

Registered number: 537456915 (England & Wales)

Thames Water Utilities Limited

Interim report and financial statements

For the six month period ended 30 September 2021

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Chairman's report

Introduction

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

The Company's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers in London, the Thames Valley and surrounding area in accordance with its licence of appointment. The Company is also an intermediate holding company within the Kemble Water Holdings Limited Group of companies ("the Group").

This report comprises a business and financial overview of Thames Water Utilities Limited for the six month period ended 30 September 2021 and constitutes unaudited key financial data and narrative review of performance over this period.

The Company is party to various financing agreements which require the Company to prepare unaudited financial statements. This interim report has been prepared to meet these requirements.

Principal risks and uncertainties

Following review, our principal risks, as disclosed in our Annual and Sustainability Report 2020/21, 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 due to the impact of climate change. As a result of the recent flash flooding we are working with other organisations responsible for drainage and continuing to invest in our infrastructure to increase our capacity and to make the network more resilient.

Pressure remains on our financial position due to lower cash and debt collection and reduced revenue arising from lower consumption. In the wake of Covid-19 financial support measures being removed we are supporting customers that face financial hardship and are unable to pay their water bill.

In addition, we continue to experience disruption within our supply chain, inflation and shortages in labour markets, and increasing costs of raw materials, in particular chemicals (a sector-wide issue that is being monitored at a national level via the National Chemical Specialist Group), and power prices. The lack of availability of drivers and construction workers from the continent and the increase in demand from other sectors, means that competition for scarce resource has increased causing a supply and demand issue and resulting in increased rates of pay and potential delays to our capital programme.

Going Concern

In assessing the appropriateness of the going concern basis, the Directors have considered the following factors.

The Company's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The 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 £103 million of cash and cash equivalents, access to £1.72 billion of revolving credit facilities of which £1.03 billion was undrawn, £100 million 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 Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the 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 weather. 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 Board is satisfied that the Company 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 Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Alastair Cochran
Chief Financial Officer
1 December 2021

Condensed income statement

For the six-month period ended 30 September

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Revenue	1,062.3	42.8	1,105.1	996.0	35.9	1,031.9
Operating expenses excluding impairment losses on financial and contract assets ¹	(864.1)	-	(864.1)	(829.8)	-	(829.8)
Impairment losses on financial and contract assets	(12.0)	(0.1)	(12.1)	(11.1)	-	(11.1)
Total operating expenses	(876.1)	(0.1)	(876.2)	(840.9)	-	(840.9)
Other operating income	40.1	-	40.1	31.6	-	31.6
Operating profit	226.3	42.7	269.0	186.7	35.9	222.6
Finance income	64.8	-	64.8	74.4	-	74.4
Finance expense	(249.3)	-	(249.3)	(207.1)	-	(207.1)
Net loss on financial instruments	(365.5)	-	(365.5)	(232.2)	-	(232.2)
(Loss)/profit on ordinary activities before taxation	(323.7)	42.7	(281.0)	(178.2)	35.9	(142.3)
Tax (charge)/credit on (loss)/profit on ordinary activities	(273.1)	(8.1)	(281.2)	33.4	(6.8)	26.6
(Loss)/profit for the period	(596.8)	34.6	(562.2)	(144.8)	29.1	(115.7)

¹ Underlying operating expenses for the six months ended 30 September 2020 includes £8.2 million of costs that are considered to be exceptional. No exceptional costs were recognised for the six months ended 30 September 2021. A summary of exceptional costs is included within note 1.

Condensed statement of other comprehensive income

For the six-month period ended 30 September

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
(Loss)/profit for the period	(596.8)	34.6	(562.2)	(144.8)	29.1	(115.7)
Other comprehensive income						
<i>Will not be reclassified to the income statement:</i>						
Net actuarial loss on pension schemes	(97.1)	-	(97.1)	(353.7)	-	(353.7)
Deferred tax credit on net actuarial loss including impact of tax rate change in current period	60.3	-	60.3	81.0	-	81.0
<i>May be reclassified to the income statement:</i>						
Cash flow hedges transferred to income statement	18.3	-	18.3	18.8	-	18.8
Deferred tax charge on cash flow hedge gains less impact of tax rate change in current period	(0.1)	-	(0.1)	(3.5)	-	(3.5)
Other comprehensive expense for the period	(18.6)	-	(18.6)	(257.4)	-	(257.4)
Total comprehensive (expense)/income for the period	(615.4)	34.6	(580.8)	(402.2)	29.1	(373.1)

The Company's activities underpinning the results above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants.

Condensed statement of financial position

As at

	Note	30 September 2021			31 March 2021		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current assets							
Intangible assets		281.7	-	281.7	276.3	-	276.3
Property, plant and equipment ¹	2	16,604.7	-	16,604.7	16,302.3	-	16,302.3
Investment property ¹	2	50.0	-	50.0	50.0	-	50.0
Investment in subsidiaries		207.7	-	207.7	207.7	-	207.7
Right-of-use assets		49.4	-	49.4	41.6	-	41.6
Derivative financial assets		86.0	-	86.0	102.6	-	102.6
Intercompany loans receivable		1,993.4	-	1,993.4	1,993.4	-	1,993.4
Other receivables		44.9	270.7	315.6	46.3	228.9	275.2
Pension asset		23.5	-	23.5	57.9	-	57.9
		19,341.3	270.7	19,612.0	19,078.1	228.9	19,307.0
Current assets							
Inventories		13.9	-	13.9	14.9	-	14.9
Intercompany loans receivable		40.5	-	40.5	34.5	-	34.5
Contract assets		264.0	8.5	272.5	239.5	5.8	245.3
Trade and other receivables		744.1	26.0	770.1	371.4	12.8	384.2
Cash and cash equivalents		96.3	6.6	102.9	488.5	3.6	492.1
		1,158.8	41.1	1,199.9	1,148.8	22.2	1,171.0
Current liabilities							
Contract liabilities		(498.4)	(16.7)	(515.1)	(121.9)	(2.1)	(124.0)
Trade and other payables		(609.3)	(28.9)	(638.2)	(640.9)	(31.4)	(672.3)
Borrowings		(1,390.3)	-	(1,390.3)	(1,289.5)	-	(1,289.5)
Lease liabilities		(6.6)	-	(6.6)	(7.5)	-	(7.5)
Derivative financial liabilities		(47.8)	-	(47.8)	-	-	-
		(2,552.4)	(45.6)	(2,598.0)	(2,059.8)	(33.5)	(2,093.3)
Net current (liabilities)		(1,393.6)	(4.5)	(1,398.1)	(911.0)	(11.3)	(922.3)
Non-current liabilities							
Contract liabilities		(797.2)	-	(797.2)	(757.3)	-	(757.3)
Borrowings		(11,792.7)	-	(11,792.7)	(11,977.1)	-	(11,977.1)
Lease liabilities		(59.9)	-	(59.9)	(52.9)	-	(52.9)
Derivative financial liabilities		(1,204.3)	-	(1,204.3)	(937.3)	-	(937.3)
Deferred tax		(1,271.3)	-	(1,271.3)	(1,058.5)	-	(1,058.5)
Provisions for liabilities and charges		(147.5)	-	(147.5)	(143.7)	-	(143.7)
Pension deficit		(341.0)	-	(341.0)	(277.1)	-	(277.1)
		(15,613.9)	-	(15,613.9)	(15,203.9)	-	(15,203.9)
Net assets		2,333.8	266.2	2,600.0	2,963.2	217.6	3,180.8
Equity							
Called up share capital		29.0	-	29.0	29.0	-	29.0
Share premium		100.0	-	100.0	100.0	-	100.0
Cash flow hedge reserve		(41.5)	-	(41.5)	(59.7)	-	(59.7)
Revaluation reserve		832.4	-	832.4	903.1	-	903.1
Retained earnings		1,413.9	266.2	1,680.1	1,990.8	217.6	2,208.4
Total equity		2,333.8	266.2	2,600.0	2,963.2	217.6	3,180.8

¹Assets of £50.0 million which meet the definition of Investment Properties under IAS 40 have been reclassified from Property, Plant and Equipment and disclosed separately in the statement of financial position as at 30 September 2021, with the prior period comparative at 31 March 2021 also reclassified. Please refer to Note 2 Investment Property for further information.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants.

Condensed statement of changes in equity

For the six month period ended 30 September 2021

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
1 April 2020	29.0	100.0	(90.1)	934.3	2,483.3	3,456.5
Loss for the year	-	-	-	-	(121.3)	(121.3)
Cash flow hedge transferred to the income statement	-	-	37.5	-	-	37.5
Deferred tax charge on cash flow hedge gain	-	-	(7.1)	-	-	(7.1)
Net actuarial loss on pension scheme	-	-	-	-	(195.0)	(195.0)
Deferred tax credit on net actuarial loss	-	-	-	-	43.1	43.1
Total comprehensive income	-	-	30.4	-	(273.2)	(242.8)
Transfer of depreciation ¹	-	-	-	(38.4)	38.4	-
Deferred tax on depreciation transfer ¹	-	-	-	7.2	(7.2)	-
Dividends paid	-	-	-	-	(32.9)	(32.9)
31 March 2021	29.0	100.0	(59.7)	903.1	2,208.4	3,180.8
Loss for the period	-	-	-	-	(562.2)	(562.2)
Cash flow hedge transfer to the income statement	-	-	18.3	-	-	18.3
Deferred tax charge on cash flow hedge less impact of tax rate change	-	-	(0.1)	-	-	(0.1)
Net actuarial loss on pension scheme	-	-	-	-	(97.1)	(97.1)
Deferred tax credit on actuarial loss including impact of tax rate change	-	-	-	-	60.3	60.3
Total comprehensive income	-	-	18.2	-	(599.0)	(580.8)
Transfer of depreciation ¹	-	-	-	(5.1)	5.1	-
Deferred tax on depreciation transfer including impact of tax rate change ¹	-	-	-	(65.6)	65.6	-
30 September 2021	29.0	100.0	(41.5)	832.4	1,680.1	2,600.0

¹ The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax in the fair value uplift on assets.

Condensed statement of cash flows

For the six month period ended 30 September 2021

	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
<i>Operating activities:</i>						
(Loss)/profit for period	(596.8)	34.6	(562.2)	(144.8)	29.1	(115.7)
Less finance income	(64.8)	-	(64.8)	(74.4)	-	(74.4)
Add finance expense excluding interest on lease liabilities	247.7	-	247.7	205.4	-	205.4
Add interest expense on lease liabilities	1.6	-	1.6	1.7	-	1.7
Add net loss on financial instruments	365.5	-	365.5	232.2	-	232.2
Add/(less) taxation on profit/(loss) on ordinary activities	273.1	8.1	281.2	(33.4)	6.8	(26.6)
Operating profit	226.3	42.7	269.0	186.7	35.9	222.6
Depreciation on property, plant and equipment	292.5	-	292.5	279.7	-	279.7
Amortisation of intangible assets	26.9	-	26.9	26.3	-	26.3
Depreciation of right of use assets	2.0	-	2.0	5.6	-	5.6
Add loss on sale of property, plant and equipment	(0.2)	-	(0.2)	0.3	-	0.3
Difference in pension charge and cash contribution	(1.0)	-	(1.0)	(23.2)	-	(23.2)
Decrease /(increase) in inventory	1.0	-	1.0	(1.1)	-	(1.1)
Increase in trade and other receivables	(371.3)	(55.0)	(426.3)	(419.0)	(48.2)	(467.2)
(Increase)/decrease in contract assets	(24.5)	(2.7)	(27.2)	10.5	0.5	11.0
(Decrease)/increase in trade and other payables	(47.1)	3.4	(43.7)	(62.2)	12.1	(50.1)
Increase in contract liabilities	416.4	14.6	431.0	408.6	10.6	419.2
Increase/(decrease) in provisions	3.8	-	3.8	(0.2)	-	(0.2)
Net cash generated by operating activities	524.8	3.0	527.8	412.0	10.9	422.9
<i>Investing activities:</i>						
Proceeds from short term investments	-	-	-	300.0	-	300.0
Purchase of property, plant and equipment	(594.9)	-	(594.9)	(484.3)	-	(484.3)
Purchase of intangible assets	(32.3)	-	(32.3)	(20.3)	-	(20.3)
Proceeds from sale of property, plant and equipment	0.6	-	0.6	-	-	-
Interest received	41.1	-	41.1	62.7	-	62.7
Repayment of loans by parent company	-	-	-	58.8	-	58.8
Net cash used in investing activities	(585.5)	-	(585.5)	(83.1)	-	(83.1)
<i>Financing activities:</i>						
New loans raised	1,616.6	-	1,616.6	750.2	-	750.2
Repayment of borrowings	(1,772.7)	-	(1,772.7)	(1,138.3)	-	(1,138.3)
Repayment of lease principal	(5.3)	-	(5.3)	(6.6)	-	(6.6)
Interest paid	(174.9)	-	(174.9)	(198.3)	-	(198.3)
Fees paid	4.8	-	4.8	(4.9)	-	(4.9)
Net cash used in financing activities	(331.5)	-	(331.5)	(597.9)	-	(597.9)
Net (decrease)/increase in cash and cash equivalents	(392.2)	3.0	(389.2)	(269.0)	10.9	(258.1)
Net cash and cash equivalents at beginning of period	488.5	3.6	492.1	753.2	2.6	755.8
Net cash and cash equivalents at end of period	96.3	6.6	102.9	484.2	13.5	497.7

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to arrangement with BTL and therefore our underlying amounts are disclosed separately as required by some of our financial covenants.

Notes to the condensed company financial statements

1. Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered unusual by nature and/or scale, the following costs are classified as exceptional for the six month period ended 30 September 2021.

For the six month period ended 30 September	2021			2020		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Company reorganisation - severance	-	-	-	0.2	-	0.2
Associated programme management costs	-	-	-	8.0	-	8.0
Total net operating expenses	-	-	-	8.2	-	8.2

Costs relate to transformation expenditure incurred in the prior six-month period as a result of the significant restructuring of the business that commenced in 2019 and continued into 2020. These costs are considered to be exceptional in nature with significant expenditure incurred that is not in the ordinary course of business. The restructure of the business involved significant changes in the way that the Company operates and therefore this transformation expenditure is deemed exceptional by nature. The tax impact of exceptional items in the six-month period 30 September 2020 was an increase in the tax credit in the income statement by £1.6 million.

2. Investment Property

As at 30 September 2021, Land and Buildings within the Property, plant and equipment note included purchases made in relation to the Thames Tideway Tunnel project; an element of which will not form part of the asset to be depreciated when the asset is brought into use. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once the required works have been completed.

One of these land and buildings relate to a building that in substance was acquired to facilitate the access requirements for the Thames Tideway Tunnel project; however, this building is being offered to external parties under short term leases and, therefore, the property meets the definition of an Investment Property. As such it should be presented as investment property and the Company has chosen to account for it under the cost method of IAS 40 with a carrying value of £50.0 million.

In the current six-month period to 30 September 2021, to facilitate greater transparency, the building aforementioned, with carrying value of £50.0 million, have been appropriately reclassified to Investment Properties effective as at 1 April 2020. This has resulted in no change to the previously reported Net or Non-current assets values. In the Annual Report and Sustainability Report 2020/21 it was reported in error that there were assets of value £113.1 million which met the definition of Investment Property under IAS 40, this should have said £50.0 million.

Based on an expectation that this property will be disposed of in the next few years the current fair value and residual value of this property as at 30 September 2021 are assessed by the Company to be materially the same as the carrying value. The rental income earned by the Company in relation to this property in the six-months ended 30 September 2021 is £2.7 million (30 September 2020: £2.9 million).