Registered no: 02403744 (England & Wales)

# Thames Water Utilities Finance plc

Interim report and condensed financial statements

For the six months ended 30 September 2021

# Contents

# Directors and advisors

## Directors

T Bolton
M Bamford
D Manuelpillai

## Registered auditor

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH
United Kingdom

## Company secretary and registered office

D Hughes
S Billett
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB
United Kingdom

# 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 2021 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 2021 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 2021, provides the information necessary for shareholders to assess the Company's performance and strategy for the six month period ended 30 September 2021.

**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 TWUL or the Company is unconditionally and irrevocably guaranteed by all remaining companies within the Securitisation Group. The guaranteed debt within the Securitisation Group as at 30 September 2021 was £12,997.7 million (31 March 2021: £12,933.4 million).

During the six months ended 30 September 2021, the Company issued £1,619.3 million debt (£1,616.6 million net of fees) and repaid £1,764.5 million debt.

# Interim management report (continued)

### Credit rating

We retain investment grade credit ratings for TWUL Group, that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

In July 2021, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating ("CFR") for TWUL continuing as Baa2 with a stable outlook (30 September 2020: Baa2 with stable outlook) and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (30 September 2020: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (30 September 2020: Ba1 with stable outlook).

In January 2021, S&P reaffirmed our securitisation group companies' credit rating of BBB+ and BBB- (30 September 2020: BBB+ & BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, with negative outlook (30 September 2020: negative outlook).

### 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 2021, the Company made a loss before tax of £69.7 million (30 September 2020: loss before tax of £111.4 million), primarily due to £89.4 million net loss on financial instruments (30 September 2020: £123.8 million net loss on financial instruments) mainly reflecting higher RPI expectations and interest rate expectations as compared to 31 March 2021 expectations. Net liabilities of the Company at 30 September 2021 were £48.5 million (31 March 2021: net liabilities of £10.1 million) mainly reflecting the six month period non-cash movement in derivative fair values. On this basis the Company's performance is in line with expectations and the Directors have no significant concerns regarding the performance or position of the Company.

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 can result 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.

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 12 for more information.

TWUL has confirmed that it will provide support to the Company to enable it to meet its liabilities as they fall due 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 2021 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 2020: none).

**Dividends**

The Company did not pay any dividends in the six month period ended 30 September 2021 (30 September 2020: £nil). The Directors do not recommend the payment of a dividend (30 September 2020: £nil).

**Political and charitable donations**

No political or charitable donations were made by the Company during the period (30 September 2020: £nil).

**Principal risks and uncertainties**

During the six months ended 30 September 2021, the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2021 remain largely unchanged. However, the risk landscape remains challenging due to the longer-term impacts of Covid-19, our withdrawal from the EU and frequent flooding of the wastewater network in part due to the impact of climate change have had an impact on TWUL's operations. The impact of these factors on the Company's going concern assumption are considered further within the accounting policies of this report in the going concern section starting on page 12. In addition, there is currently a transition from LIBOR to SONIA and potential changes to other benchmark interest rates. Details of the impact are included within the accounting policies of this report in the financial reporting changes 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 Interim report and condensed 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. The proceeds of the Company's debt raising activities (including impact of associated derivatives) are 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 01 December 2021 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 UK adopted International Accounting Standard 34, 'Interim Financial Reporting', 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 01 December 2021 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 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 2021 (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 UK adopted International Accounting Standard 34, 'Interim Financial Reporting' 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 2021;
- the condensed income statement for the period then ended;
- the condensed statement of changes in equity for the period then ended;
- the condensed statement of cash flows 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 UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

# 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
1 December 2021

# Condensed income statement

For the six month period ended

| | Note | **30 September 2021 £m** | 30 September 2020 £m |
|---|---|---|---|
| Finance income | 2 | **224.7** | 205.0 |
| Finance expense | 3 | **(205.0)** | (192.6) |
| Net losses on financial instruments | 4 | **(89.4)** | (123.8) |
| **Loss on ordinary activities before taxation** | | **(69.7)** | (111.4) |
| Tax credit on loss | 5 | **31.3** | 19.6 |
| **Loss on ordinary activities after taxation** | | **(38.4)** | (91.8) |

All amounts relate to continuing operations

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

# Condensed statement of financial position

As at

| | Note | **30 September 2021 £m** | 31 March 2021 £m |
|---|---|---|---|
| ***Non-current assets:*** | | | |
| Intercompany loans receivable | 6 | **11,042.1** | 11,237.9 |
| Derivative financial assets | 8 | **51.2** | 48.5 |
| Deferred tax asset | 9 | **81.8** | 48.7 |
| Prepayments and other assets | | **4.9** | 5.7 |
| | | **11,180.0** | 11,340.8 |
| ***Current assets:*** | | | |
| Cash and cash equivalents | | **4.5** | 2.4 |
| Intercompany loans receivable | 6 | **1,225.6** | 1,174.7 |
| Derivative financial assets | 8 | **29.3** | 12.3 |
| Prepayments and other assets | | **1.5** | 1.7 |
| Other financial assets | | **54.4** | 54.1 |
| | | **1,315.3** | 1,245.2 |
| ***Current liabilities:*** | | | |
| Borrowings | 7 | **(1,061.8)** | (1,040.7) |
| Derivative financial liabilities | 8 | **(39.6)** | - |
| Group relief payable | | **(16.7)** | (14.9) |
| Other financial liabilities | | **(2.3)** | (2.1) |
| | | **(1,120.4)** | (1,057.7) |
| **Net current assets** | | **194.9** | 187.5 |
| ***Non-current liabilities:*** | | | |
| Borrowings | 7 | **(10,839.2)** | (11,000.0) |
| Derivative financial liabilities | 8 | **(579.2)** | (532.6) |
| Other financial liabilities | | **(5.0)** | (5.8) |
| | | **(11,423.4)** | (11,538.4) |
| **Net liabilities** | | **(48.5)** | (10.1) |
| ***Equity:*** | | | |
| Called up share capital | 11 | **0.1** | 0.1 |
| Other reserves | 11 | **207.7** | 207.7 |
| Accumulated losses | | **(256.3)** | (217.9) |
| **Total equity** | | **(48.5)** | (10.1) |

The condensed interim financial statements were approved by the Board of Directors on 01 December 2021 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 | Other reserves £m | Accumulated losses £m | Total equity £m |
|---|---|---|---|---|
| **1 April 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** |
| Loss on ordinary activities after taxation | **-** | - | (12.9) | (12.9) |
| **31 March 2021** | **0.1** | **207.7** | **(217.9)** | **(10.1)** |
| Loss on ordinary activities after taxation | - | - | (38.4) | (38.4) |
| **30 September 2021** | **0.1** | **207.7** | **(256.3)** | **(48.5)** |

# Condensed statement of cash flows

For the six month period ended

| | **30 September 2021 £m** | 30 September 2020 £m |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Loss on ordinary activities after taxation | **(38.4)** | (91.8) |
| Less finance income | **(224.7)** | (205.0) |
| Add finance expense | **205.0** | 192.6 |
| Add loss on financial instruments | **89.4** | 123.8 |
| Tax credit on loss | **(31.3)** | (19.6) |
| **Net cash inflow from operating activities** | **-** | - |
| ***Cash flows from investing activities*** | | |
| Interest received | **214.0** | 215.0 |
| Loans to group companies | **(1,616.8)** | (650.2) |
| Loans repaid by group companies | **1,764.5** | 1,030.3 |
| Fees received | **7.2** | 4.9 |
| **Net cash inflow from investing activities** | **368.9** | 600.0 |
| ***Cash flows from financing activities*** | | |
| Proceeds from new loans[1] | **1,616.6** | 750.2 |
| Repayment of borrowings[1] | **(1,764.5)** | (1,115.0) |
| Derivative accretion settlement[2] | **-** | (15.3) |
| Interest paid | **(214.8)** | (215.2) |
| Fees paid | **(4.1)** | (4.9) |
| **Net cash outflow from financing activities** | **(366.8)** | (600.2) |
| Net movement in cash and cash equivalents | **2.1** | (0.2) |
| Cash and cash equivalents at beginning of the period | **2.4** | 2.6 |
| **Cash and cash equivalents at end of the period** | **4.5** | 2.4 |

[1] Refer to the Borrowings note on page 17 for more information.
[2] Derivative accretion settlement of £nil (30 September 2020: £15.3 million) 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 UK adopted IAS 34 Interim Financial Reporting. 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 2021 prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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 2021 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 adopted by the UK Endorsement Board as of 01 December 2021, 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 2022 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 UK adopted IFRS.

The condensed interim financial statements for the six months ended 30 September 2021, set out on pages 7 to 22, 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.

In the year to 31 March 2022, the annual financial statements will be prepared in accordance with IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. There is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

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.

# Accounting policies (continued)

### Basis of preparation (continued)

Going concern

*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 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 as they fall due for a period of at least twelve months from the date of signing these financial statements.

*TWUL Group*

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 TWUL Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 30 September 2021, such liquidity consists of £107.4 million of cash and cash equivalents, access to £1.72 billion of revolving credit facilities of which £1.03 billion was undrawn, £100m undrawn Class B facility and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). Furthermore during the pandemic, the TWUL Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the TWUL Group is subject to financial covenants, assessed based on interest cover and gearing ratios. With significant headroom being present under the gearing ratios, the interest cover ratios are more the limiting factor and are mainly affected by operational cashflows.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints and Brexit, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power prices and adverse events related to climate change. To mitigate the impact on operational cashflows, mitigants involving active working capital management and the release of contingencies embedded with the Business Plan have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and shows significant liquidity headroom for a period of at least 12 months from the date of signing of the condensed financial statements.

Based on the above, the TWUL Board is satisfied that the TWUL Group has adequate resources, for a period of at least 12 months from the date of approval of the 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.

*Conclusion*

Taking into consideration the above factors, including the letter of support from its parent company, 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.

### Change in tax rate

For Interim reporting, the Company uses a forecast effective tax rate for the full year to 31 March 2022, applied to the profits earned in the six months to 30 September 2021. A change in UK tax rate was enacted during the period, which affects deferred tax on timing differences which are expected to unwind after 1 April 2023. The Company has chosen not to include the impact of remeasuring the closing deferred tax balances within the forecast effective annual tax rate applied to Interim balances and instead has chosen to treat the change in tax rate as a discrete additional item in the 6 month period. Having adopted this accounting policy, the Company has therefore credited the entire impact of the change in UK tax rate on deferred tax balances (£19.6 million) to the Income Statement for the Interim period.

# Accounting policies (continued)

### New accounting policies

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.

### Financial reporting changes

<u>IBOR reform</u>

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

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for financial years beginning on or after 1 January 2021 and addresses issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising.

We cannot rely on GBP LIBOR being published after the end of 2021 and the industry-led Working Group on Sterling Risk-Free Reference Rates is supporting the transition from GBP LIBOR to SONIA (Sterling Overnight Index Average). 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 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 need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

Industry working groups have published documentation regarding methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Company has established a project to oversee the GBP LIBOR transition plan. This transition project includes changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The areas of greatest change are amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps, both for external and intercompany contracts, some of which have already been amended, and the Company plans to implement amendments to the remaining contracts prior to the end of 2021.

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 2021, the Company had no designated hedge relationships and hedge accounting was not applied.

Refer to the IBOR reform section included in Note 8 Financial Instruments on page 20 for details of all of the financial instruments that the Company holds at 30 September 2021 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark.

As at 30 September 2021, for the undrawn £550.0 million liquidity facilities, LIBOR has been transitioned to SONIA on an economically equivalent basis. No gain or loss was recognised on transition as the Phase 2 reliefs were met. Other modifications have been considered in respect of the IFRS 9 extinguishment and modification requirements. These did not result in a gain or loss.

### Seasonality of operations

Management have assessed the impact of any seasonality on the operations of the business and concluded 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 2021 £m** | 30 September 2020 £m |
|---|---|---|
| Interest receivable on intercompany loans receivable | **220.6** | 188.5 |
| Interest and fees income on swaps | **4.1** | 16.5 |
| Total | **224.7** | 205.0 |

## 3. Finance expense

| For the six month period ended | **30 September 2021 £m** | 30 September 2020 £m |
|---|---|---|
| Interest expense | **203.8** | 191.3 |
| Fees | **1.2** | 1.3 |
| Total | **205.0** | 192.6 |

## 4. Net losses on financial instruments

| For the six month period ended | **30 September 2021 £m** | 30 September 2020 £m |
|---|---|---|
| Net exchange (losses)/gains on foreign currency borrowings and intercompany loans receivables | **(21.1)** | 18.8 |
| Net losses arising on swaps where hedge accounting is not applied[1] | **(68.3)** | (142.6) |
| | **(89.4)** | (123.8) |

[1] Net losses arising on swaps where hedge accounting is not applied primarily reflects higher RPI and interest rate expectations.

# Notes to the condensed interim financial statements (continued)

## 5. Taxation

| For the six month period ended | **30 September 2021 £m** | 30 September 2020 £m |
|---|---|---|
| **Current tax:** | | |
| Amounts in respect of group relief | **1.8** | 3.3 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences in current period | **(33.1)** | (22.9) |
| Tax credit on loss on ordinary activities | **(31.3)** | (19.6) |

The tax credit for the period is higher (30 September 2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

| For the six month period ended | **30 September 2021 £m** | 30 September 2020 £m |
|---|---|---|
| Loss on ordinary activities before tax | **(69.7)** | (111.4) |
| Corporation tax on loss on ordinary activities at 19% (period ended 30 September 2020: 19%) | **(13.2)** | (21.2) |
| Movement of fair value subject to initial recognition exemption | **1.3** | 1.4 |
| Tax rate change | **(19.6)** | - |
| Transfer pricing adjustment to intercompany interest rate | **0.2** | 0.2 |
| Total tax credit for the period | **(31.3)** | (19.6) |

**Factors affecting the future tax rate**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. The rate increase to 25% was substantively enacted on 24 May 2021. Therefore, its effects on deferred tax are included in these financial statements in respect of timing differences as at 30 September 2021 which are expected to unwind after 1 April 2023.

# Notes to the condensed interim financial statements (continued)

## 6. Intercompany loans receivable

| As at | **30 September 2021 £m** | 31 March 2021 £m |
|---|---|---|
| ***Amounts owed by Group undertakings:*** | | |
| Thames Water Utilities Limited | **12,068.4** | 12,171.6 |
| ***Interest receivable on amounts owed by Group undertakings:*** | | |
| Thames Water Utilities Limited | **199.3** | 241.0 |
| Total | **12,267.7** | 12,412.6 |
| Disclosed within non-current assets | **11,042.1** | 11,237.9 |
| Disclosed within current assets | **1,225.6** | 1,174.7 |

There are no amounts past their due by dates (31 March 2021: £nil).

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 is a £100.0 million index-linked intercompany loan receivable from TWUL which is not linked to any external debt.

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 as a condition of its regulatory licence conditions, 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 2021 £m** | 31 March 2021 £m |
|---|---|---|
| Secured bank loans and private placements | **1,547.3** | 1,161.2 |
| Bonds | **9,912.7** | 10,392.7 |
| Amounts owed to Group undertakings | **291.3** | 290.9 |
| | **11,751.3** | 11,844.8 |
| Interest payable on borrowings | **149.7** | 195.9 |
| Total | **11,901.0** | 12,040.7 |
| Disclosed within non-current liabilities | **10,839.2** | 11,000.0 |
| Disclosed within current liabilities | **1,061.8** | 1,040.7 |

During the six months ended 30 September 2021, the Company issued £1,619.3 million debt (£1,616.6 million net of fees) and repaid £1,764.5 million debt.

Debt issued by the Company matures between 2021 and 2062. The Company uses derivatives to swap some 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.

Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed
Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.

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 2021:

| **Financial assets** | Level 2[1] | |
|---|---|---|
| As at | **30 September 2021 £m** | 31 March 2021 £m |
| **Fair value through profit or loss:** | | |
| Index-linked swaps | **14.6** | 14.4 |
| Cross currency swaps | **65.9** | 46.4 |
| | **80.5** | 60.8 |
| **Amortised cost** | | |
| Cash and cash equivalents | **4.5** | 2.4 |
| Other financial assets | **54.4** | 54.1 |
| Intercompany loans receivable | **12,267.7** | 12,412.6 |
| | **12,326.6** | 12,469.1 |
| **Total** | **12,407.1** | 12,529.9 |

| **Financial liabilities** | Level 2[1, 3] | |
|---|---|---|
| As at | **30 September 2021 £m** | 31 March 2021 £m |
| **Fair value through profit or loss:** | | |
| Index-linked swaps[2] | **(590.0)** | (487.9) |
| Cross currency swaps | **(28.8)** | (44.7) |
| | **(618.8)** | (532.6) |
| **Amortised cost** | | |
| Borrowings[3] | **(11,901.0)** | (12,040.7) |
| Other financial liabilities | **(7.3)** | (7.9) |
| | **(11,908.3)** | (12,048.6) |
| **Total** | **(12,527.1)** | (12,581.2) |

[1] The fair value of derivative financial instruments is measured using discounted cash flows. The future cash flows are estimated based on observable forward inflation rates at the period end and discounted at a rate that reflects the credit risk of the Company and the counterparties. Currency cash flows are then translated at spot rate.

[2] During the six month period ended 30 September 2021, £nil accretion on derivatives was paid (30 September 2020: £15.3 million).

[3] Level 2 with the exception of publicly traded underlying liquid bonds which are Level 1.

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 at the restructuring date 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 2021, £20.0 million (31 March 2021: £20.6 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 2020: £0.6 million).

# Notes to the condensed interim financial statements (continued)

## 8. Financial instruments (continued)

### Comparison of fair value of financial instruments with their carrying amounts

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

| As at | **30 September 2021** | | 31 March 2021 | |
|---|---|---|---|---|
| | **Book value £m** | **Fair value £m** | Book value £m | Fair value £m |
| ***Financial assets:*** | | | | |
| Intercompany loans receivable | **12,267.7** | **15,229.7** | 12,412.6 | 14,497.1 |
| Derivative financial instruments | **80.5** | **80.5** | 60.8 | 60.8 |
| Other financial assets | **54.4** | **54.4** | 54.1 | 54.1 |
| | **12,402.6** | **15,364.6** | 12,527.5 | 14,612.0 |
| ***Financial liabilities:*** | | | | |
| Borrowings | **11,901.0** | **14,581.3** | 12,040.7 | 13,899.2 |
| Derivative financial instruments | **618.8** | **618.8** | 532.6 | 532.6 |
| Other financial liabilities | **7.3** | **7.3** | 7.9 | 7.9 |
| | **12,527.1** | **15,207.4** | 12,581.2 | 14,439.7 |

*Intercompany loans receivable*

The fair value of intercompany loans receivable from group entities is calculated by reference to the fair value of the underlying debt and associated derivatives.

*Borrowings*

The fair value of borrowings represents the market value of publicly traded underlying liquid bonds (level 1 inputs to valuation technique), 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, foreign currency values are then 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.

# Notes to the condensed interim financial statements (continued)

## 8. Financial instruments (continued)

**IBOR reform**

The following table contains details of all of the financial instruments that the Company holds at 30 September 2021 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark:

| | **Carrying Value at 30 September 2021** | | Of which: Have yet to transition to an alternative benchmark interest rate as at 30 September 2021 | |
|---|---|---|---|---|
| | **Assets £m** | **Liabilities £m** | Assets £m | Liabilities £m |
| ***Assets and liabilities exposed to GBP LIBOR*** | | | | |
| ***Fair value through profit or loss*** | | | | |
| Cross currency swaps | **-** | **(3.3)** | - | (3.3) |
| Index-linked swaps | **-** | **(590.0)** | - | (590.0) |
| ***Amortised cost*** | | | | |
| Borrowings[1] | - | **(980.7)** | - | (980.7) |
| **Total assets and liabilities exposed to GBP LIBOR** | **-** | **(1,574.0)** | - | (1,574.0) |

[1] Includes £400.0 million drawn out of the £1,432.1 million Class A revolving credit facility, the remaining £1,031.1 million undrawn is not included in the table above.

As at 30 September 2021, for the undrawn £550.0 million liquidity facilities, LIBOR has been transitioned to SONIA on an economically equivalent basis. No gain or loss was recognised on transition as the Phase 2 reliefs were met. Other modifications have been considered in respect of the IFRS 9 extinguishment and modification requirements. These did not result in a gain or loss.

During October and November 2021, £1.7 billion Revolving Credit Facilities transitioned from a LIBOR based interest rate to SONIA.

## 9. Deferred tax asset

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

| As at | **30 September 2021 £m** | 31 March 2021 £m |
|---|---|---|
| At the beginning of the period | **48.7** | 31.2 |
| Amounts provided during the period on fair value | **33.1** | 17.5 |
| **At the end of the period** | **81.8** | 48.7 |

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)

## 9. Deferred tax asset (continued)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. The rate increase to 25% was substantively enacted on 24 May 2021. Therefore, its effects on deferred tax are included in these financial statements in respect of timing differences as at 30 September 2021 which are expected to unwind after 1 April 2023. Of the £33.1 million increase in deferred tax asset in the period, £19.6 million is attributable to the tax rate change.

## 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 2021: £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 2021 was £220.6 million (30 September 2020: £188.5 million).

*Other financial assets*

Other financial assets include amounts owed by immediate parent company TWUL. As at 30 September 2021, £54.4 million (31 March 2021: £54.1 million) was recognised within other financial assets relating to amounts owed by TWUL, of which £53.7 million (31 March 2021: £53.7 million) primarily reflects interest received by TWUL on behalf of the Company in relation to restructured swaps.

*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 2021: £nil).

Interest on the loans from TWUL are 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 2021 was £2.9 million (30 September 2020: £3.7 million).

*Other financial liabilities*

Other financial liabilities include amounts owed to immediate parent company TWUL. As at 30 September 2021, £6.5 million (31 March 2021: £7.4 million) was recognised within other financial liabilities relating to amounts owed to TWUL.

**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 2021: none).

# Notes to the condensed interim financial statements (continued)

## 11. Called up share capital and other reserves

### Called up share capital

| As at | **30 September 2021 £** | 31 March 2021 £ |
|---|---|---|
| **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 2021 £m** | 31 March 2021 £m |
|---|---|---|
| Other reserves | **207.7** | 207.7 |
| **Total** | **207.7** | 207.7 |

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

## 12. Immediate and ultimate parent and controlling party

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

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

## 13. Post balance sheet events

During October and November 2021, £1.7 billion Revolving Credit Facilities transitioned from a LIBOR based interest rate to SONIA. In addition, a further net £316.9 million Class A Revolving Credit Facilities were drawn and a total of £289.3 million Class B Revolving Credit Facilities were repaid.