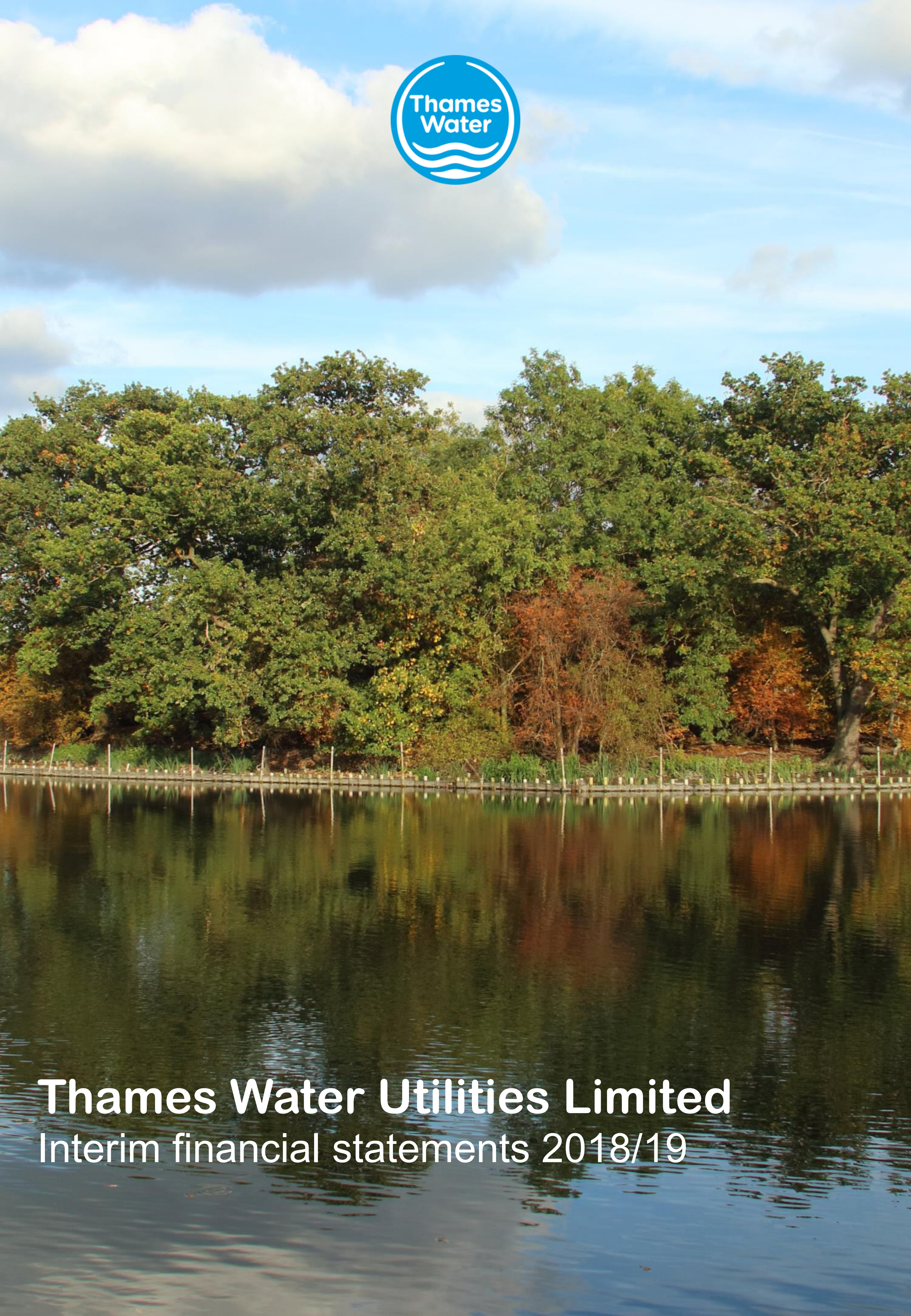

Thames Water Utilities Limited

Interim financial statements 2018/19

Condensed income statement

For the six month period ended

	Note	30 September 2018 Underlying £m	30 September 2018 BTL £m	30 September 2018 Total £m	Restated[1] 30 September 2017 Underlying £m	Restated[1] 30 September 2017 BTL £m	Restated[1] 30 September 2017 Total £m
Revenue	3	**1,001.1**	**24.5**	**1,025.6**	1,029.9	12.9	1,042.8
Operating expenses	4	**(813.7)**	**(0.1)**	**(813.8)**	(791.1)	-	(791.1)
Other operating income	3	**35.0**	**-**	**35.0**	36.7	-	36.7
Operating profit		**222.4**	**24.4**	**246.8**	275.5	12.9	288.4
Profit on the sale of retail non-household business	5	**-**	**-**	**-**	89.5	-	89.5
Finance income[1]	6	**23.9**	**-**	**23.9**	12.3	-	12.3
Finance expense[1]	6	**(220.1)**	**-**	**(220.1)**	(230.2)	-	(230.2)
Net gain / (loss) on financial instruments	6	**6.8**	**-**	**6.8**	(12.4)	-	(12.4)
Income from investment	10	**108.9**	**-**	**108.9**	-	-	-
Profit on ordinary activities before taxation		**141.9**	**24.4**	**166.3**	134.7	12.9	147.6
Tax credit/(charge) on profit on ordinary activities	7	**0.9**	**(1.4)**	**(0.5)**	(12.0)	(2.5)	(14.5)
Profit for the period		**142.8**	**23.0**	**165.8**	122.7	10.4	133.1

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

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and so we have disclosed our underlying performance separately in line with our financial covenants. Information on how the Company accounts for this arrangement is detailed in the accounting policies.

The accounting policies and notes on pages 7 to 43 are an integral part of these condensed financial statements.

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9. Additionally, finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £38.0 million for the restated six month period ended 30 September 2017.

Condensed statement of other comprehensive income

For the six month period ended

		30 September 2018			Restated[1] 30 September 2017		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Profit for the period		**142.8**	**23.0**	**165.8**	122.7	10.4	133.1
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial gain on pension schemes	17	**31.4**	**-**	**31.4**	44.0	-	44.0
Deferred tax on net actuarial (gains)	15	**(5.3)**	**-**	**(5.3)**	(7.5)	-	(7.5)
Current tax on pension contributions in excess of pension cost charge	7	**1.4**	**-**	**1.4**	-	-	-
Deferred tax on pension contributions in excess of pension cost charge	15	**(4.2)**	**-**	**(4.2)**	-	-	-
May be reclassified to the income statement:							
Gains on cash flow hedges		**1.8**	**-**	**1.8**	10.7	-	10.7
Cash flow hedges transferred to income statement		**13.7**	**-**	**13.7**	9.6	-	9.6
Deferred tax (charge) on cash flow hedges	15	**(2.6)**	**-**	**(2.6)**	(3.4)	-	(3.4)
Other comprehensive income for the period		**36.2**	**-**	**36.2**	53.4	-	53.4
Total comprehensive income for the period		**179.0**	**23.0**	**202.0**	176.1	10.4	186.5

The accounting policies and notes on pages 7 to 43 are an integral part of these condensed financial statements.

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and so we have disclosed our underlying performance separately in line with our financial covenants. Information on how the Company accounts for this arrangement is detailed in the accounting policies.

[1] The impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 13.

Condensed statement of financial position

As at

	Note	30 September 2018 Underlying £m	BTL £m	Total £m	Restated[1] 31 March 2018 Underlying £m	BTL £m	Total £m	Restated[1] 1 April 2017 Underlying £m	BTL £m	Total £m
Non-current assets										
Intangible assets		**190.2**	**-**	**190.2**	168.6	-	168.6	140.5	-	140.5
Property, plant and equipment	9	**14,971.2**	**-**	**14,971.2**	14,675.3	-	14,675.3	14,094.5	-	14,094.5
Investment in subsidiaries	10	**207.8**	**-**	**207.8**	0.1	-	0.1	0.1	-	0.1
Derivative financial assets	14	**70.7**	**-**	**70.7**	59.3	-	59.3	83.6	-	83.6
Intercompany loans receivable		**2,274.7**	**-**	**2,274.7**	2,274.7	-	2,274.7	2,274.7	-	2,274.7
Trade and other receivables	11	**3.0**	**80.5**	**83.5**	4.0	56.7	60.7	2.8	30.4	33.2
		17,717.6	**80.5**	**17,798.1**	17,182.0	56.7	17,238.7	16,596.2	30.4	16,626.6
Current assets										
Inventories and current intangible assets		**15.5**	**-**	**15.5**	18.1	-	18.1	21.7	-	21.7
Assets held for sale		**-**	**-**	**-**	-	-	-	1.0	-	1.0
Intercompany loans receivable		**32.4**	**-**	**32.4**	17.9	-	17.9	16.8	-	16.8
Contract assets	11	**222.3**	**0.7**	**223.0**	225.5	0.4	225.9	247.4	0.4	247.8
Trade and other receivables	11	**784.5**	**15.6**	**800.1**	390.6	5.0	395.6	386.8	2.6	389.4
Short term investments		**3.0**	**-**	**3.0**	-	-	-	1.0	-	1.0
Cash and cash equivalents		**50.7**	**7.4**	**58.1**	104.4	2.6	107.0	52.7	3.8	56.5
		1,108.4	**23.7**	**1,132.1**	756.5	8.0	764.5	727.4	6.8	734.2
Current liabilities										
Contract liabilities	12	**(536.3)**	**(12.5)**	**(548.8)**	(125.3)	(4.1)	(129.4)	(125.3)	(0.2)	(125.5)
Trade and other payables	12	**(669.7)**	**(11.8)**	**(681.5)**	(667.3)	(5.1)	(672.4)	(788.4)	(6.4)	(794.8)
Borrowings	13	**(474.1)**	**-**	**(474.1)**	(320.2)	-	(320.2)	(383.4)	-	(383.4)
Derivative financial liabilities	14	**-**	**-**	**-**	(12.3)	-	(12.3)	(23.8)	-	(23.8)
		(1,680.1)	**(24.3)**	**(1,704.4)**	(1,125.1)	(9.2)	(1,134.3)	(1,320.9)	(6.6)	(1,327.5)
Net current (liabilities) / assets		**(571.7)**	**(0.6)**	**(572.3)**	(368.6)	(1.2)	(369.8)	(593.5)	0.2	(593.3)
Non-current liabilities										
Contract liabilities	12	**(613.7)**	**-**	**(613.7)**	(589.9)	-	(589.9)	(536.1)	-	(536.1)
Borrowings	13	**(11,317.0)**	**-**	**(11,317.0)**	(11,123.0)	-	(11,123.0)	(10,423.5)	-	(10,423.5)
Derivative financial liabilities	14	**(789.2)**	**-**	**(789.2)**	(809.1)	-	(809.1)	(900.7)	-	(900.7)
Deferred tax	15	**(901.2)**	**-**	**(901.2)**	(897.3)	-	(897.3)	(856.9)	-	(856.9)
Provisions for liabilities and charges	16	**(108.8)**	**-**	**(108.8)**	(111.3)	-	(111.3)	(112.5)	-	(112.5)
Retirement benefit obligations	17	**(278.1)**	**-**	**(278.1)**	(300.8)	-	(300.8)	(379.8)	-	(379.8)
		(14,008.0)	**-**	**(14,008.0)**	(13,831.4)	-	(13,831.4)	(13,209.5)	-	(13,209.5)
Net assets		**3,137.9**	**79.9**	**3,217.8**	2,982.0	55.5	3,037.5	2,793.2	30.6	2,823.8
Equity										
Called up share capital		**29.0**	**-**	**29.0**	29.0	-	29.0	29.0	-	29.0
Share premium		**100.0**	**-**	**100.0**	100.0	-	100.0	100.0	-	100.0
Cash flow hedge reserve		**(126.0)**	**-**	**(126.0)**	(138.9)	-	(138.9)	(222.4)	-	(222.4)
Revaluation reserve		**1,005.2**	**-**	**1,005.2**	1,021.2	-	1,021.2	1,053.1	-	1,053.1
Retained earnings		**2,129.7**	**79.9**	**2,209.6**	1,970.7	55.5	2,026.2	1,833.5	30.6	1,864.1
Total equity		**3,137.9**	**79.9**	**3,217.8**	2,982.0	55.5	3,037.5	2,793.2	30.6	2,823.8

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies.

The accounting policies and notes on pages 7 to 43 are an integral part of these condensed financial statements.

The condensed financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 28 November 2018 and signed on its behalf by:

Brandon Rennet

Chief Financial Officer

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9.

Condensed statement of changes in equity
For the six month period ended

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	**Total equity £m**
1 April 2017	29.0	100.0	(222.4)	1,053.1	1,964.1	**2,923.8**
Restatement for IFRS 15[1]	-	-	-	-	(100.0)	**(100.0)**
Restated 1 April 2017	29.0	100.0	(222.4)	1,053.1	1,864.1	**2,823.8**
Profit for the period	-	-	-	-	133.1	**133.1**
Gain on cash flow hedge	-	-	10.7	-	-	**10.7**
Cash flow hedges transferred to income statement	-	-	9.6	-	-	**9.6**
Deferred tax charge on cash flow hedge gain	-	-	(3.4)	-	-	**(3.4)**
Actuarial gain on pension scheme	-	-	-	-	44.0	**44.0**
Deferred tax charge on actuarial gain	-	-	-	-	(7.5)	**(7.5)**
Total comprehensive income	-	-	16.9	-	169.6	**186.5**
Transfer of depreciation	-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer	-	-	-	3.2	(3.2)	**-**
Dividends paid	-	-	-	-	(26.0)	**(26.0)**
Restated 30 September 2017	29.0	100.0	(205.5)	1,037.1	2,023.7	**2,984.3**
1 April 2017	29.0	100.0	(222.4)	1,053.1	1,964.1	**2,923.8**
Restatement for IFRS 15[1]	-	-	-	-	(100.0)	**(100.0)**
Restated 1 April 2017	29.0	100.0	(222.4)	1,053.1	1,864.1	**2,823.8**
Profit for the period	-	-	-	-	123.8	**123.8**
Gain on cash flow hedge	-	-	16.3	-	-	**16.3**
Cash flow hedges transferred to income statement	-	-	84.3	-	-	**84.3**
Deferred tax charge on cash flow hedge gain	-	-	(17.1)	-	-	**(17.1)**
Actuarial gain on pension scheme	-	-	-	-	74.0	**74.0**
Deferred tax charge on actuarial gain	-	-	-	-	(12.6)	**(12.6)**
Total comprehensive income	-	-	83.5	-	185.2	**268.7**
Transfer of depreciation	-	-	-	(38.4)	38.4	**-**
Deferred tax on depreciation transfer	-	-	-	6.5	(6.5)	**-**
Dividends paid	-	-	-	-	(55.0)	**(55.0)**
Restated 31 March 2018	29.0	100.0	(138.9)	1,021.2	2,026.2	**3,037.5**
Profit for the period	-	-	-	-	165.8	**165.8**
Gain on cash flow hedge	-	-	1.8	-	-	**1.8**
Cash flow hedge transfer to the income statement	-	-	13.7	-	-	**13.7**
Deferred tax on cash flow hedge	-	-	(2.6)	-	-	**(2.6)**
Actuarial gain on pension scheme	-	-	-	-	31.4	**31.4**
Current tax on pension contributions in excess of pension cost charge	-	-	-		1.4	**1.4**
Deferred tax on pension contributions in excess of pension cost charge	-	-	-	-	(4.2)	**(4.2)**
Deferred tax on actuarial gain	-	-	-	-	(5.3)	**(5.3)**
Total comprehensive income	-	-	12.9	-	189.1	**202.0**
Restatement for IFRS 9[1]	-	-	-	-	(26.2)	**(26.2)**
Deferred Tax on IFRS 9 restatement	-	-	-	-	4.5	**4.5**
Transfer of depreciation	-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer	-	-	-	3.2	(3.2)	**-**
30 September 2018	29.0	100.0	(126.0)	1,005.2	2,209.6	**3,217.8**

The accounting policies and notes on pages 7 to 43 are an integral part of these condensed financial statements.

[1] The impact of the transition to new accounting standards, IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ on 1 April 2018 has been discussed on pages 9 to 14.

Condensed statement of cash flows

For the six month period ended

	30 September 2018			Restated[1] 30 September 2017		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Operating activities:						
Profit on ordinary activities after taxation	142.8	23.0	165.8	122.7	10.4	133.1
Less profit on sale of retail non-household business	-	-	-	(89.5)	-	(89.5)
Less investment income	(108.9)	-	(108.9)	-	-	-
Less finance income	(23.9)	-	(23.9)	(12.3)	-	(12.3)
Add finance expense	220.1	-	220.1	230.2	-	230.2
Add loss on fair value of financial instruments	(6.8)	-	(6.8)	12.4	-	12.4
Add taxation on profit on ordinary activities	(0.9)	1.4	0.5	12.0	2.5	14.5
Operating profit	**222.4**	**24.4**	**246.8**	275.5	12.9	288.4
Depreciation on property, plant and equipment	258.1	-	258.1	244.1	-	244.1
Amortisation of intangible assets	10.7	-	10.7	15.1	-	15.1
Less (gain) / add loss on sale of property, plant and equipment	(0.8)	-	(0.8)	0.3	-	0.3
Difference in pension charge and cash contribution	5.5	-	5.5	8.0	-	8.0
Increase / (decrease) in inventory	2.6	-	2.6	(6.1)	-	(6.1)
Increase in contract assets	(2.2)	(0.7)	(2.9)	44.4	-	44.4
Increase in trade and other receivables	(388.2)	(34.0)	(422.2)	(458.9)	(20.4)	(479.3)
Increase in contract liabilities	498.8	-	498.8	420.8	-	420.8
Decrease in trade and other payables	(83.6)	15.1	(68.5)	(44.1)	7.5	36.6
(Decrease) / Increase in provisions	(2.5)	-	(2.5)	5.3	-	5.3
Net cash generated by operating activities	**520.8**	**4.8**	**525.6**	504.4	-	504.4
Investing activities:						
Increase in current asset investments	(3.0)	-	(3.0)	(0.5)	-	(0.5)
Purchase of property, plant and equipment	(538.2)	-	(538.2)	(535.8)	-	(535.8)
Purchase of intangible assets	(32.4)	-	(32.4)	(20.7)	-	(20.7)
Proceeds from sale of property, plant and equipment	0.8	-	0.8	7.8	-	7.8
Interest received	9.6	-	9.6	1.2	-	1.2
Investment in subsidiary	(7.5)	-	(7.5)	-	-	-
Net cash used in investing activities	**(570.7)**	**-**	**(570.7)**	(548.0)	-	(548.0)
Financing activities:						
New loans raised	207.1	-	207.1	982.5	-	982.5
Repayment of borrowings	(33.3)	-	(33.3)	(772.6)	-	(772.6)
Derivative paydown	(13.4)	-	(13.4)	(29.9)	-	(29.9)
Interest paid	(164.2)	-	(164.2)	(140.0)	-	(140.0)
Dividends paid	-	-	-	(26.0)	-	(26.0)
Net cash used in financing activities	**(3.8)**	**-**	**(3.8)**	14.0	-	14.0
Net (decrease)/increase in cash and cash equivalents	(53.7)	4.8	(48.9)	(29.6)	-	(29.6)
Net cash and cash equivalents at beginning of period	104.4	2.6	107.0	52.7	3.8	56.5
Net cash and cash equivalents at end of period	**50.7**	**7.4**	**58.1**	23.1	3.8	26.9

No additions to property, plant and equipment during the period, or the immediately preceding period, were financed through new finance leases.

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies.

The accounting policies and notes on pages 7 to 43 form an integral part of these condensed financial statements.

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9. Additionally, finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps.

Accounting policies

General information

Thames Water Utilities 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").

Statement of compliance with International Financial Reporting Standards

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

The auditor's report on those financial statements was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing to records and returns), or section 498(3) (failure to obtain necessary information and explanations).

The policies applied in these condensed interim financial statements are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective and ratified by the EU as of 28 November 2018, the date that the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that became effective and are adopted for 31 March 2019 could result in revisions to accounting policies applied in these interim financial statements, and if applicable, the opening balance sheet included herein.

Principal risks and uncertainties

During the six months ended 30 September 2018, there have been no significant changes to the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements of the Company for the year ended 31 March 2018.

As the UK Government completes the final stages of negotiating withdrawal from the EU ('Brexit'), and the country enters into a transition phase following any or no agreement, the potential deterioration in the risk environment over the next 12 months is heightened. In order to provide an uninterrupted service to our customers, we continue to identify and manage Brexit exposures within our principal risks, through our business planning and performance management processes, focussing on key drivers that include possible changes to the UK political landscape and business arrangements linked to freedoms of the EU: free movement of goods (source, procure and / or import at a sustainable rate commodities, e.g. key chemicals, and / or equipment), services (source and retain expertise / knowledge) and people (ability to source and / or retain skilled and unskilled employees, including within the supply chain). As part of our full year reporting the potential medium and long-term consequences of Brexit, (as above and including possible changes to the regulatory and legislative obligations we are expected to meet and ability to raise investment through traditional funding routes), will form part of our viability assessment and inform the outlook of our principal risks and uncertainties.

Basis of preparation

The condensed interim financial statements for the six months ended 30 September 2018, set out on pages 2 to 6, 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.

The Company has exercised the exemption under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as the Company and its subsidiaries are included within the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, an entity registered in the United Kingdom.

These condensed interim financial statements present information about the Company as an individual undertaking and not about its group.

Accounting policies (continued)

Bazalgette Tunnel Limited ("BTL") arrangement

Bazalgette Tunnel Limited ("BTL") is an independent company that was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and so we have disclosed our underlying performance separately.

The arrangement with BTL means the Company has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers during the period ended 30 September 2018. As cash is collected, these amounts are subsequently paid to BTL, under the pay when paid principle.

Accounting standards require the Company to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable. This non-appointed revenue and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue and resulting profit on this arrangement has been disclosed separately to the Company's underlying performance in the Financial Statements. As a result of this arrangement with no cash retained, a prepayment is created and recorded by the Company as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

New accounting policies and financial reporting changes

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

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

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

IFRS 16 *Leases* replaces IAS 17 *Leases* and related interpretations and sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. Under the provisions of IFRS 16, most leases, including those previously classified as operating leases, will be recognised in the statement of financial position as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 *Property, Plant and Equipment* and the liability increased for the accretion of interest and reduced by lease payments.

Management anticipates that the Company will adopt this standard on its effective date and has no plans for early adoption. In considering the transition options available under IFRS 16, it is likely that the Company will adopt the fully retrospective method which has the advantage of having, in the first reporting period, a comparative period prepared on the same basis.

Management have substantially completed the project to assess the impact of the implementation of IFRS 16 on the Company. The work performed to date has indicated that there will be a material impact to the statement of financial position primarily due to the Company's property lease portfolio. Initial assessments of the Company's property leases, estimate an additional aggregate lease liability of at least £65 million under the fully retrospective method, will be recognised on transition to the new standard. We will continue to review relevant contracts during the period to adoption.

The Company is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio. A risk that this covenant may be breached in future has been identified. As this change in accounting standard is outside of the control of the Company, management will address the risk of covenant breach through either limiting the execution of new lease liabilities, ensuring that some liabilities are classified as secured debt or seeking approval for an amendment to the covenant calculations.

The actual impact of applying IFRS 16 will depend on the composition of the Company's lease portfolio at the adoption date and the extent to which the Company chooses to use practical expedients and recognition exemption. It is anticipated that under IFRS 16, the Company will continue to account for short-term (under 12 months) and immaterial leases on the same basis as is required for operating leases under IAS 17. That is, recognising the lease payments as an expense on a straight-line basis over the lease term.

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

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year, with the exception of the policies noted below that have been adopted from 1 April 2018;

New accounting policies and financial reporting changes (continued)

Revenue recognition

The core principle of IFRS 15 “Revenue from Contracts with Customers” requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer.

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable based on historic experience, is excluded from IFRS 15 revenue to ensure revenue is recorded at the amount which the Company expects to receive, for providing its services to customers

The following services are recorded within “Revenue” in the Income Statement since they relate to our obligation as a water and wastewater services provider to provide these services to our customers:

Water and wastewater services

As an appointed water and wastewater services provider, the Company has an ongoing obligation to provide water and wastewater services to customers in its statutory supply area. The Company is obligated to provide a continuous supply of services across the entire network, and so customers simultaneously receive and consume the benefits in line with the Company performing its obligation.

The Company recognises revenue for water and wastewater services in the amount which it has a right to receive, since this amount is considered by management to correspond directly with the value to the customer of the Company’s performance to date. This accounting treatment is an application of the practical expedient given in paragraph B16 of IFRS 15.

For unmetered customers, the amount of consideration to which the Company has the right to receive is determined by the rateable value of the customer’s property, as assessed by an independent rating officer, such that revenue is recognised on a straight line basis over the course of the financial year.

For metered customers, the amount of consideration which the Company has the right to receive is determined by actual usage, derived from meter readings. Revenue includes an estimate of the amount of mains water and wastewater charges unbilled to metered customers at the period end, which are recorded within contract assets.

IFRS 15 usually requires the disclosure of the aggregate amount of revenue which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting period. In other words, the aggregate amount of future revenues from existing ongoing contracts. Management consider that such an amount cannot be reliably estimated, primarily because the Company’s obligation to supply customers with water and wastewater services will continue in perpetuity. The Company has applied the practical expedient, given in paragraph 121(b) of IFRS 15, not to disclose this amount in relation to water and wastewater charges.

There is no impact on the recognition of water and wastewater services as a result of the adoption of IFRS 15.

The following services are recorded within “Other Operating Income” in the Income Statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Requisitions

The Company may be contracted by customers in its statutory supply area to provide a new water main or new sewer, this is known as a requisition. These services are usually provided to property developers and are each considered by management to be distinct performance obligations. Requisition income is recognised in other operating income over the period of service by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. Requisitions are recorded within contract liabilities (deferred income).

There is no impact on the recognition of income from requisitions as a result of the adoption of IFRS 15.

Service connections

A service connection includes the provision of a connection to an existing water main or sewer, laying a pipe to the boundary of a customer’s property and connecting to their supply pipe. Management consider that the combination of these activities comprise of a distinct performance obligation to the customer. Service connection income is recognised in other operating income at the point in time that the service is complete.

There is no material impact on the recognition of income from service connections as a result of the adoption of IFRS 15.

Diversions

The Company may be contracted by customers in its statutory supply area to relocate a pipe which is already in the ground, this is known as a diversion. Charges for diversions are recognised in other operating income over the period of service by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer.

There is no impact on the recognition of income from diversions as a result of the adoption of IFRS 15.

New accounting policies and financial reporting changes (continued)

Revenue recognition (continued)

Income from Infrastructure charges

The Company applies infrastructure charges to a developer when the Company provides a first-time supply of water and/or wastewater services for a property. These charges cover the investment needed to meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure (excluding treatment works).

Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. Furthermore, it is considered that the value delivered to the customer by the Company's investment is delivered over the life of the associated asset. As a result, the Company recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset. Deferred infrastructure charges are recorded within contract liabilities (deferred income).

Infrastructure charges were previously recognised over a 30 year period. As a result of the adoption of IFRS 15, the period has changed to be consistent with our depreciation policy in respect of the associated asset. The assets and their respective estimated useful life are as follows:

Network assets	**Years**
Wastewater network assets	150
Water network assets	80-100

Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money. Amounts are collected before the services are provided because the regulations require payment to be made by the initial customer or developer. The amounts collected do not provide a significant financing benefit.

There is an impact on the recognition of income from infrastructure charges as a result of the adoption of IFRS 15 and this has been discussed in the "Transition to new IFRSs" section on pages 12 to 13.

Adoptions

As an appointed water and sewerage undertaker, the Company may be required to adopt an asset, such as a sewer or pumping station, which has been constructed by a customer. On adoption, the asset becomes part of the Company's water/wastewater network and is maintained at the Company's expense. Management consider that this is an exchange transaction in which the performance obligation is the ongoing and future maintenance of the asset, and the consideration transferred by the customer is the asset itself.

Adopted assets are recognised in property, plant and equipment at their fair value at the time of transfer. The associated consideration on transfer is recognised in other operating income on a straight line basis over the life of the asset. Deferred revenue in relation to adopted assets is recorded within contract liabilities.

The contract does not contain a financing component because the timing of the consideration transferred by the customer does not provide the Company with a significant benefit of financing its performance obligation. Accordingly, no adjustment is made for the time value of money.

There is no impact on the recognition of adopting an asset as a result of the adoption of IFRS 15.

Financial instruments

The Company has adopted IFRS 9 'Financial Instruments: Recognition and Measurement' as at 1 April 2018 and applied the new rules using a modified retrospective approach, including the practical expedients permitted in the standard, where applicable. The Company has undertaken an assessment of our accounting policy as a result of the changes in the standard:

Classification and measurement

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

Trade receivables will continue to be measured at amortised cost as they are held to collect contractual cash flows which represent solely payment of principal and interest, in accordance with the Company's business model.

There is no impact on classification and measurement of financial liabilities as the new requirements only affect the accounting for financial liabilities which are designated at fair value through profit and loss, of which the Company has none. However, the International Accounting Standards Board ("IASB") has confirmed that under IFRS 9 when a financial liability measured at amortised cost is modified and does not result in de-recognition, a gain or loss should be recognised in the income statement.

New accounting policies and financial reporting changes (continued)

Financial instruments (continued)

Impairment methodology

Financial assets

IFRS 9 introduces a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses, as was required under IAS 39. Management has assessed the impact on trade receivables and contract assets and concluded that there is no significant change in the Group's impairment methodology as most of our receivables are short term, and therefore no material impact on the provision for losses against trade receivables presented in the financial statements.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

Hedge accounting

IFRS 9 provides increased flexibility for hedge accounting, introducing a new, simpler hedge accounting model with a principles-based approach designed to align the accounting result with the economic hedging strategy. The Company currently uses cash flow hedge relationships to hedge interest rate risk on borrowings. Management has confirmed that the current hedge relationships continue to qualify as hedges following the adoption of IFRS 9.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently and in all circumstances an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Transition to new IFRSs

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

Transition approach

IFRS 15 'Revenue from Contracts with Customers' addresses the recognition of revenue and replaces IAS 18 'Revenue' and IFRIC 18 'Transfer of Assets from Customers'. The Company has adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively. As a result, the Company has restated comparatives for the 2017 financial year, including the practical expedients permitted in the standard.

The standard requires the identification of performance obligations in contracts with customers and allocation of the total contractual value to each of the performance obligations identified. Revenue is recognised as each performance obligation is satisfied either at a point in time or over time.

Adjustments

As discussed in the accounting policies section on pages 9 to 10, the Company now recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings. The adjustment has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years.

In addition, in accordance with IFRS 15, we have made a re-classification for amounts relating to contract assets and liabilities. These adjustments have been presented in the table below.

In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application, 1 April 2017:

	Note	IAS 18 Carrying Amount * As previously stated 31 March 2017 £m	Re-measurement £m	Re-classification £m	IFRS 15 Carrying Amount * 1 April 2017 £m
Current assets					
Trade and other receivables	22	637.2	-	(247.8)	389.4
Contract assets	22	-	-	247.8	247.8
Subtotal		**637.2**	**-**	**-**	**637.2**
Current liabilities					
Trade and other payables	22	931.0	(10.7)	(125.5)	794.8
Contract liabilities	22	-	-	125.5	125.5
Subtotal		**931.0**	**(10.7)**	**-**	**920.3**
Non-current liabilities					
Trade and other payables	22	404.9	131.2	(536.1)	-
Contract liabilities	22	-	-	536.1	536.1
Deferred tax	22	877.4	(20.5)	-	856.9
Subtotal		**1,282.3**	**110.7**	**-**	**1,393.0**

Transition to new IFRSs (continued)

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

Adjustments (continued)

The following adjustments were made to the amounts recognised in the statement of financial position at the date of the previous set of financial statements, 31 March 2018:

	Note	IAS 18 Carrying Amount * As previously stated 31 March 2018 £m	Re-measurement £m	Re-classification £m	IFRS 15 Carrying Amount * 1 April 2018 £m
Current assets					
Trade and other receivables	11, 22	621.5	-	(225.9)	395.6
Contract assets	11, 22	-	-	225.9	225.9
Subtotal		**621.5**	**-**	**-**	**621.5**
Current liabilities					
Trade and other payables	12, 22	813.3	(11.5)	(129.4)	672.4
Contract liabilities	12, 22	-	-	129.4	129.4
Subtotal		813.3	(11.5)	-	801.8
Non-current liabilities					
Trade and other payables	12, 22	446.0	143.9	(589.9)	-
Contract liabilities	12, 22	-	-	589.9	589.9
Deferred tax	15, 22	919.8	(22.5)	-	897.3
Subtotal		**1,365.8**	**121.4**	**-**	**1,487.2**

* The amounts in this column are before the adjustments from the adoption of IFRS 9.

The impact on the group's total equity is as follows:

	Note	1 April 2018 £m	1 April 2017 £m
Total equity – before IFRS 15 restatement		**(3,147.4)**	**(2,923.8)**
Decrease in cumulative infrastructure charges recognised in other operating income	22	132.4	120.5
Decrease in cumulative taxation on profit/loss on ordinary activities	22	(22.5)	(20.5)
Opening total equity 1 April – after IFRS 15 restatement		**(3,037.5)**	**(2,823.8)**

Transition to new IFRSs (continued)

IFRS 9 'Financial Instruments' applicable from 1 April 2018

Transition approach

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

Adjustments

During December 2016, a £400 million Class A Puttable, Callable, Resettable ("PCR") bond issued by Thames Water Utilities Cayman Finance Limited ("TWUCF") with a final maturity of 9 April 2058 was exchanged for a new £400 million Class A 2058 bond with the same final maturity. In turn a PCR bond issuance related intercompany loan from TWUCF to TWUL was also exchanged for a new intercompany loan with a final maturity of 9 April 2058. On adoption of IFRS 9, a loss of £26.2 million related to the intercompany loan exchange has been recognised within retained earnings.

Derivative assets and liabilities have continued to be recognised at fair value with movements recognised in the income statement or the cash flow hedge reserve where the instrument has been designated in a hedge relationship.

In summary, the following adjustments were recognised in the statement of financial position at the date of transition, 1 April 2018:

		IAS 39 Carrying Amount*		**IFRS 9 Carrying Amount***
		As previously stated		
		31 March 2018	**Re-measurement**	**1 April 2018**
	Note	**£m**	**£m**	**£m**
Non-current liabilities				
Borrowings	13	(11,123.0)	(26.2)	(11,149.2)
Deferred Tax	15	(919.8)	4.5	(915.3)
Subtotal		**(12,042.8)**	**(21.7)**	**(12,064.5)**
Equity				
Retained earnings		2,136.1	(21.7)	2,114.4
Subtotal		**2,136.1**	**(21.7)**	**2,114.4**

* The amounts in this column are before the adjustments from the adoption of IFRS 15.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Annual Report and Financial Statements for the year ended 31 March 2018 with the exception of the items noted below; which have been updated following transition to IFRS 15 'Revenue from Contracts with Customers'.

Connections, requisitions and diversions

Management consider these types of income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer.

The performance obligation is to extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer.

In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and Thames will have a present right to payment for work performed to date.

The charges are standalone and are not reflective of the ongoing obligation to supply the occupants of the newly connected properties. Supply to the occupants is charged on a standalone basis. This supports the decision not to defer connections/requisitions charges beyond completion of the service to the developer.

Infrastructure charges

Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Unbilled revenue

The core principle of IFRS 15 "Revenue from Contracts with Customers" requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. Bad debt on bills raised in the year, which are considered uncollectable based on historic experience, is excluded form IFRS 15 revenue to ensure revenue is recorded at the amount which the Company expects to receive.

The Company raises bills in accordance with its entitlement to receive revenue in line with the limits established by the Price Review. For water and wastewater customers with water meters, the amount recognised depends on the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the financial reporting date. Amounts recognised within revenue but unbilled at the financial reporting date are included within contracts assets. Meters are read on a cyclical basis and the Company recognises revenue for unbilled amounts based on estimated usage from the last billing to the financial reporting date. The estimated usage is based on historical data and other assumptions including seasonality. The unbilled revenue for the six month period ended 30 September 2018 was £210.9 million (31 March 2018: £218.7 million) as shown in Note 9.

Where actual results differ from estimates used, revenue is adjusted in the period for which the revision to the estimate is determined.

Arrangement with Bazalgette Tunnel Limited ("BTL")

BTL is the independent licenced utility company appointed to construct the Thames Tideway Tunnel. Under the terms of BTL's licence, BTL will earn and collect revenues by charging the Company for its services. The Company will subsequently charge these amounts to its wastewater customers (based on modifications to the Company's licence). Judgement has been exercised in assessing whether the Company is acting as principal or agent in its relationship with BTL.

Under IFRS 15 an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself, or to arrange for them to be provided by another party. The Company is deemed to have primary responsibility for providing the 'end to end' services relating to the disposal of waste from its wastewater customers from collection, transportation (through the existing infrastructure and the Thames Tideway Tunnel) to the processing in the Company's sewage treatment plants. The Company continues to charge its wastewater customers for the end-to-end waste management service and the BTL element will not be separately reflected.

Additionally, the Company, as the sole user of the Tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the Tunnel). These risks include reputational risks. Management therefore consider the Company is operating as principal in the relationship with BTL.

Notes to the condensed financial statements

1. Liquidation of Cayman Islands entities

During 2017/18, the Company announced its decision to close down its Cayman Islands Subsidiaries, Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH").

In order to facilitate the closure, the assets and liabilities of Thames Water Utilities Cayman Finance Limited were transferred to the Company's UK financing company, Thames Water Utilities Finance plc ("TWUF"). To achieve this, the Company increased its investment in TWUF by £207.7 million on 31 July 2018. Further information of this additional investment is included in Note 10 Investment in Subsidiaries.

The assets and liabilities held by TWUCF were transferred to TWUF at fair value on 31 August 2018. The difference between the carrying value and fair value has resulted in recognition of non-recurring, non-cash investment income of £108.9 million within the Company. This investment income does not bring any cash benefit to the Group or the Company, and is purely a result of the accounting associated with the closure of the companies.

As at 30 September 2018, the Cayman Islands entities are no longer subsidiaries of the Company but exist as non-active companies within the Group. They will be formally dissolved in early 2019.

A timeline of the liquidation process is summarised below:

Timeline	**Date**
Announcement of closure of Cayman Islands entities	23 November 2017
Additional investment in Thames Water Utilities Finance plc of £207.7 million (Note 10, Note 13)	31 July 2018
Transfer of assets and liabilities from Thames Water Utilities Cayman Finance Limited to Thames Water Utilities Finance plc	31 August 2018
Non-recurring, non-cash investment income of £108.9 million recognised in Thames Water Utilities Limited (Note 10)	26 September 2018
Disposal of Thames Water Utilities Cayman Finance Holdings Limited (and indirect disposal of Thames Water Utilities Cayman Finance Limited)	27 September 2018
Cayman Islands entities entered liquidation	27 September 2018
Liquidation and subsequent closure of Cayman Islands entities to be completed	Early 2019

Notes to the condensed financial statements (continued)

2. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Group.

In the prior year, the Company's structure consisted of three principal business segments which were Retail, Water and Wastewater. In April 2018, the Company implemented an internal reorganisation and as such has modified its operating structure. "One Thames" moved all operational functions into a single business unit, enabling an end-to-end view of customer journeys and integrated resource management.

As such, the way in which the Group reports its results has changed. The reporting segments have been updated accordingly to reflect the new way in which the Company reports its financial information internally to the CODM. We have also restated prior year information as a result of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers'. The impact on the transition to IFRS 15 has been discussed on pages 9 to 13.

From 1 April 2017, our customer profile changed following the sale of our non-household retail business to Castle Water Limited. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer. There are now a smaller number of non-household customers, being retailers rather than the end user.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water and wastewater services within a defined geographical region, being London, the Thames Valley and the surrounding area, therefore management considers the UK to be the geographical location of business.

Segmental performance

Management revenue and EBITDA figures are presented below;

Six months ended	**30 September 2018**	Restated[1] 30 September 2017
	£m	£m
External revenue excluding BTL	1,014.3	1,040.9
Total management revenue	1,014.3	1,040.9
Net operating expenses before depreciation and amortisation	(546.4)	(525.0)
Income from sale of Property, Plant and Equipment and the sale of the non-household business	1.8	96.2
Management earnings before interest, tax, depreciation and amortisation (EBITDA)	469.7	612.1

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior period as a result of the transition to IFRS 9.

Notes to the condensed financial statements (continued)

2. Segmental analysis (continued)

Revenue and EBITDA – Management to statutory reconciliation

The business segments' revenue is reconciled to the Company's statutory revenue below:

Six months ended	30 September 2018 £m	Restated[1] 30 September 2017 £m
Management revenue	1,014.3	1,040.9
Statutory reclassification of bad debt from operational expenditure[1]	(13.2)	(11.0)
Household BTL revenue	20.3	10.3
Non-household BTL revenue	4.2	2.6
Total statutory revenue	1,025.6	1,042.8

The business segments' EBITDA is reconciled to the Company's statutory operating profit and Profit before tax below:

Six months ended	30 September 2018 £m	Restated[1] 30 September 2017 £m
Management EBITDA	469.7	612.1
Depreciation of property, plant and equipment	(254.2)	(233.3)
Amortisation of intangible assets	(10.7)	(14.3)
Management EBIT	204.8	364.5
IFRS 15 adjustment[1]	-	(6.0)
Statutory recognition of other operating income[2]	26.9	33.3
Statutory reclassification of pension costs	(5.5)	(8.0)
Statutory depreciation and write off adjustments[3]	(3.9)	(29.9)
Household BTL revenue[4]	20.3	10.3
Non-household BTL revenue[4]	4.2	2.6
Profit on sale of the retail non-household business[5]	-	(89.5)
Release of an accrual for statutory purposes[6]	-	10.0
Other statutory adjustments	-	1.1
Total statutory operating profit	246.8	288.4
Profit on the sale of retail non-household business[5]	-	89.5
Finance income[7]	23.9	12.3
Finance expense[7]	(220.1)	(230.2)
Net gain / (loss) on financial instruments	6.8	(12.4)
Investment income	108.9	-
Total statutory profit before tax	166.3	147.6

[1] The impact of the transition to new accounting standards, IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 13. The restated amount is in respect of transition to IFRS 15.
[2] Requisitions and diversion charges, service connection charges, amortisation of deferred income recognised on adoption of assets at nil cost and the release from deferred income of infrastructure charges as disclosed in Note 3. Recognition of infrastructure charges has been impacted by the transition to IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018. The impact has been discussed on pages 9 to 13.
[3] Depreciation of adopted fair value assets, borrowing costs and write-offs required for statutory purposes only.
[4] The portion of BTL revenue related to our household and non-household customers.
[5] Please refer to Note 5 for further information.
[6] Release of a management accrual not recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
[7] Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps.

Notes to the condensed financial statements (continued)

3. Revenue

	Six months ended 30 September 2018			Six months ended 30 September 2017		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Gross revenue	1,014.3	24.6	1,038.9	1,040.9	13.2	1,054.1
Charge for bad and doubtful debts	(13.2)	(0.1)	(13.3)	(11.0)	(0.3)	(11.3)
Total	**1,001.1**	**24.5**	**1,025.6**	1,029.9	12.9	1,042.8

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. For the six months ended 30 September 2018 the Company has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected it is paid over to BTL under the 'pay when paid' principle. The revenue on this arrangement, which is excluded from our key performance indicators, has been disclosed separately to the Company's underlying performance in the table above. The primary reason for the increase in revenue is driven by the phasing of construction works.

Notes to the condensed financial statements (continued)

3. Revenue (continued)

We have presented a further disaggregation of our revenue below:

Gross revenue for the six months ended	**30 September 2018 £m**	30 September 2017 £m
Household market		
Water services	**335.1**	321.6
Wastewater services	**422.4**	401.4
Retail services	**71.7**	86.1
Total gross revenue from household market	**829.2**	809.1
Non-household market		
Water services	**80.1**	107.2
Wastewater services	**81.8**	100.8
Retail services	**(0.3)**	-
Total gross revenue from non-household market	**161.6**	208.0
Gross revenue from principal services	**990.8**	1,017.1
Other appointed revenue	**11.4**	11.7
Total appointed revenue	**1,002.2**	1,028.8
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)	**12.1**	12.1
Total gross underlying revenue	**1,014.3**	1,040.9
Amounts billed for the Thames Tideway Tunnel	**24.6**	13.2
Total gross revenue	**1,038.9**	1,054.1

All revenue is derived from activities based in the UK.

Appointed revenue is revenue generated from the regulated activities of the Company as defined in Condition A of its licence of appointment. These are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991. Non-appointed revenue is revenue generated from non-appointed activities. These activities include third-party discharges to sewage treatment works and other commercial activities including property searches and cess treatment (treatment of waste from private receptacles not linked to the network).

The Company has recognised the following amounts relating to other operating income in the income statement:

	30 September 2018 £m	Restated[1] 30 September 2017 £m
Power income	6.3	4.7
Requisitions and diversions charges	12.2	12.4
Service connections charges	9.7	11.5
Amortisation of deferred income recognised on adoption of assets at nil cost	2.5	1.1
Release from deferred income – infrastructure charges[1]	2.5	2.2
Rental income	1.0	4.2
Profit / (loss) on property, plant and equipment	0.8	(0.3)
Other income	-	0.9
Total	**35.0**	36.7

Power income comprises income from the sale of internally generated electricity.

[1] The impact of the transition to new accounting standards, IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9.

4. Operating expenses

	Six months ended 30 September 2018 Underlying £m	BTL £m	Total £m	Six months ended 30 September 2017 Underlying £m	BTL £m	Total £m
Wages and salaries	119.4	-	119.4	106.3	-	106.3
Social security costs	13.9	-	13.9	11.8	-	11.8
Pension costs – defined benefit schemes	14.1	-	14.1	14.9	-	14.9
Pension costs – defined contribution schemes	5.1	-	5.1	3.8	-	3.8
Severance costs and apprenticeship levy	0.7	-	0.7	0.6	-	0.6
Total employee costs	153.2	-	153.2	137.4	-	137.4
Power	60.2	-	60.2	51.5	-	51.5
Carbon reduction commitment	2.7	-	2.7	2.8	-	2.8
Raw materials and consumables	29.7	-	29.7	26.6	-	26.6
Charge for bad and doubtful debts	14.8	0.1	14.9	14.8	-	14.8
Rates	58.2	-	58.2	58.1	-	58.1
Operating lease rental – plant and machinery	4.8	-	4.8	2.2	-	2.2
Operating lease rental – other	2.6	-	2.6	6.5	-	6.5
Research and development expenditure	1.7	-	1.7	1.4	-	1.4
Insurance	19.1	-	19.1	19.2	-	19.2
Legal and professional fees	19.3	-	19.3	10.1	-	10.1
Other operating costs	273.0	-	273.0	301.8	-	301.8
Own work capitalised	(94.7)	-	(94.7)	(100.5)	-	(100.5)
Net operating expenses before depreciation and amortisation	544.6	0.1	544.7	531.9	-	531,9
Depreciation of property, plant and equipment	258.4	-	258.4	244.1	-	244.1
Amortisation of intangible assets	10.7	-	10.7	15.1	-	15.1
Net operating expenses	813.7	0.1	813.8	791.1	-	791.1

Other operating costs primarily relate to costs for hired and contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditure under IAS 16: *Property, plant and equipment*.

Notes to the condensed financial statements (continued)

5. Profit on sale of non-household business

From 1 April 2017 the Water Act 2014 allows all non-household customers to choose their supplier of water and wastewater retail services. On 18 July 2016, we announced our decision to exit the non-household retail market, and transfer our non-household customers to Castle Water Limited from the date of market opening. On 1 April 2017 all non-household retail customers of Thames Water were transferred to Castle Water Limited which resulted in the recognition of a profit on sale of the business. The profit on sale of the business of £89.5 million has been recognised within the income statement, and consists of the amounts below:

	30 September 2018 £m	30 September 2017 £m
Proceeds	**-**	98.8
Legal fees	**-**	(1.3)
Asset impairment	**-**	(6.2)
Transfer/handover costs	**-**	(1.8)
Profit on sale of non-household business	**-**	89.5

6. Finance income and expense

During the six months ended 30 September 2018, the Company recognised finance income of £23.9 million (restated - six months ended 30 September 2017: £12.3 million) relating mainly to interest on intercompany loans, swap novation income and interest on bank deposits.

The Company also recognised finance expenses of £220.1 million (restated - six months ended 30 September 2017: £230.2 million) relating mainly to interest and accretion on loans, other borrowings and defined benefit pension obligations.

	Six months ended 30 September 2018 £m	Restated[1] Six months ended 30 September 2017 £m
Finance income	**23.9**	12.3
Finance expense	**(220.1)**	(230.2)
Net finance (expense)	**(196.2)**	(217.9)

[1] Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £38.0 million for the restated six month period ended 30 September 2017.

Net gains on financial instruments

The reconciliation to net gains on financial instruments has been provided below:

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Exchange (losses) / gains on foreign currency debt	**(19.0)**	10.7
Gain / (losses) arising on swaps where hedge accounting is not applied	**39.5**	(13.5)
Loss on cash flow hedge transferred from equity	**(13.7)**	(9.6)
Net gains / (losses) on financial instruments	**6.8**	(12.4)

7. Taxation

	30 September 2018			Restated[1] 30 September 2017		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Current tax:						
Amounts payable in respect of group relief	**2.8**	**1.4**	**4.2**	3.1	2.5	5.6
Deferred tax:						
Origination and reversal of timing differences	**(3.7)**	**-**	**(3.7)**	8.9	-	8.9
Tax (credit) / charge on profit on ordinary activities	**(0.9)**	**1.4**	**0.5**	12.0	2.5	14.5

The corporation tax charge is based upon the standard rate of corporation tax in the UK of 19% (2017: 19%). The deferred tax liability at 30 September 2018 was calculated based on the rate of 17% substantively enacted at the balance sheet date. The interim corporation tax charge for the six month period ended 30 September 2018 is based on the forecast effective tax rate for the full year to 31 March 2019 applied to the profits earned in the six months to 30 September 2018.

The current tax charge for the six month period ended 30 September 2018 is lower (2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	30 September 2018			Restated[1] 30 September 2017		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Profit on ordinary activities before taxation	**141.9**	**24.4**	**166.3**	134.7	12.9	147.6
Current tax at 19% (2017: 19%)	**27.0**	**4.6**	**31.6**	25.6	2.5	28.1
Effects of:						
Disallowable expenditure	**1.1**	**-**	**1.1**	2.5	-	2.5
Non-taxable income – non-cash investment income	**(20.7)**	**-**	**(20.7)**	-	-	-
Non-taxable income – other including property disposals	**(2.5)**	**-**	**(2.5)**	(2.5)	-	(2.5)
Group relief not paid at standard tax rate	**(6.3)**	**(3.2)**	**(9.5)**	(12.4)	-	(12.4)
Tax rate change on temporary timing differences	**0.5**	**-**	**0.5**	(1.2)	-	(1.2)
Total tax (credit) / charge	**(0.9)**	**1.4**	**0.5**	12.0	2.5	14.5

The Company intends to utilise tax losses available in its parent company for the year ended 31 March 2019. As a result, the Company intends to reduce its claims for tax relief on its capital expenditure in this period. The Company expects to pay £2.8 million to its parent company for the tax losses relating to the six months to 30 September 2018, which is shown in the income statement as a current tax charge in respect of the current year of £4.2 million and a current tax credit in OCI (Other Comprehensive Income) of £1.4 million. The Company is paying for the tax losses at a rate which is lower than the standard rate of corporation tax, which reflects the value of the tax losses to the Company. This results in a reduction of the current tax charge of £9.5 million and a reduction of the current tax credit in reserves of £3.2 million. Utilising tax losses in this way should ultimately benefit customers through lower tax funding in future regulatory settlements.

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

New legislation concerning the tax deductibility of interest from 1 April 2017 onwards was substantively enacted on 31 October 2017, retrospectively. This is not expected to have an impact on tax deductions within the Company, but may affect group companies, which in turn affects the group relief to be purchased by the Company and the capital allowances disclaimed. Had this legislation been enacted by 30 September 2017, the Company would have reduced its current tax charge for group relief by £1.8 million and increased its deferred tax charge by £5.4 million, a net increase of £3.6 million in the tax charge for that period.

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

8. Dividends

During the six months ended 30 September 2018, the Company paid total dividends of £nil (year ended 31 March 2018: £55.0 million; six months ended 30 September 2017: £26.0 million) to its immediate parent Thames Water Utilities Holdings Limited.

The dividends paid during the year ended 31 March 2018 were used to fund interest obligations and activities of other group companies and were distributed within the group as follows:

	Six months ended 30 September 2018 £m	Year ended 31 March 2018 £m	Six months ended 30 September 2017 £m
Distributions not distributed to ultimate shareholders:			
Interest on Kemble Water Finance Limited debt	**-**	54.0	26.0
Distribution to Thames Water Limited	**-**	1.0	-
Total	**-**	55.0	26.0

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (31 March 2018: £1.0 million).

Dividends paid to Kemble Water Finance Limited were used to enable it to continue to service its interest obligations for both external and intercompany debt. Dividends paid to Thames Water Limited were used to fund activities of the Company.

Notes to the condensed financial statements (continued)

9. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	**Total £m**
Cost:					
At 1 April 2017	3,412.5	6,838.6	6,747.0	2,089.5	**19,087.6**
Additions	1.1	-	13.2	1,072.7	**1,087.0**
Transfers between categories	18.7	382.4	323.4	(724.5)	**-**
Disposals	(1.8)	(13.1)	(1.8)	-	**(16.7)**
At 31 March 2018	3,430.5	7,207.9	7,081.8	2,437.7	**20,157.9**
Additions	-	0.5	10.4	543.4	**554.3**
Transfers between categories	9.1	92.2	45.8	(147.1)	**-**
Disposals	-	(3.0)	-	-	**(3.0)**
At 30 September 2018	3,439.6	7,297.6	7,138.0	2,834.0	**20,709.2**
Depreciation:					
At 1 April 2017	(885.5)	(3,742.8)	(364.8)	-	**(4,993.1)**
Depreciation charge	(52.2)	(318.4)	(128.1)	-	**(498.7)**
Disposals	0.3	8.9	-	-	**9.2**
At 31 March 2018	(937.4)	(4,052.3)	(492.9)	-	**(5,482.6)**
Depreciation charge	(26.2)	(165.4)	(66.8)	-	**(258.4)**
Disposals	-	3.0	-	-	**3.0**
At 30 September 2018	(963.6)	(4,214.7)	(559.7)	-	**(5,738.0)**
Net book value:					
At 30 September 2018	2,476.0	3,082.9	6,578.3	2,834.0	**14,971.2**
At 31 March 2018	2,493.1	3,155.6	6,588.9	2,437.7	**14,675.3**
At 31 March 2017	2,527.0	3,095.8	6,382.2	2,089.5	**14,094.5**

£47.2 million of borrowing costs were capitalised in the period (year ended 31 March 2018: £96.4 million; six months ended 30 September 2017: £53.4 million). The effective annual capitalisation rate for borrowing costs was 5.24% (year ended 31 March 2018: 5.58%).

10. Investment in subsidiaries

The Group is in the advanced stages of liquidating Thames Water Utilities Cayman Finance Holdings Limited (TWUCFH) and Thames Water Utilities Cayman Finance Limited (TWUCF), now fellow subsidiaries of the Group. The Cayman Islands entities are no longer subsidiaries of the Company but exist as non-active companies within the Group as at 30 September 2018. The assets and liabilities of TWUCF were transferred to Thames Water Utilities Finance plc at their fair value on 31 August 2018.To facilitate this, the Company increased its investment in Thames Water Utilities Finance plc. The difference between the carrying value and fair value has resulted in recognition of non-recurring, non-cash investment income of £108.9 million within the Company. Refer to Note 1 for more information.

The below reconciliation identifies the movements in cost of shares in subsidiary undertakings from 1 April 2018 to 30 September 2018:

Reconciliation	**£m**
Cost of shares in subsidiary undertakings as at 1 April 2018	**0.1**
Additional investment in Thames Water Utilities Finance plc	**207.7**
Disposal of £1 investment in Thames Water Utilities Cayman Finance Holdings Limited (and indirect investment in Thames Water Utilities Cayman Finance Limited)	**-**
Cost of shares in subsidiary undertakings as at 30 September 2018	**207.8**

The Company has no interest in joint ventures or associates. The Company had the following investments in subsidiary undertakings as at 30 September 2018:

Entity	Holding	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights & shares held
Thames Water Utilities Finance plc	Direct	Finance Company	United Kingdom	£1 Ordinary	100%

All subsidiary undertakings are wholly owned by the Company.

The address of the registered office of Thames Water Utilities Finance plc is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

11. Trade and other receivables

	30 September 2018			Restated[1] 31 March 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments	-	80.5	80.5	-	56.7	56.7
Amounts owed by group undertakings	0.3	-	0.3	1.0	-	1.0
Other receivables	2.7	-	2.7	3.0	-	3.0
	3.0	80.5	83.5	4.0	56.7	60.7
Current:						
Gross trade receivables	776.0	16.7	792.7	462.5	6.4	468.9
Less doubtful debt provision	(151.8)	(1.9)	(153.7)	(172.6)	(1.7)	(174.3)
Net trade receivables	624.2	14.8	639.0	289.9	4.7	294.6
Amounts owed by group undertakings	1.3	-	1.3	1.1	-	1.1
Insurance claims receivable	49.6	-	49.6	36.1	-	36.1
Prepayments	80.4	-	80.4	27.5	-	27.5
Other receivables	29.0	0.8	29.8	36.0	0.3	36.3
	784.5	15.6	800.1	390.6	5.0	395.6
Current:						
Contract assets	222.3	0.7	223.0	225.5	0.4	225.9
	1,006.8	16.3	1,023.1	616.1	5.4	621.5
Total	1,009.8	96.8	1,106.6	620.1	62.1	682.2

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 30 September 2018 includes £80.5 million (31 March 2018: £56.7 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Company as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Contract assets at 30 September 2018 includes £210.9 million (31 March 2018: £218.7 million) of water and wastewater income not billed. The remaining amount is for accrued capital contributions.

[1] The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9.

12. Trade and other payables

	30 September 2018			Restated 31 March 2018		
	Underlying	**BTL**	**Total**	Underlying	BTL	Total
	£m	**£m**	**£m**	£m	£m	£m
Non-current:						
Contract liabilities[1]	613.7	-	613.7	589.9	-	589.9
Current:						
Trade payables – operating	297.3	-	297.3	304.6	-	304.6
Trade payables – capital	150.7	-	150.7	141.1	-	141.1
Amounts owed to group undertakings	5.5	-	5.5	-	-	-
Other taxation and social security	7.0	-	7.0	6.5	-	6.5
Amounts payable in respect of group relief	3.4	3.0	6.4	2.0	1.6	3.6
Accruals[1]	167.1	-	167.1	175.3	-	175.3
Amounts owed to Bazalgette Tunnel Limited	-	8.8	8.8	-	3.5	3.5
Other payables	38.7	-	38.7	37.8	-	37.8
	669.7	11.8	681.5	667.3	5.1	672.4
Current:						
Contract liabilities[1]	536.3	12.5	548.8	125.3	4.1	129.4
	1,206.0	24.3	1,230.3	792.6	9.2	801.8
Total	1,819.7	24.3	1,844.0	1,382.5	9.2	1,391.7

Current contract liabilities at 30 September 2018 includes £14.1 million (31 March 2018: £75.6 million) of receipts in advance from customers for water and wastewater charges and £489.0 million (31 March 2018: £23.6 million) of deferred income. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 30 September 2018 includes £489.3 million (restated 31 March 2018: £481.2 million) of deferred infrastructure charges, £105.8 million of deferred income for nil cost “adopted” assets (31 March 2018: £89.1 million) with the remaining amount relating to payments received in advance for compensation for operating costs.

The Directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

[1] The impact of the transition to new accounting standards, IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ on 1 April 2018 has been discussed on pages 9 to 14. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

13. Borrowings

	30 September 2018 £m	31 March 2018 £m
Secured bank loans and private placements	**2,327.7**	2,290.2
Amounts owed to group undertakings	**9,285.8**	8,944.3
	11,613.5	11,234.5
Interest payable on secured bank loans	**4.8**	4.8
Interest payable on amounts owed to group undertakings	**172.8**	203.9
	177.6	208.7
Total	**11,791.1**	11,443.2
Disclosed within non-current liabilities	**11,317.0**	11,123.0
Disclosed within current liabilities	**474.1**	320.2
Total	**11,791.1**	11,443.2

Secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiary, has guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

On 31 August 2018, the debt, derivative and intercompany receivable instruments previously held by Thames Water Utilities Cayman Finance Limited ("TWUCF") were transferred to Thames Water Utilities Finance Plc ("TWUF"), a subsidiary undertaking, at fair value. As at 31 August 2018, the fair value of the debt transferred was £7,853.5 million), the fair value of the derivatives transferred was £94.4m and the fair value of the intercompany receivables transferred was £8,064.1 million).

As at 30 September 2018, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £9,458.6 million (31 March 2018: £2,944.8 million) owed to TWUF. Financing costs arising in Thames Water Utilities Finance plc are directly recharged under mirrored interest terms for all loans except for
    - a £225.0 million 6.59% secured bond due in 2021, which was loaned on with a margin of one basis point, and
    - financing costs relating to TWUCF's instruments transferred on 31 August 2018, where all costs are recharged under mirrored interest terms, and an additional margin of ten basis points.
- £nil (31 March 2018: £6,203.4 million) owed to TWUCF. All costs were directly recharged under mirrored interest terms, and an additional margin of ten basis points.

Notes to the condensed financial statements (continued)

14. Fair value of financial instruments

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into levels one to three based on the degree to which the fair value is observable. Unless otherwise stated all of the Company's inputs to valuation techniques are level two – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level two. The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2018:

	Level 2[1]	
	30 September 2018 £m	31 March 2018 £m
Financial assets – derivative financial instruments		
Index linked swaps	**53.0**	57.4
Cross currency swaps	**17.7**	1.9
	70.7	59.3
Financial liabilities – derivative financial instruments		
Cross currency swaps	**(55.6)**	(60.7)
Interest rate swaps	**(157.6)**	(176.2)
Index linked swaps	**(532.5)**	(539.2)
Forward starting interest rate swaps	**(43.5)**	(45.3)
	(789.2)	(821.4)
Net total	**(718.5)**	(762.1)

[1]The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index linked swaps and options, are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates, inflation rates and discounted at a rate that reflects the credit risk of the Company and counterparties. Currency cash flows are translated at spot rate.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's trade and other receivables and trade and other payables are considered to be approximate to their fair values. The fair values and carrying values of the Company's other financial assets and financial liabilities are set out in the tables below.

Financial assets:

	30 September 2018		31 March 2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Amounts owed by group undertakings	**2,274.7**	**2,274.7**	2,274.7	2,274.7
Derivative financial instruments	**70.7**	**70.7**	59.3	59.3
	2,345.4	**2,345.4**	2,334.0	2,334.0
Current				
Cash and cash equivalents	**58.1**	**58.1**	107.0	107.0
Short term investments	**3.0**	**3.0**	-	-
Amounts owed by group undertakings	**32.4**	**32.4**	17.9	17.9
	93.5	**93.5**	124.9	124.9
Total	**2,438.9**	**2,438.9**	2,458.9	2,458.9

Notes to the condensed financial statements (continued)

14. Fair value of financial instruments (continued)

Financial liabilities:

	30 September 2018		31 March 2018	
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	£m
Non-current				
Bank loans and private placements				
Floating rate	**(119.9)**	**(121.3)**	(119.8)	(120.0)
Index linked	**(1,311.0)**	**(1,519.8)**	(1,291.8)	(1,506.5)
Fixed rate	**(882.8)**	**(856.9)**	(864.7)	(853.9)
Amounts owed to group undertakings	**(9,003.2)**	**(11,428.0)**	(8,846.7)	(11,472.7)
Derivative financial instruments				
Cross currency swaps	**(55.6)**	**(55.6)**	(60.7)	(60.7)
Interest rate swaps	**(157.6)**	**(157.6)**	(176.2)	(176.2)
Index linked swaps	**(532.5)**	**(532.5)**	(526.9)	(526.9)
Forward starting interest rate swaps	**(43.5)**	**(43.5)**	(45.3)	(45.3)
	(12,106.1)	**(14,715.2)**	(11,932.1)	(14,762.2)
Current				
Bank loans and private placements				
Index linked	**(13.9)**	**(13.9)**	(13.9)	(13.9)
Amounts owed to group undertakings	**(282.6)**	**(283.4)**	(97.6)	(100.8)
Interest payable	**(177.6)**	**(177.6)**	(208.7)	(208.7)
Derivative financial instruments				
Index linked swaps	**-**	**-**	(12.3)	(12.3)
	(474.1)	**(474.9)**	(332.5)	(335.7)
Total	**(12,580.2)**	**(15,190.1)**	(12,264.6)	(15,097.9)

Amounts owed to group entities relate to bonds and private placements issued by subsidiary entities, which are publicly traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of amounts owed to group entities represents the market value of the publicly traded underlying liquid bonds and associated derivatives. For private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread.

The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and adjusted for credit risk if this is significant. The fair value of index linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity. Amounts owed by group entities include floating rate loans, the fair value of these loans is assumed to be the nominal value of the primary loan.

15. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Company is set out below:

		Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	**Total £m**
Restated[1]	At 1 April 2017	(1,041.9)	64.6	110.4	10.0	**(856.9)**
	Charge to income	(8.4)	(0.9)	(0.6)	(0.9)	**(10.8)**
	Charge to other comprehensive income	-	(12.6)	(17.1)	-	**(29.7)**
	Government grant for research and development	0.1	-	-	-	**0.1**
Restated[1]	At 31 March 2018	(1,050.2)	51.1	92.7	9.1	**(897.3)**
	Restatement for IFRS 9[1]	-	-	-	4.5	**4.5**
	Credit / (charge) to income	8.1	1.5	(5.7)	(0.2)	**3.7**
	Charge to other comprehensive income	-	(5.3)	(2.6)	(4.2)	**(12.1)**
	At 30 September 2018	(1,042.1)	47.3	84.4	9.2	**(901.2)**

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months are as follows:

	30 September 2018 £m	Restated[1] 31 March 2018 £m
Deferred tax asset	**140.9**	152.9
Deferred tax liability	**(1,042.1)**	(1,050.2)
Total	**(901.2)**	(897.3)

[1] The impact of the transition to new accounting standards, IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ on 1 April 2018 has been discussed on pages 9 to 14.

16. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Other provisions £m	**Total £m**
At 1 April 2017	7.0	67.4	38.1	**112.5**
Utilised during the period	(7.0)	-	(10.9)	**(17.9)**
Charge/ (credit) to income statement	5.7	(3.8)	13.5	**15.4**
Transfer to current liabilities	-	-	1.3	**1.3**
At 31 March 2018	5.7	63.6	42.0	**111.3**
Utilised/released during the period	(5.7)	-	(4.0)	**(9.7)**
Charge / (credit) to income statement	2.9	6.1	(1.7)	**7.3**
Transfer to current liabilities	-	-	(0.1)	**(0.1)**
At 30 September 2018	2.9	69.7	36.2	**108.8**

Emissions provisions relate to the obligation to purchase carbon emissions allowances.

The insured liability provision arises from insurance claims from third parties received by the Company, and represents the estimated cost of settlement. Where we have insurance cover for these claims, we recognise the reimbursement value from captive and third party insurance companies net of retentions. The receivable is disclosed in Note 11. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

Other provisions principally relate to a number of contractual and legal claims against the Company and potential fines for non-compliance with various regulations the Company is obliged to meet. The amount recorded represents management's best estimate of the value of settlement and associated costs. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

Notes to the condensed financial statements (continued)

17. Retirement benefit obligations

Background

The Company operates two defined benefit pension schemes and a defined contribution pension scheme.

	What are they?	How do they impact the Company's financial statements?
Defined Contribution Scheme This scheme was set up in April 2011, is managed through Standard Life, and is open to all new employees of the Company.	In a defined contribution pension scheme the benefits are linked to: • contributions paid; • the performance of the individual's chosen investments; and • the form of benefits	A charge of £5.1 million (30 September 2017: £3.8 million) was recognised in the income statement relating to the contributions payable by the Company based upon a fixed percentage of employees' pay. There were £1.3 million (30 September 2017: £1.0 million) of outstanding contributions at the year-end recognised in the statement of financial position. These were paid in the following financial year. The Company has no exposure to investment and other experience risks.
Defined Benefit Schemes Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit pension schemes: • Thames Water Pension Scheme ("TWPS"); and • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both are career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the Pension Trustees. TWMIPS has been closed to new entrants since 1989 and on 1 April 2011 TWPS closed to new entrants, who now join the defined contribution scheme.	In a defined benefit pension scheme the benefits: • are defined by the scheme rules • depend on a number of factors including age, years of service and pensionable pay; and • do not depend on contributions made by the members or the Company	A charge was recognised in the income statement of £17.3 million (30 September 2017: £19.5 million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; • the net interest expense on pension scheme assets and liabilities; and • the effect of restriction in the surplus. A gain of £31.4 million (31 March 2018: gain of £74.0 million; 30 September 2017: gain of £44.0 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic of the scheme members when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense. The net pension liability of £278.1 million (31 March 2018: £300.8 million) is recognised within non-current liabilities in the statement of financial position. The Company is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Company. The Company has agreed to make deficit repair payments of £22.0 million per annum until 2027.

In addition to the cost of the defined benefit pension arrangements, the Company operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 30 September 2018 these related payments amounted to £0.1million (30 September 2017: £0.4 million).

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the Trustees of the pension schemes and the Company. The purpose of this triennial valuation is to evaluate, and if necessary, modify the funding plans of the pension schemes to ensure they have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension schemes was carried out at 31 March 2016 on behalf of the Trustees by David Gardiner of Aon Hewitt Limited, the independent and professionally qualified consulting actuary to the schemes. This resulted in a combined funding deficit across the two schemes of £364.9 million (2013: £288.3 million) with the market value of the assets being £1,905.5 million (2013: £1,699.8 million).

Notes to the condensed financial statements (continued)

17. Retirement benefit obligations (continued)

This funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2016 to 30 September 2018. The 2016 funding valuation has been updated to an accounting valuation as at 30 September 2018 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 *Employee Benefits* and shown in this note to the financial statements.

IAS 19 Assumptions

The approach used to set the IAS 19 assumptions is detailed below:

	Approach to set the assumptions
Discount rate	As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 30 September 2018
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS with an adjustment made for an inflation risk premium.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	Both defined benefit schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

The main assumptions used in the valuation of these schemes are as follows:

	30 September 2018		31 March 2018	
	TWPS	**TWMIPS**	TWPS	TWMIPS
Price inflation – RPI	**3.25%**	**3.25%**	3.15%	3.15%
Price inflation – CPI	**2.25%**	**2.25%**	2.15%	2.15%
Rate of increase to pensions in payment – RPI	**3.25%**	**3.25%**	3.15%	3.15%
Rate of increase to pensions in payment – CPI	**2.25%**	**2.25%**	2.15%	2.15%
Discount rate	**2.90%**	**2.80%**	2.65%	2.60%

	30 September 2018		31 March 2018	
	TWPS Years	**TWMIPS Years**	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**27.5**	**26.6**	27.4	26.6
Female	**29.5**	**29.0**	29.4	29.0
Life expectancy from age 60 currently age 40:				
Male	**29.0**	**28.2**	29.0	28.1
Female	**31.1**	**30.7**	31.0	30.6

17. Retirement benefit obligations (continued)

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk.

	Definition of risk
Investment risk	Assumptions are made about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then additional contributions will need to be made to the schemes in order to fund the payment of future benefits.
Discount rate risk	A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings.
Inflation risk	The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. Additionally, the Company's contributions to the schemes are based on assumptions about the future levels of inflation. Therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit.
Longevity risk	An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities.

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below:

	30 September 2018		31 March 2018	
	TWPS £m	**TWMIPS £m**	TWPS £m	TWMIPS £m
Change in discount rate (+ 1% p.a.)	**300.0**	**90.0**	315.0	90.0
Change in rate of inflation (- 1% p.a.)	**195.0**	**75.0**	205.0	75.0

GMP Equalisation

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes.

Guaranteed Minimum Pensions ("GMP") was the minimum pension that the Group provided through a defined benefit scheme. It was calculated by reference to and came into payment on state pension age, which used to be 65 for men and 60 for women. This made payments unequal between men and women. The judgement rules that all schemes must equalise GMP between males and females.

The impact of the ruling includes additional liabilities for both the Thames Water pension schemes TWPS and TWMIPS. Our actuarial advisor, Hymans Robertson LLP, will assess the extent of the increase in liabilities for both the schemes. Our current estimate is that this could add tens of millions of pounds to our net pension liability. Any adjustment necessary will be recognised in the second half of 2018/19.

This represents a non-adjusting post balance sheet event. Refer to Note 19 for more information.

18. Intermediate and ultimate parent company and controlling party

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

Kemble Water Holdings Limited is owned by 10 shareholders, of which the largest is Ontario Municipal Employees Retirement System (OMERS) with 31.777% holding.

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts for all entities may be obtained from the Company Secretary's Office at this address.

19. Post balance sheet events

GMP Equalisation

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. The judgement rules that all schemes must equalise Guaranteed Minimum Pensions ("GMP") between males and females. We consider that this results in a change to the plan rules and therefore this represents a non-adjusting post balance sheet event. Refer to Note 17 Retirement Benefit Obligations for further information on the impact.

20. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable, or cannot be measured reliably.

The Company needs to determine the merit of any litigation against it and the chances of a claim successfully being made, the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment.

There are claims against the Company arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits.

As discussed above, we recognise as a result of the GMP equalisation ruling, a contingent liability exists within our pension schemes. Judgement is required in measuring and recognising the extent of the increase in liabilities. This includes working with our actuaries to quantify the possible range of any financial settlement and outflow of economic benefits.

Notes to the condensed financial statements (continued)

21. Related party transactions

Trading transactions

	30 September 2018		30 September 2017	
	Services provided by the Company £'000	**Services provided to the Company £'000**	Services provided by the Company £'000	Services provided to the Company £'000
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	**980**	**3**	1,082	565
Immediate parent				
Thames Water Utilities Holdings Limited	**11,786**	**7,107**	8,340	2,150
Fellow subsidiaries				
Thames Water Utilities Cayman Finance Limited[1]	**1,135**	**142,648**	752	161,276
Subsidiaries				
Thames Water Utilities Finance plc	**2,694**	**75,571**	2,504	72,577
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**107**	**-**	60	7
Thames Water Commercial Services Limited	**165**	**-**	202	-
Thames Water Property Services Limited	**131**	**19**	182	226
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	**-**	**2**	-	-
Total	**16,998**	**222,502**	13,122	237,251

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

[1] Refer to Note 1 for more information on the closure of the Cayman Islands entities.

Outstanding balances

The following amounts were owed to the Company from related entities, and owed to related entities by the Company at the balance sheet date:

	30 September 2018		31 March 2018	
	Amounts owed to the Company £'000	**Amounts owed by the Company £'000**	Amounts owed to the Company £'000	Amounts owed by the Company £'000
Ultimate parent				
Kemble Water Holdings Limited	**5**	-	5	-
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	**1,014**	**-**	1,014	-
Thames Water Limited	**12**	**-**	121	-
Immediate parent				
Thames Water Utilities Holdings Limited	**1,974,745**	**7,107**	1,974,745	4,300
Fellow subsidiaries				
Thames Water Utilities Cayman Finance Limited[1]	**-**	**-**	104,844	6,203,362
Subsidiaries				
Thames Water Utilities Finance plc	**322,155**	**9,573,536**	214,455	2,961,960
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**-**	**-**	79	-
Thames Water Property Services Limited	**-**	**-**	24	-
Total	**2,297,931**	**9,580,643**	2,295,287	9,169,622

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

[1] Refer to Note 1 for more information on the closure of the Cayman Islands entities. As at 30 September 2018, there are no outstanding balances with the Cayman Islands entities.

21. Related Party Transactions (continued)

Key management personnel comprise the members of the Board and of the Executive Committee during the year.

The remuneration of the Directors for the six month ending 30 September 2018, and comparative period, is included within the amounts disclosed below.

	30 September 2018 £'000	30 September 2017 £'000
Fees	**420**	396
Salary	**1,252**	1,241
Pension and pension allowance	**197**	174
Bonus[1]	**514**	1,008
Payment on loss of office	**-**	222
Other benefits	**68**	188
Total	**2,451**	3,229

[1] As at 30 September 2018, a bonus for key management personnel was accrued. The final bonus for the year is to be determined at year end.

Notes to the condensed financial statements (continued)

22. Adoption of IFRS 9 'Financial Instruments' & IFRS 15 'Revenue from Contracts with Customers'

This is the first reporting date that the Company has presented its financial statements under IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', with the date of transition being 1 April 2018. These accounting policies replace IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 18 'Revenue' respectively.

The Company's accounting policies under IFRS 15 have been applied retrospectively at the date of transition and therefore the Company's previously reported results have been restated. The Company has taken a 'modified retrospective' approach in respect of the transition to IFRS 9 and such previously reported results have not been restated for this change in policy.

Reconciliation of condensed profit and loss for the six months ended 30 September 2017

		IAS 18			Transition	IFRS 15		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	BTL £m	Total £m
Revenue	3	1,029.9	12.9	1,042.8	-	1,029.9	12.9	1,042.8
Operating expenses	4	(791.1)	-	(791.1)	-	(791.1)	-	(791.1)
Other operating income	3	42.7	-	42.7	(6.0)	36.7	-	36.7
Operating profit		281.5	12.9	294.4	(6.0)	275.5	12.9	288.4
Profit on the sale of retail non-household business	5	89.5	-	89.5	-	89.5	-	89.5
Finance income		50.3	-	50.3	-	50.3	-	50.3
Finance expense		(268.2)	-	(268.2)	-	(268.2)	-	(268.2)
Net loss on financial instruments		(12.4)	-	(12.4)	-	(12.4)	-	(12.4)
Profit on ordinary activities before taxation		140.7	12.9	153.6	(6.0)	134.7	12.9	147.6
Taxation on profit on ordinary activities	6	(13.0)	(2.5)	(15.5)	1.0	(12.0)	(2.5)	(14.5)
Profit for the period		127.7	10.4	138.1	(5.0)	122.7	10.4	133.1

Reconciliation of condensed statement of comprehensive income for the six months ended 30 September 2017

		IAS 18			Transition	IFRS 15		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	BTL £m	Total £m
Profit for the period		127.7	10.4	138.1	(5.0)	122.7	10.4	133.1
Other comprehensive income								
Will not be reclassified to the income statement:								
Net actuarial gain on pension schemes		44.0	-	44.0	-	44.0	-	44.0
Deferred tax on net actuarial (gains)	14	(7.5)	-	(7.5)	-	(7.5)	-	(7.5)
May be reclassified to the income statement:								
Gains on cash flow hedges		10.7	-	10.7	-	10.7	-	10.7
Cash flow hedges transferred to income statement		9.6	-	9.6	-	9.6	-	9.6
Deferred tax (charge) on cash flow hedges	14	(3.4)	-	(3.4)	-	(3.4)	-	(3.4)
Other comprehensive income for the period		53.4	-	53.4	-	53.4	-	53.4
Total comprehensive income/(loss) for the period		181.1	10.4	191.5	(5.0)	176.1	10.4	186.5

22. Adoption of IFRS 9 'Financial Instruments' & IFRS 15 'Revenue from Contracts with Customers' (continued)

Reconciliation of condensed statement of financial position as at 1 April 2017

	IAS 18			Transition		IFRS 15		
	Underlying	BTL	Total	Underlying	BTL	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets								
Intangible assets	140.5	-	140.5	-	-	140.5	-	140.5
Property, plant and equipment	14,094.5	-	14,094.5	-	-	14,094.5	-	14,094.5
Investment in subsidiaries	0.1	-	0.1	-	-	0.1	-	0.1
Derivative financial assets	83.6	-	83.6	-	-	83.6	-	83.6
Intercompany loans receivable	2,274.7	-	2,274.7	-	-	2,274.7	-	2,274.7
Trade and other receivables	2.8	30.4	33.2	-	-	2.8	30.4	33.2
	16,596.2	30.4	16,626.6	-	-	16,596.2	30.4	16,626.6
Current assets								
Inventories and current intangible assets	21.7	-	21.7	-	-	21.7	-	21.7
Assets held for sale	1.0	-	1.0	-	-	1.0	-	1.0
Intercompany loans receivable	16.8	-	16.8	-	-	16.8	-	16.8
Contract assets	-	-	-	247.4	0.4	247.4	0.4	247.8
Trade and other receivables	634.2	3.0	637.2	(247.4)	(0.4)	386.8	2.6	389.4
Short term investments	1.0	-	1.0	-	-	1.0	-	1.0
Cash and cash equivalents	52.7	3.8	56.5	-	-	52.7	3.8	56.5
	727.4	6.8	734.2	-	-	727.4	6.8	734.2
Current liabilities								
Contract liabilities	-	-	-	(125.3)	(0.2)	(125.3)	(0.2)	(125.5)
Trade and other payables	(924.4)	(6.6)	(931.0)	136.0	0.2	(788.4)	(6.4)	(794.8)
Borrowings	(383.4)	-	(383.4)	-	-	(383.4)	-	(383.4)
Derivative financial liabilities	(23.8)	-	(23.8)	-	-	(23.8)	-	(23.8)
	(1,331.6)	(6.6)	(1,338.2)	10.7	-	(1,320.9)	(6.6)	(1,327.5)
Net current liabilities	(604.2)	0.2	(604.0)	10.7	-	(593.5)	0.2	(593.3)
Non-current liabilities								
Contract liabilities	-	-	-	(536.1)	-	(536.1)	-	(536.1)
Trade and other payables	(404.9)	-	(404.9)	404.9	-	-	-	-
Borrowings	(10,423.5)	-	(10,423.5)	-	-	(10,423.5)	-	(10,423.5)
Derivative financial liabilities	(900.7)	-	(900.7)	-	-	(900.7)	-	(900.7)
Deferred tax	(877.4)	-	(877.4)	20.5	-	(856.9)	-	(856.9)
Provisions for liabilities and charges	(112.5)	-	(112.5)	-	-	(112.5)	-	(112.5)
Retirement benefit obligations	(379.8)	-	(379.8)		-	(379.8)	-	(379.8)
	(13,098.8)	-	(13,098.8)	(110.7)	-	(13,209.5)	-	(13,209.5)
Net assets	2,893.2	30.6	2,923.8	(100.0)		2,793.2	30.6	2,823.8
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	(222.4)	-	(222.4)	-	-	(222.4)	-	(222.4)
Revaluation reserve	1,053.1	-	1,053.1	-	-	1,053.1	-	1,053.1
Retained earnings	1,933.5	30.6	1,964.1	(100.0)	-	1,833.5	30.6	1,864.1
Total equity	2,893.2	30.6	2,923.8	(100.0)	-	2,793.2	30.6	2,823.8

Notes to the condensed financial statements (continued)

22. Adoption of IFRS 9 'Financial Instruments' & IFRS 15 'Revenue from Contracts with Customers' (continued)

Reconciliation of condensed statement of financial position as at 31 March 2018

		IAS 18			Transition		IFRS 15		
		Underlying	BTL	Total	Underlying	BTL	Underlying	BTL	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets									
Intangible assets		168.6	-	168.6	-	-	168.6	-	168.6
Property, plant and equipment	9	14,675.3	-	14,675.3	-	-	14,675.3	-	14,675.3
Investment in subsidiaries	10	0.1	-	0.1	-	-	0.1	-	0.1
Derivative financial assets	14	59.3	-	59.3	-	-	59.3	-	59.3
Intercompany loans receivable		2,274.7	-	2,274.7	-	-	2,274.7	-	2,274.7
Trade and other receivables	11	4.0	56.7	60.7	-	-	4.0	56.7	60.7
		17,182.0	56.7	17,238.7	-	-	17,182.0	56.7	17,238.7
Current assets									
Inventories and current intangible assets		18.1	-	18.1	-	-	18.1	-	18.1
Assets held for sale		-	-	-	-	-	-	-	-
Intercompany loans receivable		17.9	-	17.9	-	-	17.9	-	17.9
Contract assets	11	-	-	-	225.5	0.4	225.5	0.4	225.9
Trade and other receivables	11	616.1	5.4	621.5	(225.5)	(0.4)	390.6	5.0	395.6
Cash and cash equivalents		104.4	2.6	107.0	-	-	104.4	2.6	107.0
		756.5	8.0	764.5	-	-	756.5	8.0	764.5
Current liabilities									
Contract liabilities		-	-	-	(125.3)	(4.1)	(125.3)	(4.1)	(129.4)
Trade and other payables	12	(804.1)	(9.2)	(813.3)	136.8	4.1	(667.3)	(5.1)	(672.4)
Borrowings	13	(320.2)	-	(320.2)	-	-	(320.2)	-	(320.2)
Derivative financial liabilities	14	(12.3)	-	(12.3)	-	-	(12.3)	-	(12.3)
		(1,136.6)	(9.2)	(1,145.8)	11.5	-	(1,125.1)	(9.2)	(1,134.3)
Net current liabilities		(380.1)	(1.2)	(381.3)	11.5	-	(368.6)	(1.2)	(369.8)
Non-current liabilities									
Contract liabilities		-	-	-	(589.9)	-	(589.9)	-	(589.9)
Trade and other payables	12	(446.0)	-	(446.0)	446.0	-	-	-	-
Borrowings	13	(11,123.0)	-	(11,123.0)	-	-	(11,123.0)	-	(11,123.0)
Derivative financial liabilities	14	(809.1)	-	(809.1)	-	-	(809.1)	-	(809.1)
Deferred tax	15	(919.8)	-	(919.8)	22.5	-	(897.3)	-	(897.3)
Provisions for liabilities and charges	16	(111.3)	-	(111.3)	-	-	(111.3)	-	(111.3)
Retirement benefit obligations	17	(300.8)	-	(300.8)	-	-	(300.8)	-	(300.8)
		(13,710.0)	-	(13,710.0)	(121.4)	-	(13,831.4)	-	(13,831.4)
Net assets		3,091.9	55.5	3,147.4	(109.9)	-	2,982.0	55.5	3,037.5
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		(138.9)	-	(138.9)	-	-	(138.9)	-	(138.9)
Revaluation reserve		1,021.2	-	1,021.2	-	-	1,021.2	-	1,021.2
Retained earnings		2,080.6	55.5	2,136.1	(109.9)	-	1,970.7	55.5	2,026.2
Total equity		3,091.9	55.5	3,147.4	(109.9)	-	2,982.0	55.5	3,037.5

Notes to the condensed financial statements (continued)

22. Adoption of IFRS 9 ‘Financial Instruments’ & IFRS 15 ‘Revenue from Contracts with Customers’ (continued)

Reconciliation of condensed statement of cash flows as at 30 September 2017

	IAS 18			Transition	Restatement	IFRS 15		
	Underlying	BTL	Total	Underlying	Underlying	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m		£m
Operating activities:								
Profit on ordinary activities after taxation	127.7	10.4	138.1	(5.0)	-	122.7	10.4	133.1
Less profit on sale of retail non-household business	(89.5)	-	(89.5)	-	-	(89.5)	-	(89.5)
Less finance income	(50.3)	-	(50.3)	-	-	(50.3)	-	(50.3)
Add finance expense	268.2	-	268.2	-	-	268.2	-	268.2
Add loss on fair value of financial instruments	12.4	-	12.4	-	-	12.4	-	12.4
Add taxation on profit on ordinary activities	13.0	2.5	15.5	(1.0)	-	12.0	2.5	14.5
Operating profit	281.5	12.9	294.4	(6.0)	-	275.5	12.9	288.4
Depreciation on property, plant and equipment	244.1	-	244.1	-	-	244.1	-	244.1
Amortisation of intangible assets	15.1	-	15.1	-	-	15.1	-	15.1
Loss/(profit) on sale of property, plant and equipment	0.3	-	0.3	-	-	0.3	-	0.3
Difference in pension charge and cash contribution	8.0	-	8.0	-	-	8.0	-	8.0
Increase in inventory	(6.1)	-	(6.1)	-	-	(6.1)	-	(6.1)
Increase in contract assets	-	-	-	44.4	-	44.4	-	44.4
Increase in trade and other receivables	(410.7)	(20.4)	(431.1)	(48.2)	-	(458.9)	(20.4)	(479.3)
Increase in contract liabilities	-	-	-	420.8	-	420.8	-	420.8
Increase in trade and other payables	330.1	7.5	337.6	(374.2)	-	(44.1)	7.5	36.6
Increase/(decrease) in provisions	5.3	-	5.3	-	-	5.3	-	5.3
Net cash generated by operating activities	467.6	-	467.6	36.8	-	504.4	-	504.4
Investing activities:								
Increase in current asset investments	(0.5)	-	(0.5)	-	-	(0.5)	-	(0.5)
Interest received	45.3	-	45.3	-	(44.1)	1.2	-	1.2
Purchase of property, plant and equipment	(499.0)	-	(499.0)	(36.8)	-	(535.8)	-	(535.8)
Purchase of intangible assets	(20.7)	-	(20.7)	-	-	(20.7)	-	(20.7)
Proceeds from sale of property, plant and equipment	7.8	-	7.8	-	-	7.8	-	7.8
Net cash used in investing activities	(467.1)	-	(467.1)	(36.8)	(44.1)	(548.0)	-	(548.0)
Financing activities:								
New loans raised	982.5	-	982.5	-	-	982.5	-	982.5
Repayment of borrowings	(772.6)	-	(772.6)	-	-	(772.6)	-	(772.6)
Derivative paydown	(29.9)	-	(29.9)	-	-	(29.9)	-	(29.9)
Interest paid	(184.1)	-	(184.1)	-	44.1	(140.0)	-	(140.0)
Dividends paid	(26.0)	-	(26.0)	-	-	(26.0)	-	(26.0)
Net cash used in financing activities	(30.1)	-	(30.1)	44.1	44.1	14.0	-	14.0
Net decrease in cash and cash equivalents	(29.6)	-	(29.6)	-	-	(29.6)	-	(29.6)
Net cash and cash equivalents at beginning of period	52.7	3.8	56.5	-	-	52.7	3.8	56.5
Net cash and cash equivalents at end of period	23.1	3.8	26.9	-	-	23.1	3.8	26.9