Registered no: 02403744 (England & Wales)

# Thames Water Utilities Finance Plc

Interim report and condensed financial statements
For the six months ended 30 September 2019

# Contents

# Directors and advisors

## Directors

T Bolton
M Bamford
D Manuelpillai

## Registered auditor

PricewaterhouseCoopers LLP
3 Forbury Place
Forbury Road
Reading
RG1 3JH

## Company secretary and registered office

D Hughes
S Billett
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 2019 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 of the Company for the year ended 31 March 2019 which have been filed with the Registrar of Companies.

The Directors consider that the interim report and condensed 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 2019, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2019.

**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 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 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 transferred was £7,853.5 million, the fair value of the derivatives transferred was £94.4 million and the fair value of the intercompany receivables transferred was £8,064.1 million. Following transfer, TWUCF and Thames Water Utilities Cayman Finance Holdings Limited were moved out of the Securitisation Group on 27 September 2018 and formally dissolved on 28 February 2019.

# Interim management report (continued)

**Business review (continued)**

The transfer has resulted in a significant increase in finance income and finance expense for the six month period ended 30 September 2019 compared to the comparative period ended 30 September 2018. This is a result of the current period including six months of activity compared to one month in the comparative period following the transfer on 31 August 2018.

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 2019 was £12.1 billion (31 March 2019: £11.9 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 Whole Business Securitisation ("WBS") Group. In general, a water company's licence requires maintenance of an investment grade rating (Baa3/BBB- or above), as this supports the company's ability to access the debt funding needed to ensure delivery of the investment programme in an efficient and cost effective manner. The Group has confirmed with Ofwat that the CFR will be considered as an acceptable metric to use to satisfy the license requirement to retain an investment grade rating.

In August 2019, Moody's completed a periodic review of our ratings and affirmed our Corporate Family Rating ("CFR") at Baa1 with negative outlook (31 March 2019: Baa1, negative outlook). This is in line with our ratings of A3 and Baa3 for our Class A and Class B debt respectively.

In September 2019, Standard & Poors ("S&P") re-affirmed our credit rating of BBB+ and BBB- (31 March 2019: BBB+ & BBB-) in respect of our Class A debt and our Class B debt respectively with negative outlook (31 March 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.

**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 2019, the Company made a loss before tax of £44.9 million (30 September 2018: loss before tax of £6.4 million), primarily due to £50.4 million net loss on financial instruments (30 September 2018: £4.5 million net loss 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 2019, the Company had net liabilities of £36.8 million (31 March 2019: £4.5 million net assets).

The Directors have adopted the going concern basis in preparing these condensed interim financial statements having given due consideration to the net liabilities of the Company and the requirement for ongoing support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan, cash and committed borrowing facilities available and TWUL Group's basis of preparation, see page 13 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.

# Interim management report (continued)

**Directors**

The Directors who held office during the six month period ended 30 September 2019 and to the date of this report were:

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

The Director who held office during the six month period ended 30 September 2019 and resigned before the date of this report was:

S Wheeler (resigned 19 July 2019)

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 2018: none).

**Dividends**

In the six months to 30 September 2019, the Company has not paid any dividends (30 September 2018: £nil) and the Directors do not recommend the payment of a dividend (30 September 2018: £nil).

**Political and charitable donations**

No political or charitable donations were made by the Company during the period (30 September 2018: £nil).

**Principal risks and uncertainties**

During the six months ended 30 September 2019, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2019 remain largely unchanged. However, the risk landscape has become more challenging in some areas due to uncertainty around renationalisation and Brexit, along with increased pressure on financeability.

As the UK Government completes the final stages of negotiating withdrawal from the EU ('Brexit'), and the Labour Party continues to publicise its intention to renationalise the water sector, the potential deterioration in the Political and Regulatory Environment over the next 12 months is heightened. In order to provide an uninterrupted service to our customers, we continue to identify and manage Brexit exposures to our principal risks on a short, medium and long-term time horizon. In the short term this focuses on our supply chain, particularly securing key chemicals, which remain our primary concern, fuel and critical spares, and the ability to attract and retain talented and capable people both directly and through the supply chain. We are stress testing our incident management response and working closely with the WaterUK to develop a sector approach to both Brexit and renationalisation.

There is also a significant focus on financeability ahead of the PR19 Final Determination in December, with the majority of UK water companies currently on negative outlook with Moody's and S&P.

The potential medium and long-term consequences of Brexit, renationalisation and financeability will form part of our viability assessment and inform the outlook of our principal risks and uncertainties in our full year reporting.

Further information of principal risks and uncertainty applicable to the Securitisation Group have been included within the condensed interim consolidated financial statements of TWUL. Copies of TWUL's condensed interim consolidated financial statements may be obtained from the Company Secretary's Office at the address included on note 11.

# Interim management report (continued)

**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 28 November 2019 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 interim report and condensed 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 28 November 2019 and signed on its behalf by:

T Bolton
**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 interim report and condensed interim financial statements (the "interim financial statements") in the interim report and condensed financial statements of Thames Water Utilities Finance Plc for the 6 month period ended 30 September 2019. 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 2019;
- 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 explanatory notes to the interim financial statements.

The interim financial statements included in the interim report 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, 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 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 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 considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
28 November 2019

## Condensed income statement

For the six month period ended

| | Note | **30 September 2019 £m** | 30 September 2018 £m |
|---|---|---|---|
| Finance income | 2 | **191.0** | 87.4 |
| Finance expense | 3 | **(185.5)** | (89.3) |
| Net loss on financial instruments | | **(50.4)** | (4.5) |
| **Loss on ordinary activities before taxation** | | **(44.9)** | (6.4) |
| Tax credit on loss | 4 | **3.6** | 0.9 |
| **Loss on ordinary activities after taxation** | | **(41.3)** | (5.5) |

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

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

The accounting policies and notes on pages 12 to 21 are an integral part of these condensed interim financial statements.

# Condensed statement of financial position

As at

| | Note | **30 September 2019 £m** | 31 March 2019 £m |
|---|---|---|---|
| ***Non-current assets:*** | | | |
| Intercompany loans receivable | 5 | **10,661.5** | 10,632.3 |
| Derivative financial assets | 7 | **123.6** | 63.3 |
| Deferred tax asset | 8 | **40.4** | 35.6 |
| Other financial assets | | **4.5** | 7.3 |
| | | **10,830.0** | 10,738.5 |
| ***Current assets:*** | | | |
| Cash and cash equivalents | | **2.6** | 2.3 |
| Intercompany loans receivable | 5 | **658.9** | 710.6 |
| Group relief receivable | | **-** | 0.1 |
| Other financial assets | | **1.4** | 2.0 |
| | | **662.9** | 715.0 |
| ***Current liabilities:*** | | | |
| Borrowings | 6 | **(560.8)** | (634.5) |
| Derivative financial liabilities | 7 | **(58.8)** | (38.6) |
| Other financial liabilities | | **(2.7)** | (4.8) |
| | | **(622.3)** | (677.9) |
| **Net current assets** | | **40.6** | 37.1 |
| ***Non-current liabilities:*** | | | |
| Borrowings | 6 | **(10,454.3)** | (10,359.7) |
| Derivative financial liabilities | 7 | **(448.6)** | (406.0) |
| Other financial liabilities | | **(4.5)** | (5.4) |
| | | **(10,907.4)** | (10,771.1) |
| **Net (liabilities)/assets** | | **(36.8)** | 4.5 |
| ***Equity:*** | | | |
| Called up share capital | 10 | **0.1** | 0.1 |
| Other reserves | 10 | **207.7** | 207.7 |
| Retained losses | | **(244.6)** | (203.3) |
| **Total (deficit)/equity** | | **(36.8)** | 4.5 |

The accounting policies and notes on pages 12 to 21 are an integral part of these condensed interim financial statements.

The condensed interim financial statements were approved by the Board of Directors on 28 November 2019 and signed on its behalf by:

T Bolton
**Director**

Registered number: 02403744 (England & Wales)

## Condensed statement of changes in equity

For the six month period ended

| | Called up share capital £m | Share premium £m | Other reserves £m | Retained losses £m | Total (deficit)/ equity £m |
|---|---|---|---|---|---|
| **1 April 2018** | 0.1 | - | - | (175.8) | (175.7) |
| Investment from TWUL | - | 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 |
| Loss on ordinary activities after taxation | - | - | - | (22.0) | (22.0) |
| **31 March 2019** | 0.1 | - | 207.7 | (203.3) | 4.5 |
| Loss on ordinary activities after taxation | - | - | - | (41.3) | (41.3) |
| **30 September 2019** | **0.1** | **-** | **207.7** | **(244.6)** | **(36.8)** |

The accounting policies and notes on pages 12 to 21 are an integral part of these condensed interim financial statements.

Other reserves comprises of a capital reduction undertaken in the prior period by the Company reducing share premium by £207.7 million.

# Condensed statement of cash flows

For the six month period ended

| | **30 September 2019 £m** | 30 September 2018 £m |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Loss on ordinary activities after taxation | **(41.3)** | (5.5) |
| Less finance income | **(191.0)** | (87.4) |
| Add finance expense | **185.5** | 89.3 |
| Add loss on financial instruments | **50.4** | 4.5 |
| Tax credit on loss | **(3.6)** | (0.9) |
| **Net cash inflow from operating activities** | **-** | - |
| ***Cash flows from investing activities*** | | |
| Interest received | **208.0** | 81.4 |
| Loans to group companies | **(614.8)** | - |
| Redemption of loans to group companies | **633.9** | - |
| **Net cash inflow from investing activities** | **227.1** | 81.4 |
| ***Cash flows from financing activities*** | | |
| Proceeds from new loans | **614.8** | - |
| Repayment of borrowings | **(633.9)** | - |
| Loans from group companies | **-** | 7.5 |
| Fees paid | **(2.6)** | (4.4) |
| Interest paid | **(205.1)** | (81.3) |
| **Net cash outflow from financing activities** | **(226.8)** | (78.2) |
| Net movement in cash and cash equivalents | **0.3** | 3.2 |
| Cash and cash equivalents at beginning of the period | **2.3** | - |
| **Cash and cash equivalents at end of the period** | **2.6** | 3.2 |

The accounting policies and notes on pages 12 to 21 form an integral part of these condensed interim financial statements.

# 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 trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Company's principal activity is to act as a financing company to immediate parent 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 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 2019 prepared under International Financial Reporting Standards ("IFRS") as adopted by the EU and which have been filed with the Registrar of Companies.

The auditors' report on the Financial Statements for the year ended 31 March 2019 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 ("IFRS IC") interpretations issued and effective and ratified by the EU as of 28 November 2019, 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 2019, set out on pages 8 to 11, 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.

*Company*

The Directors have adopted the going concern basis in preparing these condensed interim financial statements having given due consideration to the net liabilities of the Company and the requirement for ongoing support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan, 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)**

*TWUL Group*

The TWUL Directors have assessed TWUL Group's ability to continue as a going concern and have considered the uncertainties related to the Final Determination ("FD") which is expected to be published by Ofwat on 16 December 2019. The FD will define the regulatory regime for the 5-year period from 1 April 2020 to 31 March 2025. This includes setting the amount of revenue which water companies can collect from customers and the rewards / penalties associated with operational out / under performance compared against certain targets set by the regulator.

Given the TWUL Group condensed financial statements have been approved before the publication of the FD, there are uncertainties associated with the above mentioned aspects. In assessing the potential impact of the FD, the TWUL Directors have considered a number of scenarios reflecting differing FD outcomes. Consistent with the concerns that we, and other water companies, raised in response to the Draft Determination ("DD"), our expectation is that the FD will represent an improved position relative to the DD. One specific example of this is the Pay As You Go ("PAYG") ratio, which determines the proportion of our total expenditure that we are able to recover through revenues in the year incurred. Subsequent engagement with Ofwat indicates that we are likely to see this more closely aligned with our operating costs, which would materially increase revenues across the AMP7 period. We also remain hopeful that the FD will reflect additional cost allowances and additional time allowed to deliver performance improvements, compared to the DD, in relation to the challenges presented by stretching performance commitment targets and the resilience challenges of London, in particular. For completeness, should the FD represent a package that calls into question our status as a Going Concern, then our recourse would be to request that the FD be referred to the Competition and Markets Authority ("CMA") for redetermination. Under such circumstances, we would expect that it would be reasonable to anticipate an improved outcome from the CMA, recognising that such an extreme FD outcome would appear out of line with Ofwat's financeability duties. Recognising the importance of preserving the option to appeal to the CMA, should the TWUL Directors conclude that to be the best course of action, we have also taken steps to ensure that we have sufficient committed liquidity facilities in place to allow us to engage in what could be a prolonged CMA referral of up to 12 months after the date of CMA referral, should multiple water companies pursue this route.

Based on the results of our assessment under the Base Case, the TWUL Directors have concluded that:

<u>Credit ratings</u>
Investment grade credit ratings will be maintained, in compliance with our license requirements, supporting our access to the debt capital markets.

<u>Liquidity</u>
Sufficient liquidity facilities are available, irrespective of whether the FD is referred to the CMA. This reflects access to our Revolving Credit Facility ("RCF") of around £1,646 million, of which £1,432 million remains undrawn as of 30 September 2019. In addition to this, we have access to a £550 million 364 day liquidity facility (available in certain circumstances).

<u>Financial covenants</u>
All of the financial covenants are met for at least 12 months from the date of approval of the TWUL Group condensed financial statements, with the key covenants reflecting gearing (i.e. the ratio of net debt to regulatory capital value) and PMICR (an interest cover ratio). It should be noted that our Base Case reflects the impact of additional RPI hedging of our debt that has been transacted since the date of the financial statements. We have then focused on ensuring that sufficient headroom exists to provide additional comfort. Additional workstreams are underway that will provide further covenant headroom, giving the TWUL Directors additional confidence that the financial covenants will be met in downside scenarios.

# Accounting policies (continued)

**Basis of preparation (continued)**

*TWUL Group (continued)*

While our Business Plan reflects an additional cash injection from another Group Company during the Going Concern review period, we would still remain in compliance with our gearing covenants even if that cash was not available.

Conclusion

Taking into consideration the above factors, the TWUL Board is satisfied that whilst the TWUL Group faces the uncertainties mentioned above, it has adequate resources, for a period of at least 12 months from the date of approval of the TWUL Group condensed financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the TWUL Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

**New accounting policies and financial reporting changes**

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 2019 is accrued using the corporation tax rate that would be applicable to the expected total annual profit or loss.

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' impact assessment**

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**

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.

**Seasonality of operations**

Management have assessed seasonality on the operations of the business and conclude that there is no impact.

# Notes to the condensed interim 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 condensed financial statements.

## 2. Finance income

| For the six month period ended | **30 September 2019 £m** | 30 September 2018 £m |
|---|---|---|
| Interest receivable on intercompany loans receivable | **185.3** | 85.2 |
| Interest income on swaps | **5.7** | 2.2 |
| Total | **191.0** | 87.4 |

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

There has been a significant increase in finance income for the six month period ended 30 September 2019 following the transfer of all intercompany receivable and derivative instruments previously held by TWUCF to the Company on 31 August 2018. Refer to the "Business review" section on page 2 for more information.

## 3. Finance expense

| For the six month period ended | **30 September 2019 £m** | 30 September 2018 £m |
|---|---|---|
| Interest expense | **186.3** | 84.2 |
| Fees incurred in relation to acquisition of TWUCF's assets and liabilities[1] | **(0.8)** | 5.1 |
| Total | **185.5** | 89.3 |

1 A credit of £0.8m was recognised for the six month period 30 September 2019. This relates to a reversal of an over accrual of fees incurred in relation to acquisition of TWUCF's assets and liabilities.

There has been a significant increase in finance expense for the six month period ended 30 September 2019 following the transfer of all debt previously held by TWUCF to the Company on 31 August 2018. Refer to the "Business review" section on page 2 for more information.

## 4. Taxation

| For the six month period ended | **30 September 2019 £m** | 30 September 2018 £m |
|---|---|---|
| **Current tax:** | | |
| Amounts in respect of group relief | **1.3** | (1.1) |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **(4.9)** | 0.2 |
| Tax credit on loss on ordinary activities | **(3.6)** | (0.9) |

# Notes to the condensed interim financial statements (continued)

## 4. Taxation (continued)

The tax assessed for the period is lower (30 September 2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

| For the six month period ended | **30 September 2019 £m** | 30 September 2018 £m |
|---|---|---|
| Loss on ordinary activities before tax | **(44.9)** | (6.4) |
| Corporation tax on loss on ordinary activities at 19% (period ended 30 September 2018: 19%) | **(8.5)** | (1.2) |
| Movement of fair value subject to initial recognition exemption | **3.9** | 0.3 |
| Transfer pricing adjustment | **0.2** | - |
| Effect of tax rate differences | **0.8** | - |
| Total tax credit for the period | **(3.6)** | (0.9) |

**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 2019 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

## 5. Intercompany loans receivable

| As at | **30 September 2019 £m** | 31 March 2019 £m |
|---|---|---|
| ***Amounts owed by group undertakings:*** | | |
| Thames Water Utilities Limited | **11,135.9** | 11,131.2 |
| ***Interest owed by group undertakings:*** | | |
| Thames Water Utilities Limited | **184.5** | 211.7 |
| Total | **11,320.4** | 11,342.9 |
| Disclosed within non-current assets | **10,661.5** | 10,632.3 |
| Disclosed within current assets | **658.9** | 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 to be immaterial and no amounts are considered to be impaired.

All loans and receivables are held at amortised cost. Terms of the intercompany loans receivable reflect terms of the external borrowing included on note 6 and any relevant swaps. 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. Refer to "Business review" section on page 2 for more detail.

# Notes to the condensed interim financial statements (continued)

## 6. Borrowings

| As at | **30 September 2019 £m** | 31 March 2019 £m |
|---|---|---|
| Secured bank loans and private placements | **935.3** | 918.1 |
| Bonds | **9,644.7** | 9,612.2 |
| Amounts owed to group undertakings | **289.9** | 289.8 |
| | **10,869.9** | 10,820.1 |
| Interest payable on borrowings | **145.2** | 174.1 |
| Total | **11,015.1** | 10,994.2 |
| Disclosed within non-current liabilities | **10,454.3** | 10,359.7 |
| Disclosed within current liabilities | **560.8** | 634.5 |

Debt issued by the Company matures between 2019 and 2062. The Company uses derivatives to swap fixed rate debt to index-linked debt, which is lent on 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 7.

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

Amounts owed to group undertakings are loans from TWUL and interest is charged at a floating rate in both the current and preceding financial period.

# Notes to the condensed interim financial statements (continued)

## 7. 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 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 derivative instruments as Level 2.

Following table sets out the valuation basis of the financial instruments held at fair value as at 30 September 2019:

| **Financial assets** | Level 2[1] | |
|---|---|---|
| As at | **30 September 2019 £m** | 31 March 2019 £m |
| ***Fair value through profit and loss:*** | | |
| Index-linked swaps | **15.1** | 14.5 |
| Cross-currency swaps | **108.5** | 48.8 |
| | **123.6** | 63.3 |
| **Amortised cost** | | |
| Cash and cash equivalents | **2.6** | 2.3 |
| Intercompany loans receivable | **11,320.4** | 11,342.9 |
| | **11,323.0** | 11,345.2 |
| **Total** | **11,446.6** | 11,408.5 |

| **Financial liabilities** | Level 2[1] | |
|---|---|---|
| As at | **30 September 2019 £m** | 31 March 2019 £m |
| ***Fair value through profit and loss:*** | | |
| Index-linked swaps | **(507.3)** | (438.9) |
| Cross-currency swaps | **(0.1)** | (5.7) |
| | **(507.4)** | (444.6) |
| **Amortised cost** | | |
| Borrowings | **(11,015.1)** | (10,994.2) |
| Other financial liabilities | **(7.2)** | (10.1) |
| | **(11,022.3)** | (11,004.3) |
| **Total** | **(11,529.7)** | (11,448.9) |

[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 and interest rates at the period end and discounted at a rate which reflects the credit risk of the Company and the counterparties. Cash flows are translated at the spot rate.

On 31 August 2018, derivative instruments previously held by TWUCF were transferred to the Company, at a fair value of £94.4 million.

# Notes to the condensed interim financial statements (continued)

## 7. 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.

| As at | **30 September 2019** | | 31 March 2019 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| | **£m** | **£m** | £m | £m |
| ***Financial assets:*** | | | | |
| Intercompany loans receivable | **11,320.4** | **13,079.2** | 11,342.9 | 12,699.2 |
| Derivative financial instruments | **123.6** | **123.6** | 63.3 | 63.3 |
| | **11,444.0** | **13,202.8** | 11,406.2 | 12,762.5 |
| ***Financial liabilities:*** | | | | |
| Borrowings | **11,015.1** | **12,524.7** | 10,994.2 | 11,964.1 |
| Derivative financial liabilities | **507.4** | **507.4** | 444.6 | 444.6 |
| | **11,522.5** | **13,032.1** | 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.

## 8. Deferred tax asset

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

| As at | **30 September 2019** | 31 March 2019 |
|---|---|---|
| | **£m** | £m |
| Deferred tax asset at the beginning of the period | **35.6** | 34.8 |
| Loss on financial instruments at fair value through profit and loss in period | **4.8** | 0.8 |
| **Total** | **40.4** | 35.6 |

# Notes to the condensed interim financial statements (continued)

## 9. Related party transactions

**Transactions with group entities**

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 5. There are no amounts past their due dates (31 March 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 six month period ended 30 September 2019 was £185.3 million (30 September 2018: £85.2 million).

*Borrowings*

Amounts owed to group undertakings represent floating rate loans payable to TWUL. Details of the borrowing can be found in note 6. There are no amounts past their due dates (31 March 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 six month period ended 30 September 2019 was £4.2 million (30 September 2018: £3.8 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 (31 March 2019: none).

# Notes to the condensed interim financial statements (continued)

## 10. Called up share capital and other reserves

### Called up share capital

| As at | **30 September 2019 £** | 31 March 2019 £ |
|---|---|---|
| **Allotted, called-up and fully paid** | | |
| 12,501 ordinary shares of £1 each | **12,501** | 12,501 |
| **Allotted, called-up and partly paid** | | |
| 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 | **30 September 2019 £m** | 31 March 2019 £m |
|---|---|---|
| Other reserves | **207.7** | 207.7 |
| **Total** | **207.7** | 207.7 |

Other reserves comprises of a capital reduction undertaken in the prior year by the Company. This resulted in a reduction of share premium by £207.7 million to £nil. Refer to section "Called up share capital" above for more information.

## 11. 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.

## 12. Post balance sheet events

In November 2019, we extended the maturity of £200.0 million notional of index linked swaps. For the 12 month period ending 31 March 2020, we expect this to reduce interest costs on a cash basis by circa £10.0 million.