Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance Plc

Interim report and condensed financial statements

For the six months ended 30 September 2020

Contents

Directors and advisors

Directors

T Bolton
M Bamford
D Manuelpillai

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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 2020 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 as required under the Company's finance documents, 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 2020 which are available at https://www.thameswater.co.uk/about-us/investors/debt-information.

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 2020, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2020.

Business review

The Company was established to act as a financing company to its immediate parent company, Thames Water Utilities Limited "(TWUL"). TWUL alongside the Company represent the "TWUL Group". TWUL is the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") 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 company. The proceeds from external debt issued by the Company including any impact of associated derivatives are passed onto TWUL through intercompany loans with a margin charged.

The Company is also part of a Securitisation Group of companies ("the Securitisation Group"). This arrangement comprises the Company, its immediate parent and the parent of its immediate parent as follows:

- Thames Water Utilities Limited;
- Thames Water Utilities Holdings Limited.

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 30 September 2020 was £12,777.7 million (31 March 2020: £13,112.2 million).

In April 2020, £350.0 million Class A sterling bonds were issued by the Company, with a maturity of 2040 and in May 2020, £40.0 million Class A sterling bonds were issued by the Company, with a maturity of 2050. The proceeds were on lent to TWUL at a margin of 0.10%.

In September 2020, a total of £364.3 million was drawn from facilities available to the Company consisting of £150.0 million Class B floating rate loan and £214.3 million Class B revolving credit facility drawdown. The proceeds were on lent to TWUL at a margin of 0.10%.

Subsequent to the six month period ended 30 September 2020, the Company has issued the following Class A bonds:

In October 2020, the Company issued £84.7 million Class A bonds with a maturity of 2023 and EUR 400.0 million (equivalent to £362.8 million) Class A bonds with a maturity of 2023.

In November 2020, the Company issued EUR 100.0 million (equivalent to £90.4 million) Class A bonds with a maturity of 2023 and USD 57.0 million (equivalent to £44.2 million) Class A bonds with a maturity of 2030.

The proceeds from the bonds were partially used to repay drawdowns from the Class A revolving credit facility, recognised within current liabilities - borrowings at 30 September 2020.

Interim management report (continued)

Credit rating

Driven by a challenging 2019 Price Review (undertaken by Ofwat every 5 years where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service), the UK water sector has seen downward pressure on credit ratings over the last year.

In July 2020, Moody's completed its periodic review and re-affirmed their March 2020 assignment of TWUL's Corporate Family Rating ("CFR") as Baa2 with stable outlook (30 September 2019: Baa1 with negative outlook). Moody's also re-affirmed their March 2020 assignment of TWUL's senior secured (Class A) debt rating as Baa1 with stable outlook (30 September 2019: A3 with negative outlook) and subordinated (Class B) debt rating as Ba1 with stable outlook (30 September 2019: Baa3 with negative outlook).

In February 2020, S&P affirmed TWUL's credit rating of BBB+ and BBB- (30 September 2019: BBB+ & BBB-) in respect of TWUL's senior secured (Class A) debt and subordinated (Class B) debt respectively, with negative outlook (30 September 2019: negative outlook).

These investment grade credit ratings together with the parent company guarantees continue to enable us to access efficiently priced debt to fund our investment programme, which is an important factor in 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 2020, the Company made a loss before tax of £111.4 million (30 September 2019: loss before tax of £44.9 million), primarily due to £123.8 million net loss on financial instruments (30 September 2019: £50.4 million net loss on financial instruments) which mainly reflects a reduction in interest rate expectations and higher RPI expectations, both as compared to expectations as at 31 March 2020.

The Company uses derivatives to manage inflation risk and foreign currency risk and these are held at fair value through profit or loss. The fair value of the derivatives is dependent upon expected future inflation rates, interest rates and spot foreign currency rates. This results in large movements in the income statement within net gains/(losses) on financial instruments relating to changes in fair value of the derivatives. The external borrowings and intercompany loans with TWUL are held at amortised cost.

As at 30 September 2020, the Company had net assets of £2.8 million (31 March 2020: net assets of £94.6 million).

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 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 12 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 condensed financial statements.

Interim management report (continued)

Directors

The Directors of the Company who were in office during the six month period ended 30 September 2020 and up to the date of signing these condensed interim financial statements were:

T Bolton
M Bamford
D Manuelpillai

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 2019: none).

Dividends

The Company did not pay any dividends in the six month period ended 30 September 2020 (30 September 2019: £nil). The Directors do not recommend the payment of a dividend (30 September 2019: £nil).

Political and charitable donations

No political or charitable donations were made by the Company during the period (30 September 2019: £nil).

Principal risks and uncertainties

During the six months ended 30 September 2020, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2020 remain largely unchanged. Covid-19 has had an effect on TWUL's operations, and details of the impact are included within the accounting policies of this report in the going concern section starting on page 11. In addition, there is currently uncertainty around the timing and precise nature of changes to benchmark interest rates, and details of the impact are included within the accounting policies of this report in the future standards and amendments section on page 13.

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 in note 12.

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 (including impact of associated derivatives) on lent to TWUL with a margin charged in addition to the underlying external costs.

This Interim management report was approved by the Board of Directors on 30 November 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 Interim report and condensed financial statements

The directors confirm that the Interim report and condensed 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 management report includes a fair review of the information required by the Disclosure Guidance and Transparency sourcebook ("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 30 November 2020 and signed on its behalf by:

T Bolton
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report of Thames Water Utilities Finance Plc

Report on the condensed interim financial statements

Our conclusion

We have reviewed Thames Water Utilities Finance Plc's 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 2020 (the "period").

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 2020;
- 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;
- the accounting policies; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim report and condensed financial statements of Thames Water Utilities Finance Plc 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 condensed 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 condensed 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 condensed 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 condensed financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
30 November 2020

Condensed income statement

For the six month period ended

	Note	**30 September 2020 £m**	30 September 2019 £m
Finance income	2	**205.0**	191.0
Finance expense	3	**(192.6)**	(185.5)
Net losses on financial instruments	4	**(123.8)**	(50.4)
Loss on ordinary activities before taxation		**(111.4)**	(44.9)
Tax credit on loss	5	**19.6**	3.6
Loss on ordinary activities after taxation		**(91.8)**	(41.3)

All amounts relate to continuing operations

The accounting policies and notes on pages 11 to 21 are an integral part of these condensed interim financial statements.

There is no other comprehensive income for the six month period.

Condensed statement of financial position

As at

	Note	**30 September 2020 £m**	31 March 2020 £m
Non-current assets:			
Intercompany loans receivable	6	**10,832.0**	10,815.8
Derivative financial assets	8	**111.0**	137.5
Deferred tax asset	9	**54.1**	31.2
Prepayments and other assets		**5.2**	-
Other financial assets		**-**	6.0
		11,002.3	10,990.5
Current assets:			
Cash and cash equivalents		**2.4**	2.6
Intercompany loans receivable	6	**1,430.1**	1,856.6
Prepayments and other assets		**1.9**	-
Other financial assets		**10.1**	12.2
		1,444.5	1,871.4
Current liabilities:			
Borrowings	7	**(1,384.2)**	(1,800.6)
Derivative financial liabilities	8	**-**	(15.0)
Group relief payable		**(6.5)**	(3.2)
Other financial liabilities		**(2.1)**	(2.4)
		(1,392.8)	(1,821.2)
Net current assets		**51.7**	50.2
Non-current liabilities:			
Borrowings	7	**(10,598.3)**	(10,596.8)
Derivative financial liabilities	8	**(447.3)**	(343.3)
Other financial liabilities		**(5.6)**	(6.0)
		(11,051.2)	(10,946.1)
Net assets		**2.8**	94.6
Equity:			
Called up share capital	11	**0.1**	0.1
Other reserves	11	**207.7**	207.7
Retained losses		**(205.0)**	(113.2)
Total equity		**2.8**	94.6

The accounting policies and notes on pages 11 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 30 November 2020 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	Other reserves	Retained losses	Total equity
	£m	£m	£m	£m
1 April 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)
Loss on ordinary activities after taxation	-	-	131.4	131.4
31 March 2020	0.1	207.7	(113.2)	94.6
Loss on ordinary activities after taxation	-	-	(91.8)	(91.8)
30 September 2020	**0.1**	**207.7**	**(205.0)**	**2.8**

The accounting policies and notes on pages 11 to 21 are an integral part of these condensed interim financial statements.

Condensed statement of cash flows

For the six month period ended

	30 September 2020 £m	30 September 2019 £m
Cash flows from operating activities		
Loss on ordinary activities after taxation	**(91.8)**	(41.3)
Less finance income	**(205.0)**	(191.0)
Add finance expense	**192.6**	185.5
Add loss on financial instruments	**123.8**	50.4
Tax credit on loss	**(19.6)**	(3.6)
Net cash inflow from operating activities	**-**	-
Cash flows from investing activities		
Interest received	**215.0**	205.4
Loans to group companies	**(650.2)**	(614.8)
Loans repaid by group companies	**1,030.3**	633.9
Fees received	**4.9**	2.6
Net cash inflow from investing activities	**600.0**	227.1
Cash flows from financing activities		
Proceeds from new loans	**750.2**	614.8
Repayment of borrowings	**(1,115.0)**	(633.9)
Derivative accretion settlement[1]	**(15.3)**	-
Interest paid	**(215.2)**	(205.1)
Fees paid	**(4.9)**	(2.6)
Net cash outflow from financing activities	**(600.2)**	(226.8)
Net movement in cash and cash equivalents	**(0.2)**	0.3
Cash and cash equivalents at beginning of the period	**2.6**	2.3
Cash and cash equivalents at end of the period	**2.4**	2.6

The accounting policies and notes on pages 11 to 21 form an integral part of these condensed interim financial statements.

[1] Derivative accretion settlement of £15.3 million (30 September 2019: £nil) relates to index-linked swaps where accretion is payable periodically.

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, Berkshire, RG1 8DB.

The Company's principal activity to act as a financing company to Thames Water Utilities Limited ("TWUL"), together with the Company, 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 2020 prepared under International Financial Reporting Standards ("IFRS") as adopted by the EU and which are available at https://www.thameswater.co.uk/about-us/investors/debt-information.

The auditors' report on the Financial Statements for the year ended 31 March 2020 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 30 November 2020, 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 2021 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 have been prepared in accordance with The Companies Act 2006 as applicable to companies using IFRS.

The condensed interim financial statements for the six months ended 30 September 2020, set out on pages 7 to 21, 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.

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 role of other group companies 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

TWUL is the monopoly provider of the public water supply and wastewater treatment to areas including most of London and the Thames Valley. The regulatory regime in England and Wales provides water companies with stable and predictable revenues over an Asset Management Plan (AMP). The framework ensures 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 the 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.

The TWUL Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The potential impact of Covid-19 on the TWUL Group's financial performance has been assessed with a particular focus on operational cashflows and capital expenditure. Lower operational cashflows are expected mainly due to deferred payments and increases in bad debt from household customers and lower billable volumes in the non-household sector due to reduced consumption.

Various scenarios have been assessed, all of which show the TWUL Group having significant liquidity headroom. A severe but plausible downside case has been developed which assumes a prolonged period of lockdown due to Covid-19 in excess of the lockdown measures announced by the UK Government on 31 October 2020. In this scenario, operational cashflows would be temporarily lower in 2020/21, resulting in a TWUL Group Trigger Event, but would recover in subsequent years. Despite this being an undesirable outcome, the TWUL Group has material headroom against the Event of Default threshold, as such this does not impact the going concern assumption for the reasons outlined below.

The main consequences of a TWUL Group Trigger Event include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The TWUL Directors do not consider this scenario to cause a material uncertainty with regards to the going concern assumption. The Trigger Event is a feature of the TWUL Group's Whole Business Securitisation ("WBS") structure and acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the TWUL Group's creditworthiness, as such it does not affect the TWUL Group's continued access to its significant existing bank facilities nor would it disrupt the TWUL Group's ability to trade. The cash lockup preserves the value of the TWUL Group which is in the interest of TWUL Group creditors and customers. Whilst prohibited from accessing new funding, the TWUL Group has significant bank facilities which are sufficient to fund its programme and meet its obligations for the duration of the Trigger Event.

However, various remedial actions have been identified and could be implemented to avoid / reduce the occurrence of a TWUL Group Trigger Event if such a scenario were to materialise.

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

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.

Future standards and amendments

IBOR reform

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 30 September 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.

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 2020 £m**	30 September 2019 £m
Interest receivable on intercompany loans receivable	**188.5**	185.3
Interest income on swaps	**16.5**	5.7
Total	**205.0**	191.0

3. Finance expense

For the six month period ended	**30 September 2020 £m**	30 September 2019 £m
Interest expense	**192.6**	186.3
Fees incurred in relation to acquisition of TWUCF's assets and liabilities[1]	**-**	(0.8)
Total	**192.6**	185.5

[1] A credit of £0.8m was recognised for the six month period to 30 September 2019. This relates to a reversal of an over accrual of fees incurred in relation to acquisition of Thames Water Utilities Cayman Finance Limited ("TWUCF") assets and liabilities.

4. Net losses on financial instruments

	30 September 2020 £m	30 September 2019 £m
Exchange gains / (losses) on foreign currency borrowings and intercompany loans receivables	**18.8**	(47.0)
Losses arising on swaps where hedge accounting is not applied[1]	**(142.6)**	(3.4)
	(123.8)	(50.4)

[1] Losses arising on swaps where hedge accounting is not applied primarily reflects higher RPI and lower interest rate expectations. This excludes swap interest which is included in Note 2 Finance income above.

Notes to the condensed interim financial statements (continued)

5. Taxation

For the six month period ended	**30 September 2020 £m**	30 September 2019 £m
Current tax:		
Amounts in respect of group relief	**3.3**	1.3
Deferred tax:		
Origination and reversal of timing differences in current period	**(22.9)**	(4.9)
Tax credit on loss on ordinary activities	**(19.6)**	(3.6)

The tax assessed for the period is lower (30 September 2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

For the six month period ended	**30 September 2020 £m**	30 September 2019 £m
Loss on ordinary activities before tax	**(111.4)**	(44.9)
Corporation tax on loss on ordinary activities at 19% (period ended 30 September 2019: 19%)	**(21.2)**	(8.5)
Movement of fair value subject to initial recognition exemption	**1.4**	3.9
Transfer pricing adjustment	**0.2**	0.2
Effect of tax rate differences	**-**	0.8
Total tax credit for the period	**(19.6)**	(3.6)

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. 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%. Deferred tax in these financial statements has been calculated based on this rate.

Notes to the condensed interim financial statements (continued)

6. Intercompany loans receivable

As at	**30 September 2020 £m**	31 March 2020 £m
Amounts owed by Group undertakings:		
Thames Water Utilities Limited	**12,064.2**	12,446.4
Interest receivable on amounts owed by Group undertakings:		
Thames Water Utilities Limited	**197.9**	226.0
Total	**12,262.1**	12,672.4
Disclosed within non-current assets	**10,832.0**	10,815.8
Disclosed within current assets	**1,430.1**	1,856.6

There are no amounts past their due by dates.

All loans and receivables are held at amortised cost. Terms of the intercompany loans receivable reflect the terms of the relevant external borrowing and any relevant swaps, although a small minority of external transactions are not perfectly matched with intercompany transactions. These external transactions include two index-linked swaps with £100.0 million notional each, that were restructured in November 2019 (refer to Fair Value measurement section on page 18 for more information), where the relevant intercompany loans have not been restructured. In addition, there are two transactions where £100.0m principal is offset on an economic basis, these include a £100m index-linked intercompany loan receivable from TWUL (which is not linked to any external debt) and a £100m drawdown from the Class A revolving credit facility which has not been on lent by the Company to TWUL.

The Company is part of the Securitisation Group (refer to Business review section on page 2), 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.

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 condensed financial statements.

As these assets relate to intercompany debt owed by a regulated water company characterised by relatively stable and predictable cash flows, and TWUL must maintain an investment grade credit rating, the credit risk exposure is deemed immaterial and no amounts are impaired. Refer to “Credit rating” section on page 3 for more detail.

Notes to the condensed interim financial statements (continued)

7. Borrowings

As at	**30 September 2020 £m**	31 March 2020 £m
Secured bank loans and private placements	**1,704.5**	2,278.8
Bonds	**9,835.6**	9,643.5
Amounts owed to Group undertakings	**290.4**	290.0
	11,830.5	12,212.3
Interest payable on borrowings	**152.0**	185.1
Total	**11,982.5**	12,397.4
Disclosed within non-current liabilities	**10,598.3**	10,596.8
Disclosed within current liabilities	**1,384.2**	1,800.6

Debt issued by the Company matures between 2020 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 8.

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

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.

8. Financial instruments

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.

Notes to the condensed interim financial statements (continued)

8. Financial instruments (continued)

Fair value measurements (continued)

The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2020, all of which are classified within financial liabilities:

Financial assets	Level 2[1]	
As at	**30 September 2020 £m**	31 March 2020 £m
Fair value through profit and loss:		
Index-linked swaps	**12.2**	11.9
Cross currency swaps	**98.8**	125.6
	111.0	137.5
Amortised cost		
Intercompany loans receivable	**12,262.1**	12,672.4
Other financial assets	**10.1**	-
Cash and cash equivalents	**2.4**	2.6
	12,274.6	12,675.0
Total	**12,385.6**	12,812.5

Financial liabilities	Level 2[1]	
As at	**30 September 2020 £m**	31 March 2020 £m
Fair value through profit and loss:		
Index-linked swaps[2]	**(447.3)**	(356.7)
Cross currency swaps	**-**	(1.6)
	(447.3)	(358.3)
Amortised cost		
Borrowings	**(11,982.5)**	(12,397.4)
Other financial liabilities	**(7.7)**	(8.4)
	(11,990.2)	(12,405.8)
Total	**(12,437.5)**	(12,764.1)

[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, currency cash flows are translated at the spot rate.

[2] During the six month period ended 30 September 2020, £15.3 million accretion on derivatives was paid (30 September 2019: £nil).

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 'Financial Instruments' and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 30 September 2020, £21.2 million (31 March 2020: £21.8 million) remained capitalised within derivative financial liabilities and £0.6 million had been recognised in the income statement within net losses on financial instruments for the six month period (30 September 2019: £nil).

Notes to the condensed interim financial statements (continued)

8. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's cash and cash equivalents, other financial assets and other financial liabilities are considered to be approximate to their fair values. The tables below set out a comparison of the carrying values and fair values of the Company's remaining financial assets and liabilities.

As at	**30 September 2020**		31 March 2020	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Intercompany loans receivable	**12,262.1**	**14,496.0**	12,672.4	13,320.9
Derivative financial instruments	**111.0**	**111.0**	137.5	137.5
	12,373.1	**14,607.0**	12,809.9	13,458.4
Financial liabilities:				
Borrowings	**11,982.5**	**13,941.7**	12,397.4	12,930.5
Derivative financial instruments	**447.3**	**447.3**	358.3	358.3
	12,429.8	**14,389.0**	12,755.7	13,288.8

Intercompany loans receivable

The fair value of intercompany loans receivable from group entities represents the fair value of the underlying debt and associated derivatives.

Borrowings

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds, 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, currency cash flows are translated at the spot rate.

The fair value of floating rate debt instruments is assumed to be the nominal value of the loan 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, discounted using a risk-free rate plus the Company's credit spread.

9. Deferred tax asset

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

As at	**30 September 2020 £m**	31 March 2020 £m
At the beginning of the period	**31.2**	35.6
Amounts provided during the period on fair value	**22.9**	(4.4)
At the end of the period	**54.1**	31.2

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.

Notes to the condensed interim financial statements (continued)

10. 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

The proceeds from external debt issued by the Company including any impact of associated derivatives are passed onto TWUL through intercompany loans with a margin of 0.1% charged, although a small minority of external transactions are not perfectly matched with intercompany transactions.

Amounts owed by undertakings represent cumulative financing proceeds that have been loaned to TWUL. Details of the loans receivable can be found in note 6. There are no amounts past their due dates (31 March 2020: £nil).

As these assets relate to intercompany debt owed by a regulated water company characterised by relatively stable and predictable cash flows, and TWUL 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.

Total interest due from TWUL in respect of the six month period ended 30 September 2020 was £188.5 million (30 September 2019: £185.3 million).

Borrowings

Amounts owed to Group undertakings represent floating rate loans payable to TWUL. Details of the borrowing can be found in note 7. There are no amounts past their due dates (31 March 2020: £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 2020 was £3.7 million (30 September 2019: £4.2 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 2020: none).

11. Called up share capital and other reserves

Called up share capital

As at	**30 September 2020 £**	31 March 2020 £
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.

Notes to the condensed interim financial statements (continued)

11. Called up share capital and other reserves (continued)

Other reserves

As at	**30 September 2020 £m**	31 March 2020 £m
Other reserves	**207.7**	207.7
Total	**207.7**	207.7

Other reserves comprises of a capital reduction undertaken in a prior year by 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.

12. 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 is 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.

13. Post balance sheet events

In October 2020, the Company issued £84.7 million Class A bonds with a maturity of 2023 and EUR 400.0 million (equivalent to £362.8 million) Class A bonds with a maturity of 2023.

In November 2020, the Company issued EUR 100.0 million (equivalent to £90.4 million) Class A bonds with a maturity of 2023 and USD 57.0 million (equivalent to £44.2 million) Class A bonds with a maturity of 2030.

The proceeds from the bonds were partially used to repay drawdowns from the Class A revolving credit facility, recognised within current liabilities - borrowings at 30 September 2020.

In November 2020 the UK Government announced that RPI reform will not take place until after February 2030, and the UK Statistics Authority's preferred method of amending the calculation of RPI is to align with CPIH. The reform of RPI is expected to impact certain long-term financial assets and liabilities held by the Company including borrowings and swaps, as well as certain regulatory mechanisms. Management will continue to monitor the financial impact of this and any further announcements.