

Thames Water Utilities Finance Plc

Interim report and financial statements
For the six months ended 30 September 2018

Contents

	Page
Directors and advisors	3
Interim management report	4
Statement of Directors' responsibilities in respect of the interim report and financial statements	7
Independent review report to Thames Water Utilities Finance Plc for the six month period ended 30 September 2018	8
Condensed income statement	9
Condensed statement of financial position	10
Condensed statement of changes in equity	11
Condensed statement of cash flows	12
Accounting policies	13
Notes to the condensed financial statements	15

Directors and advisors

Directors

S Wheeler
T Bolton
M Bamford

Registered auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
3 Forbury Place
Reading
RG1 3JH

Company Secretary and registered office

David Hughes
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Interim management report

This interim management report comprises a business and financial overview of Thames Water Utilities Finance Plc ("the Company") for the six month period ended 30 September 2018 and constitutes unaudited key financial data and a narrative review of performance over this period. This report has been prepared solely to provide additional information to the Company's shareholders to assess the performance and future outlook of the Company, and should not be relied upon by any other party or for any other purpose.

These condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2018 which have been filed with the Registrar of Companies.

The Directors consider that the interim report and financial statements, taken as a whole, is fair, balanced and understandable, and alongside the Annual Report and Financial Statements of the Company for the year ended 31 March 2018, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2018.

Business review

The Company's principal activity is to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"), the main trading subsidiary of the Kemble Water Holdings Limited group of companies ("the Group"). This 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. The Company is also part of a securitisation group of companies ("the Securitisation Group"). This arrangement comprises the Company and the following parent and wholly owned direct and indirect subsidiary entities:

- 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);

On 4 June 2018, 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 certain that the group's corporate structure is as simple and transparent as possible to support the continued trust and confidence of 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 group's issuer of publicly traded debt securities. This would be 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 transferred was £7,853.5m, the fair value of the derivatives transferred was £94.4m and the fair value of the intercompany receivables transferred was £8,064.1m. Following the transfer, TWUCF and Thames Water Utilities Cayman Finance Holdings Limited were moved out of the Securitisation Group.

Interim management report (continued)

The payment of all amounts owing in respect of the external debt issued by any company is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The guaranteed debt at the Securitisation Group level as at 30 September 2018 was £11.5 billion (31 March 2018: £11.2 billion).

A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding debt obligations issued by the Company and TWUL. TWUL's licence of appointment requires an investment grade credit rating of at least Baa3 from Moody's or BBB- from Standard & Poor's ("S&P") to be maintained, as this ensures the Company can access the debt funding that is needed to support the delivery of the investment programme in an efficient and cost effective manner. Furthermore, Condition F of the licence includes a distribution lock up clause if the CFR is at Baa3 with negative outlook.

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

In July 2018, S&P re-affirmed our credit rating of BBB+ and BBB- (31 March 2018: BBB+ & BBB-) in respect of our Class A debt and our Class B debt respectively and placed us on negative outlook (31 March 2018: stable outlook). BBB+ remains a strong investment grade credit rating with BBB- also being investment grade. This continues to allow us to access efficiently priced debt to fund our investment programmes, whilst keeping bills affordable for our customers.

Financial Results

The Directors have determined that the result before tax and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company.

For the six month period ended 30 September 2018 the Company made a loss before tax of £6.4 million (30 September 2017: profit before tax of £22.7 million), primarily due to £5.1 million fees incurred related to the transfer of TWUL's assets and liabilities on 31 August 2018 and £4.5 million net loss on financial instruments (30 September 2017: £17.1 million net gain on financial instruments). The Company uses derivatives to manage inflation risk and foreign currency risk. The fair value of the derivatives are dependent upon the expected future inflation rates, interest rates and foreign currency rates. As at 30 September 2018 the Company had net assets of £26.5 million (31 March 2018: £175.7 million net liabilities). On this basis the Company's performance is in line with expectations and the Directors are confident regarding the performance and position of the Company.

The Directors have adopted the going concern basis in preparing these condensed interim financial statements having given due consideration to the net assets of the Company and review of TWUL's (and that of the Securitisation Group's) budget, business plan, cash and committed borrowing facilities available.

Directors

The Directors who held office during the six month period ended 30 September 2018 and to the date of this report were:

S Wheeler
T Bolton
M Bamford (appointed 26 July 2018)

The Directors who held office during the six month period ended 30 September 2018 and resigned before the date of this report were:

P Kerr (resigned 13 April 2018)
T Lewis (resigned 26 July 2018)

During the period under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (30 September 2017: none).

Interim management report (continued)

Dividends

In the six months to 30 September 2018 the Company has not paid any dividends (30 September 2017: £nil) and the Directors do not recommend the payment of a dividend (30 September 2017: £nil).

Political and charitable donations

No political or charitable donations were made by the Company during the period (30 September 2017: £nil).

Principal risks and uncertainties

During the six months ended 30 September 2018 there have been no changes to the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2018. The Directors consider that the principal risk for the remainder of the financial year to be the Securitisation Group's ability to maintain sufficient financial strength to support the Company's external debt obligations.

The Group's treasury operations are managed centrally, by a specialist team, in the UK. The team operates with delegated authority of, and under policies approved by, the Group's Board of Directors, therefore, risks are managed on a Group wide basis.

Future outlook

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

Approved by the Board of Directors on 5 December 2018 and signed on its behalf by:



S Wheeler
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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

The directors confirm that these condensed set of interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim report includes a fair review of the information required by DTR 4.2.7 namely: an indication of important events that have occurred during the first six months and their impact on the condensed set of interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year. As the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 5 December 2018 and signed on its behalf by:



S Wheeler
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water Utilities Finance Plc

Report on the condensed set of financial statements

Our conclusion

We have reviewed Thames Water Utilities Finance Plc's condensed set of financial statements (the "interim financial statements") in the interim report and financial statements of Thames Water Utilities Finance Plc for the 6 month period ended 30 September 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed statement of financial position as at 30 September 2018;
- the condensed income statement for the period then ended;
- the condensed statement of cash flows for the period then ended;
- the condensed statement of changes in equity for the period then ended; and
- the accounting policies and explanatory notes to the interim financial statements.

The interim financial statements included in the interim report and financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in the accounting policies to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Company is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report and financial statements, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report and financial statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report and financial statements based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report and financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Condensed income statement

For the six month period ended

		30 September 2018 £'m	Restated ¹ 30 September 2017 £'m
	Note		
Finance income	2	87.4	74.3
Finance expense	3	(89.3)	(68.7)
Net (loss)/gain on financial instruments		(4.5)	17.1
(Loss)/profit on ordinary activities before taxation		(6.4)	22.7
Tax credit/(charge) on loss/profit	4	0.9	(3.8)
(Loss)/Profit on ordinary activities after taxation		(5.5)	18.9

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

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

The accounting policies and notes on pages 13 to 20 are an integral part of these condensed financial statements.

¹ Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £1.3 million for the six month period ended 30 September 2017.

Condensed statement of financial position

As at

	Note	30 September 2018 £'m	31 March 2018 £'m
Non-current assets:			
Intercompany loans receivable	5	10,594.5	2,891.4
Deferred tax asset	6	34.6	34.8
Derivative financial asset	8	50.5	-
Other financial assets		2.7	-
		10,682.3	2,926.2
Current assets:			
Intercompany loans receivable	5	500.9	53.4
Derivative financial asset	8	17.6	-
Cash and cash equivalent		3.2	-
Other financial assets		3.0	-
Group relief receivable		1.9	1.5
		526.6	54.9
Current liabilities:			
Borrowings	7	(436.6)	(61.9)
Other financial liabilities		(4.4)	-
		(441.0)	(61.9)
Net current assets/(liabilities)		85.6	(7.0)
Non-current liabilities:			
Borrowings	7	(10,336.5)	(2,863.3)
Derivative financial liabilities	8	(402.3)	(231.6)
Other financial liabilities		(2.6)	-
		(10,741.4)	(3,094.9)
Net assets/(liabilities)		26.5	(175.7)
Equity:			
Share capital	9	0.1	0.1
Other Reserves	9	207.7	-
Retained earnings		(181.3)	(175.8)
Total equity		26.5	(175.7)

The accounting policies and notes on pages 13 to 20 are an integral part of these condensed financial statements.

The financial statements were approved by the Board of Directors on 5 December 2018 and signed on its behalf by:



Stephen Wheeler
Director

Registered number: 02403744 (England & Wales)

Condensed statement of changes in equity

For the six month period ended

	Share capital £'m	Share premium £'m	Other Reserves £'m	Retained earnings £'m	Total equity £'m
1 April 2017	0.1	-	-	(212.8)	(212.7)
Profit on ordinary activities after taxation	-	-	-	18.9	18.9
30 September 2017	0.1	-	-	(193.9)	(193.8)
Profit on ordinary activities after taxation	-	-	-	18.1	18.1
31 March 2018	0.1	-	-	(175.8)	(175.7)
Share premium		207.7		-	207.7
Capital reduction		(207.7)	207.7	-	-
Loss on ordinary activities after taxation	-	-		(5.5)	(5.5)
30 September 2018	0.1	-	207.7	(181.3)	26.5

The accounting policies and notes on pages 13 to 20 are an integral part of these condensed financial statements.

Other reserves comprises of a capital reduction undertaken by the Company reducing share premium account by £207.7m (31 March 2018: £nil)

Condensed statement of cash flows

For the six month period ended

	30 September 2018 £'m	Restated ¹ 30 September 2017 £'m
Operating activities:		
(Loss)/profit on ordinary activities after taxation	(5.5)	18.9
Less finance income	(87.4)	(74.3)
Add finance expense	89.3	68.7
Add loss / (Less gain) on fair value of financial instruments	4.5	(17.1)
(Less tax credit)/add tax charge on profit on ordinary activities	(0.9)	3.8
Net cash inflow from operating activities	-	-
Investing activities:		
Interest received	81.4	62.0
Net cash inflow from investing activities	81.4	62.0
Financing activities:		
Proceeds from intercompany loan	7.5	-
Fees paid*	(4.4)	-
Interest paid	(81.3)	(62.0)
Net cash outflow from financing activities	(78.2)	(62.0)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	3.2	-

The accounting policies and notes on pages 13 to 20 form an integral part of these condensed financial statements.

*the fees relates to costs incurred in relation to transfer of assets and liabilities of TWUCF on 31 August 2018.

¹ Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps.

Accounting policies

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 address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The Company reregistered as a Plc on 30 August 2018.

The Company's principal activity is that of a financing entity in the Kemble Water Holdings Limited Group of companies ("the Group"), and remains unchanged from the previous year. The Company raises finance on behalf of its immediate parent undertaking Thames Water Utilities Limited ("TWUL").

Statement of compliance with International Financial Reporting Standards

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union ("EU"). The condensed interim financial statements do not include all of the information required for full annual financial statements and do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. They should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2018 prepared under International Financial Reporting Standards ("IFRS") as adopted by the EU and which have been filed with the Registrar of Companies.

The auditor's report on the Financial Statements for the year ended 31 March 2018 was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing to records and returns), or section 498(3) (failure to obtain necessary information and explanations).

The policies applied in these condensed interim financial statements are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective and ratified by the EU as of 5 December 2018, the date that the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that became effective and are adopted for 31 March 2019 could result in revisions to accounting policies applied in these interim financial statements, and if applicable, the opening balance sheet included herein.

Basis of Preparation

The condensed interim financial statements for the six months ended 30 September 2018, set out on pages 9 to 20, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period. Corporation tax for the six month period ended 30 September is accrued using the corporation tax rate that would be applicable to the expected total annual profit or loss.

The Directors have adopted the going concern basis in preparing these condensed interim financial statements having given due consideration to the net assets of the Company and review of TWUL's (and that of the Securitisation Group's) budget, business plan, cash and committed borrowing facilities available.

Accounting policies (continued)

New accounting policies and financial reporting changes

A number of amendments to IFRSs became effective for the financial year beginning 1 April 2018. We have undertaken an assessment over the impact of adopting the new accounting standards that are now effective, including IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The following issued standards have not yet been adopted by the Company:

- IFRS 16 Leases, which will be effective on 1 January 2019 (and thus to the Company 1 April 2019), subject to EU endorsement.

In addition to these, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the financial statements of the Company.

IFRS 9 'Financial Instruments' applicable from 1 April 2018

IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, introduces new requirements for recognition, classification and measurement, a new impairment model for financial assets based on expected credit losses, and simplified hedge accounting. The Company has adopted IFRS 9 as at 1 April 2018 and applied the new rules retrospectively, including the practical expedients permitted in the standard. As a result, comparatives have not been restated. Management has conducted an assessment of the impact of IFRS 9 and concluded on the following impact below:

Classification and Measurement

The review included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS 9. Management's assessment concludes that there are no changes in classification or measurement of its assets and liabilities as a result of adopting IFRS 9.

Impairment Methodology

IFRS 9 introduces a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses, as was required under IAS 39. Management has assessed the impact and concluded that there is no impact as a result of adopting IFRS 9.

Hedge Accounting

The Company does not apply hedge accounting.

IFRS 15 'Revenue from Contracts with Customers' applicable from 1 April 2018

IFRS 15 Revenue which has been endorsed by the European Union (EU), became effective from 1 January 2018, and therefore the Company from 1 April 2018. IFRS 15 replaces a number of standards and interpretations including IAS 18 Revenue. The Company does not apply any of the standards which IFRS 15 replaces and therefore IFRS 15 has no impact to the Company.

IFRS 16 impact assessment

IFRS 16 Leases is effective from 1 January 2019, and is subject to EU endorsement. This standard replaces IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company does not have any lease agreements.

Notes to the condensed financial statements

1. 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.

2. Finance income

	30 September 2018 £'m	Restated ¹ 30 September 2017 £'m
Interest receivable on intercompany loans receivable	85.2	72.6
Interest income on swaps	2.2	1.7
Total	87.4	74.3

Interest receivable arises due to the financing costs of the Company being directly recharged to TWUL.

¹ Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £1.3 million for the six month period ended 30 September 2017.

3. Finance expense

	30 September 2018 £'m	Restated 30 September 2017 £'m
Interest payable on other loans	84.2	68.7
Fees*	5.1	-
Total	89.3	68.7

*the fees relate to costs incurred in relation to transfer of assets and liabilities of TWUCF on 31 August 2018.

4. Taxation

	30 September 2018 £'m	30 September 2017 £'m
Current tax:		
Amounts in respect of group relief	(1.1)	(0.3)
Deferred tax:		
Origination and reversal of timing differences (note 6)	0.2	4.1
Tax (credit)/charge on (loss)/profit on ordinary activities	(0.9)	3.8

Notes to the condensed financial statements (continued)

4. Taxation (continued)

The tax assessed for the period is lower (30 September 2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19%). The differences are explained below:

	30 September 2018 £'m	30 September 2017 £'m
(Loss)/profit on ordinary activities before tax	(6.4)	22.7
Corporation tax on profit/ (loss) on ordinary activities at 19% (period ended 30 September 2017: 19%)	(1.2)	4.3
Initial recognition exemption	0.3	-
Effect of tax rate change	-	(0.5)
Total tax (credit)/charge for the period	(0.9)	3.8

Factors affecting the future tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 30 September 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

5. Intercompany loans receivable

	30 September 2018 £'m	31 March 2018 £'m
Amounts owed by group undertakings:		
Thames Water Utilities Limited	10,963.6	2,891.4
Interest owed by group undertakings:		
Thames Water Utilities Limited	131.8	53.4
Total	11,095.4	2,944.8
Disclosed within non-current assets	10,594.5	2,891.4
Disclosed within current assets	500.9	53.4

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 to be immaterial and no amounts are considered to be impaired.

All loans and receivables are held at amortised cost.

On 31 August 2018, the intercompany receivables previously held by TWUCF were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the intercompany receivables transferred was £8,064.1m.

Notes to the condensed financial statements (continued)

6. Deferred tax asset

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

	30 September 2018 £'m	31 March 2018 £'m
Deferred tax asset at the beginning of the period	34.8	42.9
Amounts provided during the period on fair value movements	(0.2)	(8.1)
Deferred tax asset at the end of the period	34.6	34.8

7. Borrowings

	30 September 2018 £'m	31 March 2018 £'m
Secured bonds	10,348.3	2,663.3
Amounts owed to group undertakings	289.6	200.0
	10,637.9	2,863.3
Interest payable on secured bonds	118.1	47.5
Interest payable on amounts owed to group undertakings	17.1	14.4
	135.2	61.9
Total	10,773.1	2,925.2
Disclosed within non-current liabilities	10,336.5	2,863.3
Disclosed within current liabilities	436.6	61.9

Debt issued by the Company matures between 2018 and 2062. The Company uses derivatives to swap fixed rate debt to index-linked debt, which is on lent to TWUL, a regulated utility company and the immediate parent company with index-linked revenues. Additional disclosures on the derivatives have been provided in note 8.

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

Interest on the loan from TWUL is charged at a floating rate in both the current and preceding financial period.

On 31 August 2018, the debt instruments previously held by TWUCF were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the debt transferred was £7,853.5m.

Notes to the condensed financial statements (continued)

8. Financial Instruments

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced 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 one to three 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 two – 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 derivative instruments as level two.

Following table sets out the valuation basis of the financial instruments held at fair value as at 30 September 2018:

	Level 2 ¹	
	30 September 2018 £'m	31 March 2018 £'m
Fair value through the income statement:		
Non-current assets		
Index-linked swaps	16.1	-
Cross-currency swaps	34.4	-
Current assets		
Cross-currency swaps	17.6	-
Non-current liabilities		
Index-linked swaps	(401.3)	(231.6)
Cross-currency swaps	(1.0)	-
	(334.2)	(231.6)

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 which reflects the credit risk of the Company and the counterparties.

During the current and preceding financial periods the Company did not enter into any new derivative contracts apart from those transferred from TWUCF as detailed below.

On 31 August 2018, derivative instruments previously held by TWUCF were transferred to the Company, at fair value. As at 31 August 2018, the fair value of the derivatives transferred was £94.4m.

Notes to the condensed financial statements (continued)

8. Financial Instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

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

	30 September 2018		31 March 2018	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Financial assets:				
Intercompany loans receivable	11,095.4	11,793.4	2,944.8	4,118.5
	11,095.4	11,793.4	2,944.8	4,118.5
Financial liabilities:				
Borrowings	(10,773.1)	(11,418.9)	(2,925.2)	(3,962.9)
Derivative financial liabilities	(334.2)	(334.2)	(231.6)	(231.6)
	(11,107.3)	(11,753.1)	(3,156.8)	(4,194.5)

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds, for private placements, less liquid underlying bonds and intercompany loans payable 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 intercompany loans receivable is determined by discounting expected future cash flows using a risk-free rate plus the TWUL's credit spread.

9. Share capital and other reserves

Share capital

	30 September 2018 £	31 March 2018 £
Allotted, called-up and fully paid		
12,501 ordinary shares of £1 each	12,501	12,500
Allotted, called-up and partly paid		
37,500 ordinary shares of £1 each	37,500	37,500
Total	50,001	50,000

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

Notes to the condensed financial statements (continued)

9. Share capital and other reserves

Other reserves

	30 September 2018 £	31 March 2018 £
Other reserves	207.7	-
Total	207.7	-

Other reserves comprises of capital reduction undertaken by the Company reducing the share premium account by £207.7m (31 March 2018: £nil). (Refer to above analysis for Share capital for further details).

10. Immediate and ultimate parent and controlling party

The Company's immediate parent undertaking is TWUL, which owns 100% of the Company's share capital and the smallest group to consolidate these financial statements.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and the intermediate group to consolidate these financial statements. The Directors consider the ultimate parent company and controlling party to be Kemble Water Holdings Limited, a company incorporated in the United Kingdom and the largest group to consolidate these financial statements.

Copies of the financial statements for all of the above companies may be obtained from: The Company Secretarial Department, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

11. Post Balance Sheet Events

On 30 November 2018 the Company amended the existing £950m credit facility by increasing the total capacity to £1,387m. The facility matures in 2023, with extension options to 2025, and will be available to be used for general corporate purposes. The interest rate on the facilities, where drawn, includes an element linked to annual performance against Environmental, Social and Governance metrics.