valuations for a sample of the derivative population. Performed an analytical review of the derivative position by calculating expected movements in derivatives using independent sources of exchange rates and interest rates. Tested management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation methodology and judgements management have used are reasonable.

Independent auditors' report to the members of Thames Water Utilities Finance plc (continued)

Impact of COVID-19

The COVID-19 pandemic is considered to have a significant impact on specific items in the Annual report. The specific areas of the financial statements where we have assessed the impact of COVID-19 are as below:

- Going concern- COVID-19 is likely to have a potential impact on the group's cash flows (group referring to the 'Thames Water Utilities Limited' group), macro-economic impact (financial markets) and in turn the ability of the group to access the financial markets. Refer to the Accounting policies section of the financial statements.

- Recoverability of intercompany loan receivables. Refer to note 10 of the financial statements.

We have also incorporated the guidance for auditors issued by the FRC regarding COVID-19 and applied this where appropriate.

We have considered the impact of COVID-19 on various areas of the Annual report and performed procedures to address the risk around the impact of COVID-19.

We have set out our responses to the risk in respective areas of the financial statements as below:

- Going concern: Management have obtained a letter of support from the immediate parent of the company, Thames Water Utilities Limited ('TWUL'). As part of our audit of TWUL we have understood how management have factored in the potential impact of COVID-19 on future cash flows and the potential impact of this on covenant compliance including; lower non-household consumption, delays in cash collection of household revenue and impacts on the cost base. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since year end. Further we have assessed the availability of financial resources and the ability of the group to absorb potential adverse circumstances over the going concern period. From these procedures we have obtained reasonable assurance on the ability for TWUL to provide support to the company and therefore for the company to be a going concern.

- Recoverability of intercompany loan receivables- all receivables are due from TWUL and are back to back with external loans taken out by the company. As such intercompany loan receivables are repaid as external debt is repaid. TWUL currently holds an investment grade credit rating.

  As part of the assessment of TWUL's ability to be a going concern we have considered the ability of the consolidated TWUL group, which includes Thames Water Utilities Finance plc, to meet its liabilities as they fall due and have not identified any issues.

  In addition TWUL has performed a long term forecast as part of its long term viability statement, looking at a 10 year period. Whilst this assessment suggests that in certain severe circumstances where TWUL may not be able to comply with its covenants, which in turn may impact its ability to repay intercompany amounts, management do not forecast this until a period outside of the going concern assessment window and have assessed that there is adequate time and ability to take mitigating actions to avoid this. We have understood the nature of these potential mitigating actions and consider that they are reasonable and that there is history of management performing similar actions.

  From these procedures we have obtained reasonable assurance over the recoverability on intercompany loan receivables at year end.

  Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.

Independent auditors' report to the members of Thames Water Utilities Finance plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£128.6 million (2019: £114.5 million).
How we determined it	1% of Total assets.
Rationale for benchmark applied	The entity functions to service group financing requirements. Therefore, using total assets as a benchmark is appropriate.

We agreed with the Audit committee of Thames Water Utilities Limited that we would report to them misstatements identified during our audit above £12.9 million (2019: £5.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Thames Water Utilities Finance plc (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the annual report and financial statements set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 March 2019 to 31 March 2020.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
29 June 2020

Income statement
For the year ended 31 March

	Note	2020 £m	2019 £m
Finance income	4	**396.1**	290.6
Finance expense	5	**(381.4)**	(290.6)
Net profit / (loss) on financial instruments	6	**83.1**	(28.0)
Profit / (loss) on ordinary activities before taxation		**97.8**	(28.0)
Tax (charge) / credit on profit / (loss)	7	**(7.7)**	0.5
Profit / (loss) for the year		**90.1**	(27.5)

All amounts relate to continuing operations.

The accounting policies and notes on pages 20 to 43 are an integral part of these financial statements.

There is no other comprehensive income for the year.

Statement of financial position
As at 31 March

	Note	**2020** £m	2019 £m
Non-current assets			
Intercompany loans receivable	8	**10,815.8**	10,632.3
Derivative financial assets	10	**137.5**	63.3
Deferred tax asset	11	**31.2**	35.6
Other financial assets		**6.0**	7.3
		10,990.5	10,738.5
Current assets			
Cash and cash equivalents		**2.6**	2.3
Intercompany loans receivable	8	**1,856.6**	710.6
Group relief receivable		**-**	0.1
Other financial assets		**12.2**	2.0
		1,871.4	715.0
Current liabilities			
Borrowings	9	**(1,800.6)**	(634.5)
Derivative financial liabilities	10	**(15.0)**	(38.6)
Group relief payable		**(3.2)**	-
Other financial liabilities		**(2.4)**	(4.8)
		(1,821.2)	(677.9)
Net current assets		**50.2**	37.1
Non-current liabilities			
Borrowings	9	**(10,596.8)**	(10,359.7)
Derivative financial liabilities	10	**(343.3)**	(406.0)
Other financial liabilities		**(6.0)**	(5.4)
		(10,946.1)	(10,771.1)
Net assets		**94.6**	4.5
Equity			
Called up share capital	12	**0.1**	0.1
Other reserves	12	**207.7**	207.7
Retained losses		**(113.2)**	(203.3)
Total equity		**94.6**	4.5

The accounting policies and notes on pages 20 to 43 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

T Bolton
Director
Registered number: 02403744 (England & Wales)

Statement of changes in equity

For the year ended 31 March

	Called up share capital £m	Share premium £m	Other reserves £m	Retained losses £m	Total (deficit)/equity £m
At 1 April 2018	0.1	-	-	(175.8)	(175.7)
Investment from TWUL	-	207.7	-	-	207.7
Capital reduction	-	(207.7)	207.7	-	-
Loss for the year	-	-	-	(27.5)	(27.5)
At 31 March 2019	**0.1**	**-**	**207.7**	**(203.3)**	**4.5**
Profit for the year	-	-	-	90.1	90.1
At 31 March 2020	**0.1**	**-**	**207.7**	**(113.2)**	**94.6**

The accounting policies and notes on pages 20 to 43 are an integral part of these financial statements.

Other reserves comprise a capital reduction undertaken by the Company reducing share premium account by £207.7 million.

Statement of cash flows
For the year ended 31 March

	2020 £m	2019 £m
Cash flows from operating activities		
Profit / (loss) for the year	**90.1**	(27.5)
Less finance income	**(396.1)**	(290.6)
Add finance expense	**381.4**	290.6
Net (profit) / loss on financial instruments	**(83.1)**	28.0
Tax charge / (credit) on profit / (loss)	**7.7**	(0.5)
Net cash generated by operating activities	**-**	-
Investing activities		
Interest received	**352.8**	213.1
Loans to group companies	**(2,789.5)**	(789.3)
Loans repaid by group companies	**1,496.2**	612.2
Fees received	**9.2**	7.4
Net cash generated by investing activities	**(931.3)**	43.4
Financing activities		
Proceeds from new loans	**2,779.1**	789.3
Repayment of borrowings	**(1,448.9)**	(628.4)
Loans from group companies	**-**	7.5
Derivative settlement	**(47.3)**	16.2
Interest paid	**(342.8)**	(214.6)
Fees paid	**(8.5)**	(11.1)
Net cash outflow used in financing activities	**931.6**	(41.1)
Net movement in cash and cash equivalents	**0.3**	2.3
Cash and cash equivalents at beginning of year	**2.3**	-
Cash and cash equivalents at end of year	**2.6**	2.3

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, except as noted below:

General information

Thames Water Utilities Finance Plc (the "Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

The Company's principal activity to act as a financing company to Thames Water Utilities Limited ("TWUL"), together the "TWUL Group", the main trading subsidiary of the Kemble Water Holdings Limited Group, 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").

The policies applied in these consolidated financial statements are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRS IC") interpretations issued and effective and ratified by the EU as of 29 June 2020, the date that the Board of Directors approved these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using IFRS.

The financial statements for the year ended 31 March 2020, set out on pages 16 to 43, 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 in compliance with the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

Certain cash flows related to the Company are transacted by fellow group companies on behalf of the Company. The directors have assessed that the Company is the principal in these transactions and the group's role is for administrative purposes only. As such the Company presents all cash flows related to the Company in these financial statements in line with IAS 7.

<u>Going concern</u>

Company

The Directors have considered the nature of the business and don't expect this to significantly change over the next 12 month period. In light of COVID-19 and the current situation, the Directors have sought a letter of support from the Company's immediate parent company, TWUL, to support the going concern basis.

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net assets 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, cash and committed borrowing facilities available and TWUL Group's basis of preparation, see below "TWUL Group" section for more information.

TWUL has confirmed that it will 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.

Accounting policies (continued)

Basis of preparation (continued)

Going concern (continued)

TWUL Group

The TWUL Group has considerable financial resources, a strong liquidity position, ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the TWUL Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the TWUL Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the TWUL Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the TWUL Group.

As a consequence of these factors and having accepted the five year plan for 2020-2025 (the Final Determination), the Directors believe that the TWUL Group is well placed to manage its business risks successfully and have a reasonable expectation that the TWUL Group has adequate resources to continue in operational existence for the foreseeable future.

Conclusion

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 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.

Accounting policies (continued)

New accounting policies and financial reporting changes

An amendment to IFRS became effective for the financial year beginning 1 April 2019. We have undertaken an assessment over the impact of adopting the new accounting standard IFRS 16 'Leases' that is now effective.

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 'Leases' replaces IAS 17 'Leases' and related interpretations and sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. The Company does not have any leases and does not intend to enter into any contracts for leases in the future. As a result, management have concluded that IFRS 16 'Leases' does not have any impact on the Company.

Future standards and amendments

<u>IBOR reform</u>

Following the financial crisis, the reform and replacement of benchmark interest rates such as the London Interbank Offer Rate ("LIBOR") and other interbank offered rates ("IBORs") has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes in the various jurisdictions affected.

We cannot rely on LIBOR being published after the end of 2021. It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR as a reference rate. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

At the time of reporting, industry working groups are reviewing methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Company is establishing a project to oversee the GBP LIBOR transition plan. This transition project will include changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Company currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2020, the Company had no designated hedge relationship and hedge accounting was not applied.

In addition to the IBOR reform, 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)

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 and amortisation of fair value related to intercompany receivables acquired during the previous year. All interest and debt servicing costs are recharged to TWUL.

The Company's finance expense represents the interest costs on borrowings, amortisation of borrowings related to issuance costs and amortisation of fair value related to borrowings acquired during the year, 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 include cash on hand, short-term deposits held with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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.

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 rate 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.

Derivative financial instruments

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are initially recognised at fair value, with transaction costs being taken to the income statement. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 10.

Gains or losses on remeasurement to fair value are recognised immediately in the income statement within Net profit / (loss) on financial instruments. and exclude any interest income on swaps which is recognised within Finance income

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

Accounting policies (continued)

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, loans and private placements. The Company, Thames Water Utilities Holdings Limited and TWUL have guaranteed the principal and interest payments due under the terms of the debt. 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.

Impairment of financial assets

There is an annual impairment review for intercompany receivables which assesses the ability of the entity to pay them based on a multi-factor analysis including the counterparty credit score, past history of default, current financial performance of the counterparty and potential future changes to the counterparty.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement.

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 balance sheet 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 Company intends to settle its current tax assets and liabilities on a net basis.

Accounting policies (continued)

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may 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. 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. 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. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Company and counterparties. Currency cash flows are translated at spot rate.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change on the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During the year, two index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £22.2 million is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. See note 10 "Financial Instruments" for more information.

Notes to the financial statements

1. Auditors' remuneration

The auditors, PricewaterhouseCoopers LLP (2019: PricewaterhouseCoopers LLP), remuneration was borne by Thames Water Limited in both the current and preceding financial year. The total amount payable relating to the Company was:

	2020	2019
	£	£
Fees payable to the auditors		
Statutory audit fees	**108,110**	106,500
Fees related to section 92 audit	**-**	42,569
Fees payable to the auditor for other services		
Other assurance related services	**31,000**	31,000
	139,110	180,069

Section 92 is a Companies Act 2006 requirement for companies wanting to register as a public company. Fees related to the section 92 audit of £42,569 were incurred in relation to the Company's registration as a public company during the prior year. Other assurance services in both the current and preceding financial year includes amounts payable for the review of the Company's interim financial statements.

2. Employees and Directors

Employees

The Company had no employees during the year (2019: none).

Directors

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 were no retirement benefits accruing in either the current or preceding financial year.

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

	2020	2019
	£m	£m
Interest income on intercompany loans receivable	**376.1**	284.5
Interest income on swaps	**20.0**	6.1
	396.1	290.6

Notes to the financial statements (continued)

5. Finance expense

	2020	2019
	£m	£m
Interest expense	**381.9**	284.7
Fees incurred in relation to acquisition of TWUCF's assets and liabilities[1]	**(0.8)**	5.9
Other fees	**0.3**	-
	381.4	290.6

[1] A credit of £0.8 million was recognised for the year ended 31 March 2020. This relates to a reversal of an accrual of fees in relation to acquisition of TWUCF's assets and liabilities.

6. Net profit / (loss) on financial instruments

	2020	2019
	£m	£m
Exchange (losses) / gains on foreign currency borrowings and intercompany loans receivables	**(29.3)**	11.5
Gains / (losses) arising on swaps where hedge accounting is not applied[1]	**112.4**	(39.5)
	83.1	(28.0)

[1] Gain arising on swaps where hedge accounting is not applied primarily reflects lower RPI and interest rate expectations. This excludes accrued interest which is disclosed in Note 4 Finance income.

7. Tax charge / (credit)

As at 31 March	**2020**	2019
	£m	£m
Current tax:		
Amounts in respect of group relief	**3.2**	(0.2)
Amounts in respect of prior periods – group relief	**0.1**	0.5
Total current tax	**3.3**	0.3
Deferred tax:		
Origination and reversal of timing differences in current period	**4.5**	(0.8)
Adjustment in respect of prior period	**(0.1)**	-
Total deferred tax	**4.4**	(0.8)
Tax charge / (credit) on profit / (loss) on ordinary activities	**7.7**	(0.5)

Notes to the financial statements (continued)

7. Tax charge / (credit) (continued)

The tax assessed for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020	2019
	£m	£m
Profit / (loss) on ordinary activities before tax	**97.8**	(28.0)
Corporation tax on profit / (loss) on ordinary activities at 19% (2019: 19%)	**18.6**	(5.3)
Effects of:		
Movement of fair value subject to initial recognition exemption	**(7.2)**	3.1
Tax rate differences[i]	**-**	0.7
Tax rate change	**(4.2)**	-
Transfer pricing adjustment	**0.5**	0.5
Adjustment to tax in respect of prior periods	**-**	0.5
Total tax charge / (credit) for year	**7.7**	(0.5)

[i] In the year ended 31 March 2019, the Company surrendered tax losses to its parent Company, Thames Water Utilities Limited, at a rate which is lower than the standard rate of corporation tax, which reflects the value of the tax losses to Thames Water Utilities Limited. In the year ended 31 March 2020, the Company claimed tax losses at the standard rate of tax.

Factors affecting the future tax charge

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. However, this reduction was reversed in the March 2020 Budget and substantively enacted on 17th March 2020. Therefore, effective 1 April 2020 the corporation tax rate remains at 19% and the deferred tax asset at 31 March 2020 has been calculated based on this rate.

Notes to the financial statements (continued)

8. Intercompany loans receivable

As at 31 March	**2020**	2019
	£m	£m
Amounts owed by Group undertakings		
Thames Water Utilities Limited	**12,446.4**	11,131.2
Interest receivable on amounts owed by Group		
Thames Water Utilities Limited	**226.0**	211.7
Total	**12,672.4**	11,342.9
Disclosed within non-current assets	**10,815.8**	10,632.3
Disclosed within current assets	**1,856.6**	710.6

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, refer to note 10 (b) Credit Risk.

All loans and receivables are held at amortised cost. Terms of the intercompany loans receivable reflect terms of the external borrowing included in note 9 and any relevant swaps.

9. Borrowings

As at 31 March	**2020**	2019
	£m	£m
Secured bank loans and private placements	**2,278.8**	918.1
Bonds	**9,643.5**	9,612.2
Amounts owed to Group undertakings	**290.0**	289.8
	12,212.3	10,820.1
Interest payable on borrowings	**185.1**	174.1
Total	**12,397.4**	10,994.2
Disclosed within non-current liabilities	**10,596.8**	10,359.7
Disclosed within current liabilities	**1,800.6**	634.5

Notes to the financial statements (continued)

9. Borrowings (continued)

Breakdown of secured bank loans and private placements

As at 31 March	**2020**	2019
	£m	£m
£245.0m 1.031% floating rate loan due 2019 (a), (b)	**-**	245.0
£214.3m 1.397% Class B floating rate loan due 2019 (a), (b)	**-**	214.3
£600.0m 1.029% floating rate loan due 2020 (a), (b)	**600.0**	-
£300.0m 1.029% floating rate loan due 2020 (a), (b)	**300.0**	-
£300.0m 1.001% floating rate loan due 2020 (a), (b)	**300.0**	-
£214.3m 1.082% Class B floating rate loan due 2020 (a), (b)	**214.3**	-
£150.0m 2.329% Class B floating rate loan due 2023 (a), (b)	**150.0**	-
$106.0m 4.070% private placement due 2026 (c)	**85.1**	-
$131.0m 4.270% private placement 2029 (c)	**105.1**	-
€50.0m 2.100% private placement due 2030 (c)	**44.1**	-
$150.0m 3.870% private placement due 2022 (c)	**121.0**	115.8
$200.0m 4.020% private placement 2024 (c)	**161.4**	154.4
$250.0m 4.220% private placement due 2027 (c)	**197.8**	188.6
Total secured bank loans and private placements	**2,278.8**	918.1

All loans and private placements are Class A except where highlighted.

(a) The interest margins of these loans are based on a ratings grid and vary depending on the senior debt credit ratings assigned by both Standard and Poor's and Moody's.

(b) In March 2020, £1,200.0 million out of the £1,432.1 million Class A revolving credit facility was drawn, £214.3 million out of the £214.3 million Class B revolving credit facility was drawn and £150.0 million out of the £300.0 million Class B term loan facility was drawn. In April 2020, £350.0 million of the Class A drawdown and the £214.3 million Class B drawdown were repaid. In May 2020, a further £40.0 million of the Class A drawdown was repaid.

(c) The Securitisation Group has entered into cross currency swap agreements which convert this debt into sterling debt. Hedge accounting is not applied.

Notes to the financial statements (continued)

9. Borrowings (continued)

Breakdown of secured bonds

As at 31 March	**2020** **£m**	2019 £m
£200.0m 5.050% fixed rate due 2020 (c)	**200.0**	200.0
£225.0m 6.590% fixed rate due 2021	**225.0**	225.0
£175.0m 3.375% index linked due 2021 (b), (d)	**290.4**	282.4
£330.0m 6.750% fixed rate due 2028 (b)	**327.7**	327.5
£200.0m 6.500% fixed rate due 2032 (b), (c)	**197.9**	197.8
£600.0m 5.125% fixed rate due 2037 (b), (c)	**596.6**	596.5
£300.0m 1.680% index linked due 2053 (b), (d)	**447.4**	435.3
£300.0m 1.681% index linked due 2055 (b), (d)	**447.4**	435.3
€113.0m 2.300% CPI index linked bond due 2022 (a), (c)	**115.0**	114.1
£300.0m 5.750% Class B fixed rate bond due 2030 (b), (e)	**314.5**	315.9
£300.0m 4.375% fixed rate bond due 2034 (b)	**339.9**	342.7
¥20.0bn 3.280% fixed rate bond due 2038 (b), (c)	**192.1**	180.7
£50.0m 3.853% index linked bond due 2040 (d)	**117.6**	118.3
£500.0m 5.500% fixed rate bond due 2041 (b)	**649.8**	657.0
£50.0m 1.980% index linked bond due 2042 (d)	**101.0**	100.8
£55.0m 2.091% index linked bond due 2042 (b), (d)	**108.2**	107.7
£40.0m 1.974% index linked bond due 2045 (b), (d)	**59.1**	59.6
£300.0m 4.625% fixed rate bond due 2046 (b)	**365.2**	367.7
£100.0m 1.846% index linked bond due 2047 (d)	**206.5**	205.9
£200.0m 1.819% index linked bond due 2049 (b), (d)	**416.1**	414.6
£200.0m 1.771% index linked bond due 2057 (b), (d)	**406.2**	403.4
£350.0m 1.760% index linked due 2062 (b), (d)	**686.7**	680.6
£500.0m 4.000% fixed rate due 2025 (b)	**534.4**	541.0
£40.0m 0.750% index linked loan due 2034 (b), (d)	**50.0**	49.2
£45.0m 0.721% index linked loan due 2027 (b), (d)	**53.7**	52.8
£300.0m 3.500% fixed rate loan due 2028 ((b)	**311.0**	312.4
£400.0m 7.738% fixed rate bond due 2058 (b)	**729.9**	738.6
£250.0m 1.875% fixed rate bond due 2024 (b)	**244.0**	242.4
£250.0m 2.625% fixed rate bond due 2032 (b)	**236.3**	235.2
£300.0m 2.375% Class B fixed rate bond due 2023 (b)	**294.1**	292.3
£250.0m 2.875% Class B fixed rate bond due 2027 (b)	**241.2**	240.1
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**138.6**	139.4
Total bonds	**9,643.5**	9,612.2

All bonds are Class A except where highlighted.

(a) The Company has entered into cross currency swap agreements which convert this debt into sterling debt. Hedge accounting is not applied

(b) These bonds are shown net of issue costs.

(c) The Securitisation Group has entered into swap agreements that convert this debt into sterling index-linked debt.

(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").

(e) In September 2022 this Class B bond has a "Step Up and Call" meaning the interest rate changes to three months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.

Notes to the financial statements (continued)

9. Borrowings (continued)

Amounts owed to Group undertakings

As at 31 March	**2020**	2019
	£m	£m
£200.0m floating rate loan due 2039 (a), (b)	**200.0**	200.0
£100.0m floating rate loan due 2060 (a), (b)	**90.0**	89.8
Total owed to Group undertakings	**290.0**	289.8

(a) This is an intercompany loan due to Thames Water Utilities Limited, the immediate parent company.
(b) The Company has entered into RPI index-linked swaps which have accretion pay downs at five year intervals.

10. Financial instruments

Categories of financial instruments

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

Financial assets:

As at 31 March	**2020**	2019
	£m	£m
Fair value through profit and loss		
Index linked swaps	**11.9**	14.5
Cross currency swaps	**125.6**	48.8
	137.5	63.3
Amortised cost		
Cash and cash equivalents	**2.6**	2.3
Intercompany loans receivables	**12,672.4**	11,342.9
	12,675.0	11,345.2
Total	**12,812.5**	11,408.5

Financial liabilities:

As at 31 March	**2020**	2019
	£m	£m
Fair value through profit and loss		
Index linked swaps	**(356.7)**	(438.9)
Cross currency swaps	**(1.6)**	(5.7)
	(358.3)	(444.6)
Amortised cost		
Borrowings	**(12,397.4)**	(10,994.2)
Other financial liabilities	**(8.4)**	(10.1)
	(12,405.8)	(11,004.3)
Total	**(12,764.1)**	(11,448.9)

Notes to the financial statements (continued)

10. Financial instruments (continued)

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 2020, all of which are classified within financial liabilities:

	Level 2[1]	
	2020	2019
	£m	£m
Financial assets – derivative financial instruments		
Index linked swaps	**11.9**	14.5
Cross currency swaps	**125.6**	48.8
	137.5	63.3
Financial liabilities – derivative financial instruments		
Index linked swaps	**(356.7)**	(438.9)
Cross currency swaps	**(1.6)**	(5.7)
	(358.3)	(444.6)
Net total	**(220.8)**	(381.3)
Disclosed within non-current assets	**137.5**	63.3
Disclosed within current liabilities	**(15.0)**	(38.6)
Disclosed within non-current liabilities	**(343.3)**	(406.0)

[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. Currently cash flows are translated at spot rate.

During November 2019, the maturity dates of two index linked swaps, with £100.0 million notional each, were extended to 2039. These swaps are measured at fair value through the income statement. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £22.2 million is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2020, £21.8 million (31 March 2019: £nil) remained capitalised and £0.4 million had been recognised in the income statement.

Notes to the financial statements (continued)

10. Financial instruments (continued)

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.

Financial assets

As at 31 March	**2020**		2019	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Intercompany loans receivable	**12,672.4**	**13,320.9**	11,342.9	12,699.2
Derivative financial instruments				
Index linked swaps	**11.9**	**11.9**	14.5	14.5
Cross currency swaps	**125.6**	**125.6**	48.8	48.8
Total	**12,809.9**	**13,458.4**	11,406.2	12,762.5

Financial liabilities

As at 31 March	**2020**		2019	
	Book value £m	**Fair Value £m**	Book value £m	Fair Value £m
Borrowings	**12,397.4**	**12,930.5**	10,994.2	11,964.1
Derivative financial instruments				
Index linked swaps	**356.7**	**356.7**	438.9	438.9
Cross currency swaps	**1.6**	**1.6**	5.7	5.7
Total	**12,755.7**	**13,288.8**	11,438.8	12,408.7

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds and associated derivatives. For private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread.

The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and adjusted for credit risk if this is significant. The fair value of index linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity. Amounts owed by Company entities include floating rate loans, the fair value of these loans is assumed to be the nominal value of the primary loan.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Capital risk management

The capital structure of the Company consists of net debt and equity. Details of the Company's capital risk management strategy can be found in the Strategic Report.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company, Thames Water Utilities Holdings Limited and TWUL have guaranteed the principal and interest payments due under the terms of the debt. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year. The details of the Securitisation Group's capital structure are included within TWUL's financial statements, which may be obtained from the Company Secretary's Office at the address included in note 15.

The capital structure of the Company consists of net debt and equity as follows:

As at 31 March	2020 £m	2019 £m
Secured bank loans and private placements	**(2,278.8)**	(918.1)
Bonds	**(9,643.5)**	(9,612.2)
Amounts owed to Group undertakings	**(290.0)**	(289.8)
Interest payable on borrowings	**(185.1)**	(174.1)
	(12,397.4)	(10,994.2)
Cash and cash equivalents	**2.6**	2.3
Net debt (statutory basis)	**(12,394.8)**	(10,991.9)
Equity attributable to the owners of the Company	**94.6**	4.5

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.

	2020		2019	
	Borrowings	**Net derivative financial liabilities**	Borrowings	Net derivative financial liabilities
	£m	**£m**	£m	£m
Opening balance	**(10,994.2)**	**(381.3)**	(2,925.2)	(231.6)
Non-current	**(10,359.7)**	**(342.7)**	(2,863.3)	(231.6)
Current	**(634.5)**	**(38.6)**	(61.9)	-
Cash flows				
New loans raised	**(2,779.1)**	**-**	(789.3)	-
Repayment of borrowings	**1,448.9**	**-**	628.4	-
Derivative settlement	**-**	**47.3**	-	(16.2)
Interest paid	**342.8**	**-**	214.6	-
Interest received	**-**	**(19.1)**	-	(5.6)
	(987.4)	**28.2**	53.7	(21.8)
Non-cash changes				
Interest accrued/fees amortised	**(354.0)**	**20.0**	(252.4)	6.1
Foreign exchange movement	**(43.6)**	**29.7**	11.8	(11.8)
Indexation	**(68.4)**	**(14.0)**	(57.7)	(13.1)
Transfer from group companies[1]	**-**	**-**	(7,853.5)	(94.4)
Amortisation on transfer from group companies	**50.2**	**-**	29.1	-
Fair value changes	**-**	**96.6**	-	(14.7)
	(415.8)	**132.3**	(8,122.7)	(127.9)
Closing balance	**(12,397.4)**	**(220.8)**	(10,994.2)	(381.3)
Non-current	**(10,596.8)**	**(205.8)**	(10,359.7)	(342.7)
Current	**(1,800.6)**	**(15.0)**	(634.5)	(38.6)

[1] On 31 August 2018, the debt and derivative instruments previously held by TWUCF were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the debt liability transferred was £7,853.5 million and the fair value of the derivatives liability transferred was £94.4 million.

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.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Company's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and excluding fair value uplift related to transfer of TWUCF's debt:

As at 31 March 2020	**Total at fixed rates £m**	**Total at floating rates £m**	**Total at RPI linked rates £m**	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
Sterling	**5,804.9**	**1,564.3**	**3,267.0**	**10,636.2**
Non-sterling	**149.4**	**-**	**-**	**149.4**
Total	**5,954.3**	**1,564.3**	**3,267.0**	**10,785.6**

As at 31 March 2019	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
Sterling	5,575.5	459.3	2,932.8	8,967.6
Non-sterling	139.0	-	-	139.0
Total	5,714.5	459.3	2,932.8	9,106.6

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**	
	2020	2019	**2020**	2019
	%	%	**Years**	Years
Sterling				
Fixed	**4.6**	4.8	**12.2**	13.4
Index-linked	**4.4**	5.1	**28.4**	28.7
Non-Sterling				
Fixed	**3.3**	3.4	**18.4**	19.4

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk (continued)

(i) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

The table below summarises the impact, on pre-tax profits, of a 1% increase or decrease in interest rates at 31 March 2020. This analysis considers the effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2020**		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit / (loss)	**171.2**	**(200.2)**	134.7	(163.6)
Equity	**171.2**	**(200.2)**	134.7	(163.6)

(ii) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2020. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	**2020**		2019	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
(Loss) / profit	**(21.2)**	**18.3**	(10.8)	2.1
Equity	**(21.2)**	**18.3**	(10.8)	2.1

(iii) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, TWUL, as a regulated water and wastewater company, is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(a) Market Risk (continued)

(iii) Inflation risk sensitivity analysis (continued)

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2020. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2020**		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
(Loss) / profit	**(210.6)**	**164.4**	(214.5)	157.3
Equity	**(210.6)**	**164.4**	(214.5)	157.3

(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 £12,809.9 million (2019: £11,406.2 million) as shown below:

As at 31 March	**2020**	2019
	£m	£m
Intercompany loans receivable	**12,672.4**	11,342.9
Derivative financial instruments	**137.5**	63.3
Total	**12,809.9**	11,406.2

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, which is 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.

The amount due from TWUL, which is part of the Securitisation Group, as at 31 March 2020 was £12,672.4 million (2019: £11,342.9 million). There are no amounts past their due dates.

If a receivable continues to have an investment grade rating, then IFRS 9 permits an assumption that there has been no significant increase in credit risk. As such given the investment grade credit rating, an assessment of the 12 month expected credit loss is permitted rather than a lifetime credit loss assessment as per 'stage 1' of the IFRS 9 impairment model.

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk (continued)

As the external debt issuance and rating is based on the performance of the operating company, TWUL, the directors believe it is acceptable to attribute the same rating to the loans receivable.

At a TWUL consolidated level an assessment has been performed to consider if the Group can meet all liabilities due in the twelve months from the signing of the consolidated financial statements on 29 June 2020 with no concerns identified. The external debt repayment due within 12 months of £1,800.6 million is included in this assessment. As required by IFRS 9 the Directors have also considered whether anything might happen within the next 12 months that could cause the entity to be unable to pay the interest and principal on other debt due when it falls due.

As such there is no concern over the recoverability of intercompany receivables, the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	**2020** £m	2019 £m
AA-	**68.4**	32.8
A+	**59.4**	16.0
A	**9.7**	14.5
Total	**137.5**	63.3

(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 borrowings disclosed in the statement of financial position are given below.

As at 31 March	**2020** £m	2019 £m
- Within one year	**1,615.5**	460.3
- Between one and two years	**637.7**	201.0
- Between two and three years	**116.3**	624.2
- Between three and four years	**700.9**	115.1
- Between four and five years	**290.0**	690.1
- After more than five years	**8,851.9**	8,729.4
Total	**12,212.3**	10,820.1

Notes to the financial statements (continued)

10. Financial instruments (continued)

Financial risk management (continued)

(c) Liquidity Risk (continued)

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:

As at 31 March	**2020**	2019
	£m	£m
Undiscounted amounts payable		
- Within one year	**1,969.9**	792.3
- Between one and two years	**992.1**	529.6
- Between two and three years	**439.8**	977.5
- Between three and four years	**1,031.6**	412.0
- Between four and five years	**594.0**	1,012.5
- After more than five years	**16,082.3**	18,177.4
Total	**21,109.7**	21,901.3

Cash flows from derivative financial instruments

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

As at 31 March	**2020**	2019
	£m	£m
Undiscounted amounts receivable/(payable)		
- Within one year	**42.9**	(42.5)
- Between one and two years	**45.0**	(15.5)
- Between two and three years	**(4.9)**	24.6
- Between three and four years	**43.6**	(31.8)
- Between four and five years	**(50.8)**	30.5
- After more than five years	**(450.8)**	(558.2)
Total	**(375.0)**	(592.9)

Notes to the financial statements (continued)

11. Deferred tax asset

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

	2020	2019
	£m	£m
At the beginning of the year	**35.6**	34.8
Amounts provided during the year on fair value	**(4.4)**	0.8
At the end of the year	**31.2**	35.6

The deferred tax asset relates to fair value losses recognised on derivatives. The Company is expected to generate taxable profits in the future and the deferred tax asset is therefore recoverable.

12. Called up share capital and other reserves

Share capital

As at 31 March	**2020**	2019
	£	£
Allotted, called-up and fully paid		
12,501 (2019: 12,501) ordinary shares of £1 each	**12,501**	**12,501**
Allotted, called-up and partly paid		
37,500 (2019: 37,500) ordinary shares of £1 each	**37,500**	**37,500**
Total	**50,001**	**50,001**

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. On 31 July 2018, 1 ordinary share was issued to TWUL, the immediate parent company, at a premium of £207.7 million. Subsequent to the new share issue the Company completed a capital reduction by way of transferring the whole of the balance on share premium to other reserves.

Other reserves

As at 31 March	**2020**	2019
	£m	£m
Other reserves	207.7	207.7
Total	207.7	207.7

Other reserves comprise a capital reduction undertaken by the Company reducing the share premium account by £207.7 million. Refer to above analysis for Share capital for further details.

13. Guarantees

The Company, Thames Water Utilities Holdings Limited and Thames Water Utilities Limited are Obligors under the Securitisation Group's 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 2020 was £13,112.2 million (2019: £11,889.4 million).

Notes to the financial statements (continued)

14. Related Parties

The principal activity of the Company is to make certain financing arrangements on behalf of TWUL and as such the major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL.

Intercompany loans receivable

Amounts owed by Group undertakings represent cumulative financing proceeds that have been loaned to TWUL. Details of the loans receivable can be found in note 8. There are no amounts past their due dates (2019: £nil).

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

Cumulative financing proceeds that have been loaned to TWUL are charged at their applicable rate. Total interest due from TWUL in respect of the year ended 31 March 2020 was £376.1 million (2019: £284.5 million).

Borrowings

Amounts owed to Group undertakings represent floating rate loans payable to TWUL. Details of the borrowing can be found in note 9. There are no amounts past their due dates (2019: £nil).

Interest on the loan from TWUL is charged at a floating rate in both the current and preceding financial period. Total interest due to TWUL in respect of the year ended 31 March 2020 was £8.3 million (2019: £7.7 million).

Transactions with key management personnel

During the period, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2019: none).

15. Immediate and ultimate parent and controlling party

The immediate parent company of Thames Water Utilities Finance Plc is Thames Water Utilities Limited, a company incorporated in the United Kingdom, which owns 100% of the issued share capital of the Company and is the smallest group to consolidate these financial statements.

The Directors consider the ultimate parent company and controlling party to be Kemble Water Holdings Ltd, a company incorporated in the United Kingdom, and the largest group to consolidate these financial statements. The address of the registered office of both Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts for both entities may be obtained from The Company Secretary's Office at this address.

16. Post balance sheet events

In April 2020, £350.0 million Class A sterling bonds were issued by the Company, with a maturity of 2040. In May 2020, £40.0 million Class A sterling bonds were issued by the Company, with a maturity of 2050. The proceeds from both bonds were used to repay drawdowns from the Class A revolving credit facility. In May 2020, the Company signed a new £110 million Class A term loan facility maturing in November 2023.