Here for you.

Interim report 2017/18

Thames Water

Our 2017/18 interim overview

Intention to close Cayman Island subsidiaries

New Chairman appointed

£533 million invested in infrastructure

4.25 out of 5 Ofwat customer satisfaction rating

Baa1 corporate family rating credit rating

10% reduction in pollution incidents

3 million working hours without a lost-time injury

95.78%
written complaints resolved first time

Forensic review
of major water mains completed in October 2017

£294 million
Operating profit

£1 billion
Revenue

Returning
£40 million
of ODI penalties to customers early

17% increase
in self-generation of electricity compared to first six months of 2016/17.

See what's inside.

Our Walthamstow Reservoir becomes one of Europe's largest urban wetlands

In a first-of-its-kind public, charity and private partnership between the London Borough of Waltham Forest, London Wildlife Trust and Thames Water, our Walthamstow reservoir complex has been transformed into one of the largest urban wetland nature reserves in Europe. Opened to the public in October 2017, walkers and wildlife enthusiasts can now enjoy our 211 hectare site and access our Grade II Listed Coppermill building and Marine Engine House.

Embracing the next chapter

Sir Peter Mason KBE
Chairman

New independent Chairman

The start of our new chapter continues to bring significant change.

Last week we announced Ian Marchant, former Chief Executive of SSE Plc, will become independent Chairman when I retire in January 2018. On joining, he will begin a major review of our governance and corporate structure to ensure it's as simple and transparent as it can be, and delivering the best for our customers both now and over the long-term.

As part of this review, we're intending to close our Cayman financing company and its holding company – and we've started the preliminary work. Although posing no tax benefit since they were established, we know their existence brings opacity to our structure and they no longer serve their original purpose.

An advocate of delivering industry-leading customer service, our new Chairman will also thoroughly review other areas of our governance to ensure we're in the best position to fulfil our promises to those who rely on our essential services every day of the year.

In July 2017 we appointed Nick Land as our new Senior Independent Director. Nick, a former Chairman of Ernst & Young and a current Board member of the Financial Reporting Council, joined us as an Independent Non-Executive Director in February 2017 and is Chair of our Audit, Risk and Reporting Committee. In the last six months, we've also decided to separate the Audit, Risk and Regulatory Committee into two. We now have a separate Strategy and Business Planning Committee and an Audit, Risk and Reporting Committee, to allow Directors to dedicate more time to particular issues.

We recognise the need to communicate our governance principles more widely, so our audiences understand how the business is being run. We welcome the Ofwat Chairman, Jonson Cox's encouragement to be more open about our standards of governance and we will be publishing a comprehensive response to address the commitments in our 2017/18 Annual Report. It will include a clear comparison between the financial flows of our current corporate structure and what those returns would be under the structure Ofwat uses for assessing all companies. We have also made changes to the incentive plans offered to senior management to align them with the operational performance of our business.

> The refreshed management team has the full support of the Board and shareholders in their mission to deliver even more for our customers, putting us in a strong position to embrace our next chapter.

Delivering more for customers

We've spent a lot of time during the first six months of this financial year listening to our customers, evaluating our business and strengthening our vision and corporate strategy to focus our priorities. The refreshed management team has the full support of the Board and shareholders in their mission to deliver even more for our customers, putting us in a strong position to embrace our next chapter.

Our leakage performance over the last year has let down our customers and stakeholders and we're working hard to improve our performance. Our outcome delivery incentive penalty for leakage was due to be applied to bills after 2020, along with the other penalties we incurred during 2015/16 and 2016/17. However we've decided to return the £40 million of penalties to customers now. Inflation and other factors were expected to increase bills by 4.6% from 2018/19. As a result of bringing forward the penalties the expected increase in bills for next year has been halved.

While we're doing what we can to keep customer bills as low as possible, we're continuing to invest heavily in our infrastructure to future proof our services. We've already invested £533 million this year in a continuation of our huge investment programme which has seen us invest over £12 billion in the last 12 years. Further information on page 9.

Investors aligned with our long-term plans

Our investors are aligned with our corporate strategy and are committed to creating the best future for our business and our customers. We welcomed new investors in May 2017 when one of Canada's largest pension plans, OMERS (Ontario Municipal Employees Retirement System) and Wren House, the global direct infrastructure investment arm of the Kuwait Investment Authority, acquired 17.543% and 8.772% of the company respectively. Since then, OMERS has twice announced its intention to increase its share in Thames Water, underlining its confidence and commitment to our business. The latest of these transactions is expected to complete in early 2018 and will bring OMERS' total share to 27.433%.

Universities Superannuation Scheme (USS), one of the largest principal private pension schemes for universities and other higher education institutions in the UK, acquired an 10.939% share in November 2017, making the company our second largest shareholder. With two thirds of our entire investor base representing pension funds, serving nine million pensioners around the world, our shareholders are looking for sustainable returns over the long-term.

Improved performance benefits everyone. While we refocus to improve our operational performance and lay solid foundations for the future, we've agreed with our ultimate shareholders that we won't pay a dividend to them relating to 2017/18. The only distribution we are paying in relation to the current financial year is to service group debt obligations and working capital requirements. For the first six months of the year we've paid £26.0 million for this purpose.

Refining our business model to deliver long-term efficiencies

To focus on delivering our core services to customers more efficiently, and to create a resilient business for the long term, we've been reviewing our business model over the last few years. When the business retail market opened to competition in April 2017, our retail non-household customers were all transferred to Castle Water, following an agreement to sell that part of our business – the £89.5 million gain from the sale can be seen in our financial results on page 39.

Our three alliances – eight$_2$O, the Infrastructure Alliance and the Technology and Transformation Alliance – have all been in place for more than a year and we've been reviewing their operations to ensure they're working as efficiently as possible for the long-term benefit of the company and our customers.

Business planning for the future

Unlike many other companies, our services are never going to 'go out of fashion' - our fundamental purpose hasn't changed in 400 years and will undoubtedly stay the same for the next 400 years. The world around us, however, is evolving, and so too is the way we provide our essential services.

As we look to plan for the next regulatory period and beyond, we've been spending lots of time engaging with our customers and stakeholders. In January 2018, we will be consulting with them about our water resources management plan, which outlines how we will ensure a secure supply of water for our customers for 25 years from 2020. In February 2018, we will consult on the evolution of our business plan proposal for the next regulatory period, before submitting it to Ofwat in September 2018. We've also been working hard to ensure we're doing the right thing for our customers as we approach the introduction of new General Data Protection Regulations in May 2018.

More than 150 years ago, Sir Joseph Bazalgette created pioneering engineering that is still operational today. As the modern day custodians of this iconic company, which London and the Thames Valley rely so heavily on, we have the duty to make the right decisions to ensure we meet our commitments to today's customers, their children, grandchildren and beyond.

It has been a privilege to serve as Chairman of Thames Water for more than a decade. I have seen many changes over the last 12 years and will leave the company and its customers in safe hands for the future. This is an important moment for Thames Water as it begins a new chapter and delivers on its new vision.

Sir Peter Mason KBE
Chairman

We won the 'Carbon Reduction Initiative of the Year' award at the Water Industry Achievement Awards, for our innovative approach at Littleton Pumping Station.

The industry's largest investment programme

Serving 15 million customers every day, and with a network which could stretch three and a half times around the world, continued investment in our infrastructure is vital. Over the last 12 years we've spent over £12 billion. This is three times more a year, on average, than before privatisation and this trend is continuing. During the first six months of this year we've invested £533 million in the business and we've ramped up our investment for the remainder of this regulatory period (2015-2020) to ensure our assets are managed and optimised to give the very best 'whole-life' long-term outcomes.

As part of this, we've committed to increasing our investment in our largest water mains by £97 million before 2020 and we're investing a further £40 million to improve resilience at some of our operational wastewater sites. Here are some of our recent investments:

1 Our £250 million Deephams sewage treatment works upgrade project, designed to accommodate the growing population and reduce odour for the local community, is progressing well.

2 Progress on the landmark Thames Tideway Tunnel, which is set to divert millions of tonnes of sewage away from the River Thames, remains on schedule. We've now handed over all sites required for tunnel construction to Bazalgette Tunnel Limited, the independent, licensed infrastructure provider responsible for constructing the tunnel, known to the public as Tideway - **tideway.london**.

3 In the first six months of 2017/18 we spent £6.5 million on a major sustainable urban drainage project for the Nine Elms development in Battersea.

4 We've also been investing in equally important projects in the wider Thames Valley area including the £30 million Axford water pipeline, which is now fully operational.

Reflecting on my first 12 months

Steve Robertson
Chief Executive Officer

After spending more than 12 months living and breathing Thames Water I have a very clear view of what we need to do to create a company that our customers respect.

You can feel the energy running through the business as we enter the next chapter and I'm proud that the Thames Water family is rising to the new challenge.

Thames Water is a sound business with many positive qualities – but we need to be even better than that. We are fundamentally a provider of water and wastewater services and we need to ensure we are consistently getting the basics right, so our customers can rely on their essential services every single day of the year. We are privileged to have life-long investment from them through their bills and we don't take our responsibilities lightly. I've spent a lot of time with my team over the last 12 months engaging with customers, employees and other stakeholders to understand where our priorities need to lie.

Since I arrived, we've had to deal with a number of high-profile bursts. I commissioned a strategic report which has been made public and contains many good recommendations to reduce such events. In March we also received a large fine for pollutions which dated back in some instances to 2012. We take full responsibility for these events and there should be no doubt that we have been making the necessary investment and structural changes to avoid any such repeat.

The world all around us is evolving. Population growth is putting pressure on our services, technology is developing at a rapid rate and climate change is having an impact on the resilience of our services. To be nimble in our reaction to change, I've refreshed my management team.

More than half of the executive team are new to their roles, including me. New talent, with fresh ideas from outside the sector, working together with long-standing Thames Water family members, possessing an in-depth understanding of the mechanics and challenges of this iconic business, is the right combination for our leadership team.

We've taken a critical look at where we spend our money and our underlying philosophy for investment. This has resulted in significant changes in our planning process to ensure that our customers are getting the best value for money over the many decades we plan for. Everything we spend needs to benefit our customers and the environment around us. To speed up our improvement in areas where we are not delivering, we've committed to spending more during this regulatory period than was in our original plan - the £97 million we've committed to investing in our largest 'trunk' water mains is just one example. This means we need to scrutinise everything we spend to ensure efficiency, and is why our investors have agreed not to receive an external dividend this year. They are totally aligned with our long-term plans.

We're also heavily engaged in the wider debate about what's best for our sector. But what's important to me is that customers are at the heart of everything the water industry does, and that we are able to continue investing in our business for the benefit of today's customers, and future generations. We've been investing heavily for more than a decade and we will continue to do so. Combining investment and operational expenses, we've spent a total of £18.6 billion during the last ten years, which includes over £1 billion a year, on average, in our infrastructure.

Over the last couple of years we've engaged with nearly 20,000 customers as part of our planning for the next regulatory period.

Anyone who has spent time with me will know one of the most important things to me is that we are consistently open and transparent with all our audiences. The last year has seen a shift in our culture, and the way we engage with our customers and stakeholders is very different. Inevitably this has increased the external spotlight on our business and I welcome that. It's important to me that we engage in a two-way dialogue with people, and that they have the opportunity to voice their views – these conversations are crucial to us. I know there will always be differing views about how to run Thames Water, and people won't always agree with the decisions we make, but everything I do is with our customers' best interests in mind.

We're halfway through this regulatory period (2015-2020), and we've been spending a lot of time engaging with our customers, to understand what they want from us during the next regulatory period and beyond. Over the last couple of years we've spoken to approximately 20,000 customers as part of our planning for our next price review – PR19. We've prepared a draft plan in response to the views we've heard and will be seeking further input from customers early next year. Providing more priority services for customers, driving further improvement in our 'bad debt' performance (customers' failure to pay) and wider service improvements will all underpin our customer services strategy for 2020-2025.

Internally, we've spent a lot of time talking as a business about our vision and what we need to do to deliver the best for our customers. As we move forward we're continuing to work closely with our team mates across Thames Water as we refine our corporate strategy and plan its delivery.

I'm under no illusion that it will take time to drive change in a business of this age and size. We're not going to see a transformation overnight. I genuinely believe in Thames Water, its future and its people, and we're on a journey to become the most respected utility in the UK.

Best,

Steve Robertson
Chief Executive Officer

Everything we do as an executive team continues to be based on the following five principles.

1. Listening to our customers, understanding their needs and putting those needs at the forefront of our decision making
2. Being good custodians of the environment
3. Ensuring that our assets are maintained, renewed and optimised to give the very best 'whole-life outcomes'
4. Operating our business with optimal efficiency and innovating continuously
5. Being crystal clear in all our activities, both internal and external, that we are responsible for the service we give our customers and the health and wellbeing of our assets

> We're on a journey to become the most respected utility in the UK.

Improving customer experience.

Providing life's essential ingredient

Our water is consistently some of the highest quality water in the world and we work hard to maintain its exceptional quality with nearly half a million water quality tests each year. We're proud of our product and we expect to maintain last year's performance of 99.96% drinking water quality compliance.

An upwards trend

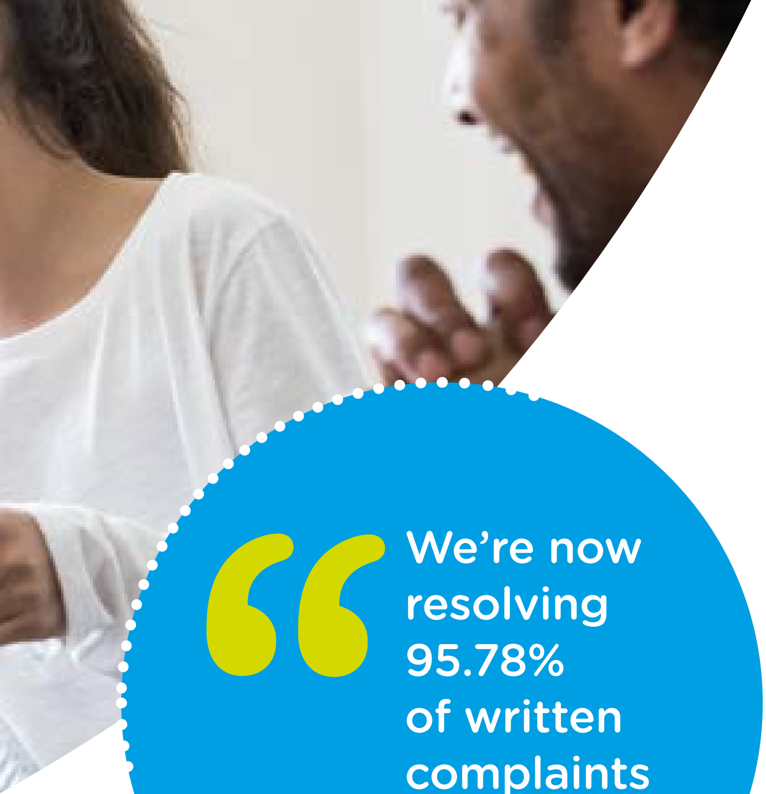
We're continuing to see an upwards trend in our service incentive mechanism (SIM) score, Ofwat's customer service measure, which is currently 1.46 points higher than it was in September last year. Our Ofwat customer satisfaction (CSAT) score makes up 75% of our SIM score and reached an average of 4.25 out of 5 during the first six months of 2017/18 - for the first time our retail CSAT scores beat the industry average. We've also seen an 8% year-on-year reduction in total written complaints and 95.78% of written complaints are now being resolved first time. While we recognise the need to increase the speed of our improvement to catch up with our peers, we're pleased with the direction we're taking and are confident in our long-term customer service improvement plan.

Revolutionising our digital capabilities

We're progressing with our £120 million project to revolutionise our customer relationship management and billing (CRMB) system to improve the resilience of our billing engine and enable us to provide a better customer experience – we will start to transition customers to the new system in 2018/19.

Telephony and IT systems issues have affected our service to customers during the first six months of the year however we're making headway with our IT stabilisation plan to ensure this becomes a thing of the past.

As part of our drive to overhaul our digital capability and ensure a consistently good service to our customers, we hired our first Chief Digital Officer in September - John Beaumont joined us from Bain & Company. John is committed to improving our customer experience through the use of innovative digital channels, and using digital technologies to manage our networks and equipment.



"We're now resolving 95.78% of written complaints first time.

Developing our incident communication

Our customer service, particularly on social media, wasn't what it should have been during the significant bursts at the end of 2016 and we learnt from that. We listened to our customers and made changes to our approach to social media, increasing resource and creating a 24/7 service. We're continuing to drive change and improve our communication channels across the board. We know there's still work to do to ensure we provide a sufficiently resilient service, as our customer satisfaction scores are still disproportionately affected during emergencies, but we've been receiving good feedback about our improving response.

Streamlining the process

Mirroring our existing wastewater customer service centre, which opened in 2016, we've launched a new 'one-stop-shop' centre in South London for our water customers. This new office brings planning, scheduling and despatch under one roof to increase the speed of resolution of complaints and improve our 'all-round' service to customers.

Helping vulnerable customers

We've continued to assist customers with our customer assistance fund – making 3,977 payments to help with £2.57 million of debt during the first six months of 2017/18 – and have two social tariffs to support customers. We're also increasing our resources to help those who need more 'non-financial' support, including those who need priority services in an emergency.

Making things fair

We're committed to being fair to all our customers. Failure to pay bills, which results in 'bad debt', is predominantly a result of people choosing not to pay their bills rather than genuinely not being able to. All our bills account for failure to pay and we're keen to ensure the vast majority who pay their bills on time aren't penalised by those who choose not to pay their fair share. Following the introduction of a new approach in 2015, we're continuing to see a reduction in bad debt, enabling us to have more money to invest in our business for the benefit of all our customers.

Connecting to our network illegally is not only unfair to those who pay their bills, but could also affect water quality and we've increased our focus on reducing this behaviour. Following 296 investigations into illegal connections during the last six months, we expect to save 15 million litres of 'stolen' water during the next ten years.

Supply interruptions

A complicated repair to a burst pipe, combined with increased demand due to a heatwave, in Bromley in July 2017 saw many customers without water for a prolonged period. This failure to deliver our commitment to customers had a huge impact on our 'supply interruptions for more than 12 hours' measure and we're unlikely to meet our performance commitment for 2017/18. Our customers rely on us to provide clean and safe drinking water every day, 365 days of the year and we're working hard to keep our supply interruptions, for both 4 and 12 hours, to a minimum – and to meet our 'less than four hours' commitment for 2017/18.

Increasing investment in our water network

Winter 2016

saw a series of high profile bursts on some of our largest 'trunk' water mains, which affected many customers in London.

In October 2017, we published our **trunk mains strategic review** setting out a clear action plan to reduce the likelihood of, and minimise the risks associated with, significant bursts.

We're trialling innovative **new scanning technology** to help detect defects on our large water pipes. A torpedo-shaped scanning device is lowered through a specially designed hatch built onto a pipe, after it is taken out of service. The scanner travels down the pipe and uses acoustic technology to survey its condition.

We've committed to increasing investment in our largest water pipes by £97 million before 2020.

We've made good progress with **trunk main relining** in Leigham Vale and Upper Street.

Slough sewage treatment works

Being good custodians of the environment.

Tackling our leakage

Reducing our leakage is one of our biggest priorities. We know it is unacceptable, and inefficient, to be leaking so much precious water from our pipes, yet reducing it is one of the biggest challenges we face. With most of our 31,000 km of water pipes buried under the streets of London and the Thames Valley, locating and repairing leaks – the majority of which never appear on the surface – is no mean feat.

Regrettably, we'll miss our leakage target again this year. Driving a significant reduction in the leakage from our network will take time but we're increasing our investment and making headway with a recovery plan to bring us back on track by the end of the regulatory period. Over the last six months we've been revising our approach. Rather than making quick fixes to improve our performance and patch up our network, we've spent time understanding our network and its limitations so we can invest for the long-term in a more targeted way.

Since the bursts in 2016 we've changed the management structure in our water business, to ensure efficiency in our approach, and have increased the number of employees dedicated to reducing leakage. With a more collaborative and coordinated work ethic, we're completing jobs more effectively to reduce the number of outstanding leaks. Embracing our vision of "innovating for life in a changing environment" we're also investing £3.5 million in new technology to detect leaks, including 6,000 new acoustic loggers, which 'listen' for escaping water.

Encouraging water efficiency

To help reduce the impact of climate change and population growth on our finite resources, we're continuing our industry-leading and award-winning water efficiency campaign to encourage our customers to be 'water smart'. During the first six months of the year, we carried out 33,887 smarter home visits, saving 3.3 million litres of water a day. Since we started the campaign in 2015, we're helping customers save over 12 million litres a day.

BBC Radio 1's Greg James meets the Whitechapel fatberg for his drivetime show.

We've also installed 67,000 new water meters and replaced over 10,000 existing meters since April 2017. Added to existing metered customers, 39% of households are now on a metered bill. As well as helping customers monitor the amount of water they use to protect the environment and keep their bills down, meters also help us detect leaks on the network by recording continual water use. Since April, "smart" metering technology, which we've started to roll-out across London, has helped us find and fix leaks on customers' supply pipes saving the equivalent of 1.8 million litres of water a day.

Fatberg fever grips the globe

With sewer blockages causing flooding and costing the company, and our customers, over £20 million a year to clear, reducing their number is a key focus for us. Since September 2016 we've seen an 9% year-on-year reduction, and this doesn't account for the enduring effects of 'fatberg mania', which captured the world's attention in September and October 2017.

Following the discovery of a huge fatberg under the streets of London's Whitechapel Road, we promoted our 'Bin it – don't block it' messages to tens of millions of people across the UK, with more than 120 countries around the world also covering the story. Appearing on Greg James' BBC Radio 1 drive time show, BBC News at Ten, Channel 4 News and Mock the Week to name just a few, we hope our famous fatberg and the graphic insight into the challenging work our teams do to protect our customers from sewer flooding will help change flushing behaviour.

Reducing sewer flooding

We've also seen an 11% reduction in the number of sewer flooding incidents since September 2016, meaning we're ahead of target for our 'sewer flooding other causes' performance commitment for 2017/18. With sewer blockages being the leading cause of sewer flooding, we've increased our proactive sewer cleaning programme, reduced the time it takes to clear blockages and invested more in targeted "Bin it, don't block it" marketing campaigns to protect our customers.

As part of our prevention campaign, we've also been working closely with fast food establishments and restaurants across our region to encourage better practices. Approximately 90% of outlets visited across London and the Thames Valley were failing to prevent fat, oil, grease and food scraps entering the sewer network, where it congeals with wet wipes and other 'unflushables' to cause blockages.

Preventing pollutions

Our change in approach to pollutions following the historical incidents between 2012 and 2014 continues to pay off, with a 10% reduction in incidents.. Since January we've taken action which has prevented pollutions at nine of our previously polluting sewage pumping stations, by being more proactive in our approach to control. There's still room for improvement, particularly around category one and two pollutions (categories range from one to four with one being the most severe), and we're increasing operational controls at all our sites to further improve our performance. We're also on track to improve performance against our sewage treatment work compliance performance commitment for 2017/18 with additional investment of £40 million in wastewater equipment helping to maintain compliance and protect the environment.

As we approach the winter months, it's 'all systems go' with our company-wide wet weather planning programme. In April 2016 we introduced 'storm-chasing' as a way to better understand weather data and how it affects our equipment, ensuring we're ahead of the game and can proactively manage the impact of weather on our wastewater network.

Being a good neighbour

Odour is an inevitable by-product of the wastewater treatment process, and the increase in housing developments near our sewage treatment works means we need to take extra care to ensure we're being a good neighbour. We're continuing to work hard to reduce odour leaving our sewage treatment works but there's still work to do to meet our performance commitment.

Minimising our footprint

We're fast becoming a 'world-leader' in the production of energy from sewage, producing 146 GWh of our own electricity during the first six months of the year. This is a 17% increase on generation during the same period last year.

Coupled with wind and solar power, we're now producing 23% of our own electricity, enough to power 96,000 homes, and reducing our energy costs by £12 million. While we're streets ahead of many others with the generation of electricity from sewage, we have very ambitious plans to drive down our energy costs further and we're not quite where we wanted to be midway through this financial year.

Following our agreement with Haven Power, 100% of the energy we now use is renewable, further reducing our impact on the environment, and we're on track to meet our greenhouse gases performance commitments.

> "Our change in approach to pollutions continues to pay off, with a 10% reduction in incidents.

With a fleet of over 1,500 Thames Water vans on the streets of London and the Thames Valley every single day, we're committed to reducing our carbon footprint. September 2017 saw the appearance of our first ever electric van in Reading, as part of a six month trial, and we hope to be able to roll these out across our region.

Health and safety

Health and safety continues to be of paramount importance. For the first time ever we've clocked up over 3,000,000 working hours without a lost-time injury and we've seen a 67% reduction in the number of these injuries since we adopted our zero tolerance approach in 2013. There were 53% fewer incidents leading to injuries suffered by our people during the first six months of 2017/18, and a 59% year-on-year reduction in cases of lost-time due to mental health illness.

Sharing our expertise

In the UK we're in a privileged position, with clean running water and proper sanitation, and as a company we're committed to sharing our skills to help those who aren't as lucky. After raising £2 million to improve water services for people in Bangladesh, we're on a bid to raise the same life-changing amount for Malawi, the world's poorest country. During the first six months of 2017/18 we raised £236,822 towards our 'Thames loves Malawi' campaign and in August we signed an agreement with the Central Region Water Board of Malawi to commit to sharing resources, knowledge and expertise. A team of ten employees travelled to Malawi in September 2017 to work with Malawians, and together they brought a water supply to part of a town for the first time.

We're delighted to have been recognised by the Global Real Estate Sustainability Benchmark for Infrastructure (GRESB) survey for our commitment to sustainability. The GRESB awards are a way of assessing the sustainability of infrastructure assets in terms of environmental, social and governance performance and we were rated number one globally out of 160 companies in the 'water resources' category, and fourth for infrastructure.

Our financial review

Brandon Rennet
Chief Financial Officer

The provision of our essential services doesn't stop at the end of each regulatory cycle and the way we run our finances is very much aligned with this.

We've invested over £12 billion in our infrastructure in the last 12 years, to ensure it stands the test of time – we need to create resilient essential services for our customers, their children, grandchildren and beyond. Without water, life wouldn't exist.

Our investors share our view. We're owned by pension funds and sovereign wealth funds, both of which are looking for reasonable and sustainable returns over many years, and the average maturity of our debt is approximately 18 years.

With huge responsibilities to the people of London and the Thames Valley, we've been taking a critical look at how and where we spend our money to drive maximum benefit for our customers and the environment. To deliver long-term financial efficiencies within the company, we've been refining our business model over the last few years, which has included setting up our three alliances, and selling our retail non-household business to be able to focus on our wholesale and retail household operations.

For our 2017/18 Annual Report we'll be moving from a three-year to a five-year viability statement and we will continue to take a very long-term view of our business and its financial stability.

Revenue

At the start of the regulatory period the amount we would bill our customers was agreed with Ofwat through the price review process so our revenue is not subject to significant year-on-year fluctuations. Our combined bills remain the third lowest in England and Wales, at an average of £374 for 2017/18, meaning we provide water and wastewater services for an average of just over £1 per day per household.

We continue to include amounts in our bills for the construction of the Thames Tideway Tunnel (TTT). We recognised £12.9 million during the first six months of the financial year. As the cash is collected, we pass it on to Bazalgette Tunnel Limited (BTL), the independent company responsible for constructing the tunnel. The cash is not retained by us, therefore we have excluded it from our underlying results.

Operating expenses

We've seen an increase in our operational expenses of £19.1 million in the first six months compared to the six months ended 30 September 2016, driven mainly by:

- A £10 million increase in our business rates costs. Due to the significant number of business properties that we operate out of across both London and the Thames Valley area, we have been affected by the increase in government business rates that came in to effect on 1 April 2017.

An overview

	Underlying Period ended 30 September 2017	Total Period ended 30 September 2017	Underlying Period ended 30 September 2016	Total Period ended 30 September 2016	Underlying Year ended 31 March 2017	Total Year ended 31 March 2017
Revenue (£m)	1,029.9	1,042.8	1,024.3	1,039.5	2,027.1	2,060.1
Operating expenses (£m)	(791.1)	(791.1)	(772.0)	(772.0)	(1,515.4)	(1,515.4)
Operating profit (£m)	281.5	294.4	301.8	317.0	605.4	638.4
Net finance expense (£m)	(217.9)	(217.9)	(174.5)	(174.5)	(361.8)	(361.8)
Net (losses)/gains on financial instruments (£m)	(12.4)	(12.4)	(179.1)	(179.1)	(205.5)	(205.5)
Profit/(loss) before tax (£m)	140.7	153.6	(51.8)	(36.6)	38.1	71.1
Profit after tax (£m)	127.7	138.1	24.8	37.0	108.4	139.2
Capital expenditure excluding intangibles (£m)	532.7	532.7	540.9	540.9	1,115.3	1,115.3
Net debt (£m)	11,052.2	11,052.2	10,301.1	10,301.1	10,749.4	10,749.4
Dividends paid (£m)	26.0	26.0	30.0	30.0	157.0	157.0
Gearing (%)*	81.3	n/a	80.3	n/a	81.3	n/a
Credit rating**	n/a	Baa1 stable	n/a	Baa1 stable	n/a	Baa1 stable

* Ratio of covenant net debt to Regulatory Capital Value ("RCV")
** Representing the consolidated Corporate Family Rating assigned by Moody's

- An £8 million increase in personnel costs. We have increased our headcount to enable us to improve our service to customers which has resulted in an increase in our personnel costs. We have also had an increase in pension service costs for our defined benefit pension schemes

Our financial performance

In the first six months of the year our underlying profit before tax was £140.7 million (six months ended 30 September 2016: loss of £51.8 million). This includes recognition of the profit on the sale of our retail non-household business to Castle Water Limited, which completed on the date of market opening – 1 April 2017, and favourable movements on our derivative financial instrument portfolio.

A summary of the movement in our underlying profit before tax is summarised on page 25.

Financing our investment

Our net debt, essentially our borrowings less cash, has increased by £302.9 million to £11,052.2 million as we continue to use external funding in order to deliver our capital investment programme in the most affordable way for our customers. We've invested £562.8 million in the first six months of 2017/18. We are required to pay interest on these borrowings leading to a net finance expense. Our net finance expense for the first six months of the year was £217.9 million. This is made up of £321.6 million interest expense offset by £50.3 million of interest income and £53.4 million that is directly attributable to constructing specific assets and is therefore included in the cost of the asset.

We have access to long-term funding alternatives from financial institutions as well as public and private debt capital markets across a diverse range of sources, geographies and currencies.

To obtain external funding we need to abide by specific rules set out for us by the institutions we borrow from. One of these relates to gearing (ratio of our net debt to Regulatory Capital Value (RCV)). Our gearing ratio of 81.3% was below the maximum mandated gearing level of 85.0%.

Fair value of derivatives

We have approximately £4.6 billion of derivative financial instruments (face value), which include £2.25 billion of forward starting interest rate swaps (£1.4 billion commenced up to 30 September 2017) that hedge a material element of the cost of debt we expect to borrow during this five year regulatory period. For the purposes of our financial statements, we continue to "fair value" our portfolio as at the reporting date. We report these non-cash value movements within our income statement which can materially

impact our reported profit before tax. During the six month period a fair value loss of £12.4 million (six months ended 30 September 2016: loss of £179.1 million) has been recognised in the income statement, primarily driven by accretion on index-linked swaps.

No external dividends

During the period we paid dividends of £26.0 million (six months ended 30 September 2016: £30.0 million) to our parent company, solely to service debt obligations and working capital requirements of other companies in the Group. No distributions to external shareholders were paid during the period. We rely on our investors to help us invest in the future provision of water and wastewater services and we are committed to paying them a dividend when it is appropriate to do so.

Strong credit ratings

In October 2017, the rating agency Moody's affirmed our Baa1 Corporate Family Rating (CFR) with a stable outlook, which represents a strong investment grade rating. This supports specific ratings of A3 and Baa3 for our Class A and Class B debt respectively.

In September 2017, Standard and Poor's (S&P) downgraded our Class A rating by one notch from A- to BBB+, with our outlook improving from 'negative' to 'stable' at this new rating. BBB+ with a stable outlook represents a strong investment grade rating and the downgrade will not have any significant effect on our ability to access efficiently priced debt.

Pensions

We operate three pension schemes for our employees – two defined benefit schemes and one defined contribution scheme. In June 2017, the latest triennial valuations of our two defined benefit pension schemes as at 31 March 2016 were signed off by the independent consulting actuary, Aon Hewitt.

These 2016 valuations resulted in one of our defined benefit pension schemes being in surplus and the second scheme having a deficit of £351.3 million. These triennial valuations dated 31 March 2016 have been updated to 30 September 2017 and have resulted in an overall net deficit of £348.4 million, which is a reduction of £31.4 million since 31 March 2017. This is mainly due to an increase in the yields of low risk (AA-rated) corporate bonds in the public market, which has increased the discount rate used to value the pension scheme liabilities and a reduction in long-term inflation expectations. Pension scheme assets have decreased in value, but not proportionately, so the deficit in the pension scheme has decreased as a result.

As agreed with the pension trustees through the latest triennial valuation exercise, there is a recovery plan in place to sustainably reduce the deficit of the pension scheme to zero by 2026, based on the triennial valuation dated 31 March 2016. It includes pension deficit repair payments of approximately £22 million per annum.

We are currently going through a consultation with the members of our defined benefit pension schemes, with a view to agreeing on the most cost effective way to run these pension schemes going forward.

A summary of the movement in our underlying profit before tax is summarised below.

	£m
Loss before tax for the period ended 30 September 2016	(51.8)
Increase in underlying revenue	5.6
Increase in operating expenses (note 3)	(19.1)
Movement to loss on sale of property, plant and equipment	(0.9)
Decrease in other operating income (note 4)	(5.9)
Profit on sale of non-household business (note 5)	89.5
Increase in net interest payable	(43.4)
Movement in (losses)/gains on financial instruments	166.7
Profit before tax for the period ended 30 September 2017	140.7

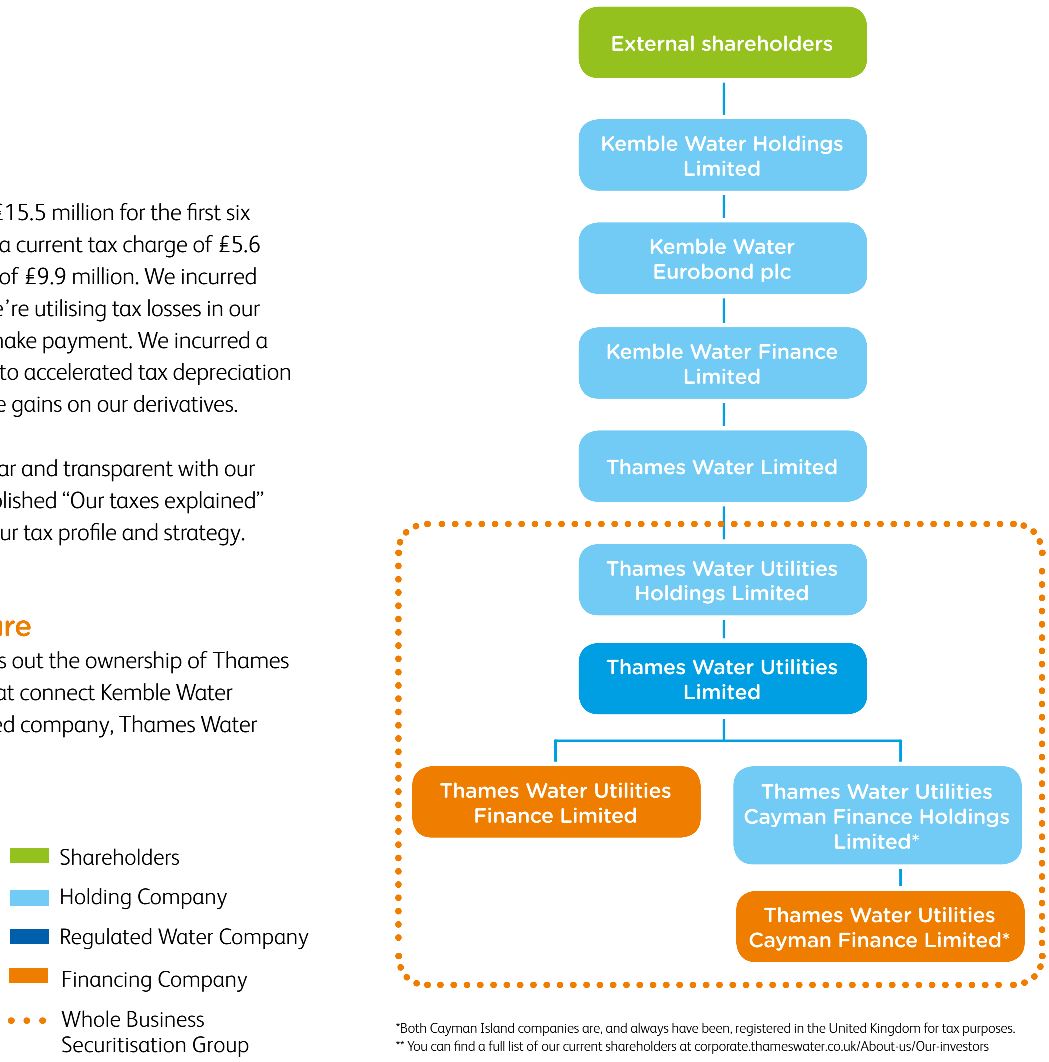
Taxation

We recognised a tax charge of £15.5 million for the first six months of the year, comprising a current tax charge of £5.6 million and deferred tax charge of £9.9 million. We incurred a current tax charge because we’re utilising tax losses in our parent company for which we make payment. We incurred a deferred tax charge mainly due to accelerated tax depreciation on our fixed assets and fair value gains on our derivatives.

It is our continued aim to be clear and transparent with our approach to tax. In June we published “Our taxes explained” which provides an overview of our tax profile and strategy.

Our corporate structure

The structure chart opposite sets out the ownership of Thames Water and those subsidiaries that connect Kemble Water Holdings Limited to the regulated company, Thames Water Utilities Limited:



*Both Cayman Island companies are, and always have been, registered in the United Kingdom for tax purposes.
** You can find a full list of our current shareholders at corporate.thameswater.co.uk/About-us/Our-investors

Our financial statements.


FN09 KVZ

Statement of Directors' responsibilities in respect of the interim report and financial statements

The Directors have complied with the Disclosure and Transparency Rules, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The Directors confirm to the best of their knowledge:

- the condensed set of financial statements has been produced in accordance with IAS 34 *Interim Financial Reporting*; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year, their impact on the condensed set of interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the year.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 27 November 2017 and signed on its behalf by:

Brandon Rennet
Chief Financial Officer

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent review report to Thames Water Utilities Limited for the six month period ended 30 September 2017

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2017 which comprises the condensed income statement, the condensed statement of comprehensive income, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flows and the related explanatory notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IAS 34 Interim Financial Reporting as adopted by the EU.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors.

As disclosed within the accounting policies the next annual financial statements of the company will be prepared in accordance with International Financial Reporting Standards as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Robert Brent

for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

27 November 2017

Condensed income statement

For the six month period ended

		30 September 2017			30 September 2016		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Revenue		**1,029.9**	**12.9**	**1,042.8**	1,024.3	15.2	1,039.5
Operating expenses	3	**(791.1)**	**-**	**(791.1)**	(772.0)	-	(772.0)
(Loss)/profit on the sale of property, plant and equipment		**(0.3)**	**-**	**(0.3)**	0.6	-	0.6
Other operating income	4	**43.0**	**-**	**43.0**	48.9	-	48.9
Operating profit		**281.5**	**12.9**	**294.4**	301.8	15.2	317.0
Profit on the sale of retail non-household business	5	**89.5**	**-**	**89.5**	-	-	-
Finance income		**50.3**	**-**	**50.3**	45.7	-	45.7
Finance expense		**(268.2)**	**-**	**(268.2)**	(220.2)	-	(220.2)
Net loss on financial instruments		**(12.4)**	**-**	**(12.4)**	(179.1)	-	(179.1)
Profit/(loss) on ordinary activities before taxation		**140.7**	**12.9**	**153.6**	(51.8)	15.2	(36.6)
Taxation on (profit)/loss on ordinary activities	6	**(13.0)**	**(2.5)**	**(15.5)**	76.6	(3.0)	73.6
Profit for the period		**127.7**	**10.4**	**138.1**	24.8	12.2	37.0

Condensed statement of other comprehensive income

For the six month period ended

		30 September 2017			30 September 2016		
		Underlying	**BTL**	**Total**	Underlying	BTL	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Profit for the period		**127.7**	**10.4**	**138.1**	24.8	12.2	37.0
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial gains/(losses) on pension schemes		**44.0**	**-**	**44.0**	(180.9)	-	(180.9)
Deferred tax on net actuarial (gains)/losses	13	**(7.5)**	**-**	**(7.5)**	26.7	-	26.7
May be reclassified to the income statement:							
Gains/(losses) on cash flow hedges		**10.7**	**-**	**10.7**	(91.2)	-	(91.2)
Cash flow hedges transferred to income statement		**9.6**	**-**	**9.6**	-	-	-
Deferred tax (charge)/credit on cash flow hedges	13	**(3.4)**	**-**	**(3.4)**	13.3	-	13.3
Other comprehensive income/(loss) for the period		**53.4**	**-**	**53.4**	(232.1)	-	(232.1)
Total comprehensive income/(loss) for the period		**181.1**	**10.4**	**191.5**	(207.3)	12.2	(195.1)

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

Bazalgette Tunnel Limited ("BTL") is an independent company un-related to Thames Water Utilities Limited and was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue 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 2017. As cash is collected, these amounts are subsequently paid to BTL. 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 is excluded from our key performance indicators, which is consistent with our banking covenants. The revenue and resulting profit on this arrangement has been disclosed separately to the Company's underlying performance in the statements above. As a result of this arrangement with no cash retained, a prepayment is created and recorded by the Company as BTL will transfer the tunnel to Thames Water Utilities Limited once construction is complete under a finance lease arrangement.

The accounting policies and notes on pages 34 to 46 are an integral part of these condensed financial statements.

Condensed statement of financial position

As at

	Note	30 September 2017 Underlying £m	30 September 2017 BTL £m	30 September 2017 Total £m	31 March 2017 Underlying £m	31 March 2017 BTL £m	31 March 2017 Total £m
Non-current assets							
Intangible assets		**146.2**	**-**	**146.2**	140.5	-	140.5
Property, plant and equipment	8	**14,375.0**	**-**	**14,375.0**	14,094.5	-	14,094.5
Investment in subsidiaries		**0.1**	**-**	**0.1**	0.1	-	0.1
Derivative financial assets	12	**62.6**	**-**	**62.6**	83.6	-	83.6
Intercompany loans receivable		**2,274.7**	**-**	**2,274.7**	2,274.7	-	2,274.7
Trade and other receivables	9	**2.4**	**42.7**	**45.1**	2.8	30.4	33.2
		16,861.0	**42.7**	**16,903.7**	16,596.2	30.4	16,626.6
Current assets							
Inventories and current intangible assets		**27.8**	**-**	**27.8**	21.7	-	21.7
Assets held for sale		**1.0**	**-**	**1.0**	1.0	-	1.0
Intercompany loans receivable		**27.7**	**-**	**27.7**	16.8	-	16.8
Trade and other receivables	9	**1,049.1**	**11.1**	**1,060.2**	634.2	3.0	637.2
Short term investments		**1.5**	**-**	**1.5**	1.0	-	1.0
Cash and cash equivalents		**23.1**	**3.8**	**26.9**	52.7	3.8	56.5
		1,130.2	**14.9**	**1,145.1**	727.4	6.8	734.2
Current liabilities							
Trade and other payables	10	**(1,193.8)**	**(16.6)**	**(1,210.4)**	(924.4)	(6.6)	(931.0)
Borrowings	11	**(690.6)**	**-**	**(690.6)**	(383.4)	-	(383.4)
Derivative financial liabilities	12	**(10.3)**	**-**	**(10.3)**	(23.8)	-	(23.8)
		(1,894.7)	**(16.6)**	**(1,911.3)**	(1,331.6)	(6.6)	(1,338.2)
Net current liabilities		**(764.5)**	**(1.7)**	**(766.2)**	(604.2)	0.2	(604.0)
Non-current liabilities							
Trade and other payables	10	**(416.9)**	**-**	**(416.9)**	(404.9)	-	(404.9)
Borrowings	11	**(10,390.0)**	**-**	**(10,390.0)**	(10,423.5)	-	(10,423.5)
Derivative financial liabilities	12	**(876.9)**	**-**	**(876.9)**	(900.7)	-	(900.7)
Deferred tax	13	**(898.2)**	**-**	**(898.2)**	(877.4)	-	(877.4)
Provisions for liabilities and charges	14	**(117.8)**	**-**	**(117.8)**	(112.5)	-	(112.5)
Retirement benefit obligations		**(348.4)**	**-**	**(348.4)**	(379.8)	-	(379.8)
		(13,048.2)	**-**	**(13,048.2)**	(13,098.8)	-	(13,098.8)
Net assets		**3,048.3**	**41.0**	**3,089.3**	2,893.2	30.6	2,923.8
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		**(205.5)**	**-**	**(205.5)**	(222.4)	-	(222.4)
Revaluation reserve		**1,037.1**	**-**	**1,037.1**	1,053.1	-	1,053.1
Retained earnings		**2,087.7**	**41.0**	**2,128.7**	1,933.5	30.6	1,964.1
Total equity		**3,048.3**	**41.0**	**3,089.3**	2,893.2	30.6	2,923.8

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

BTL is responsible for the construction of the Thames Tideway Tunnel. For the six month period ended 30 September 2017 the Company has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. These amounts are subsequently paid to BTL. The revenue and profit on this arrangement, which is excluded from our key performance indicators in line with our banking covenants, has been disclosed separately to the Company's underlying performance in the income statement. The statement of financial position above separately recognises the associated assets and liabilities as a result of this arrangement.

The accounting policies and notes on pages 34 to 46 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 27 November 2017 and signed on its behalf by:

Brandon Rennet
Chief Financial Officer

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 2016	29.0	100.0	(179.9)	1,071.9	2,092.7	**3,113.7**
Profit for the period	-	-	-	-	37.0	**37.0**
Loss on cash flow hedge	-	-	(91.2)	-	-	**(91.2)**
Deferred tax on cash flow hedge	-	-	13.3	-	-	**13.3**
Actuarial loss on pension scheme	-	-	-	-	(180.9)	**(180.9)**
Deferred tax on actuarial loss	-	-	-	-	26.7	**26.7**
Total comprehensive income	-	-	(77.9)	-	(117.2)	**(195.1)**
Transfer of depreciation	-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer	-	-	-	3.5	(3.5)	**-**
Reduction in deferred tax rate	-	-	-	12.8	(12.8)	**-**
Dividends paid	-	-	-	-	(30.0)	**(30.0)**
30 September 2016	29.0	100.0	(257.8)	1,069.0	1,948.4	**2,888.6**
Profit for the period	-	-	-	-	102.2	**102.2**
Profit on cash flow hedge	-	-	40.5	-	-	**40.5**
Cash flow hedge transferred to income statement	-	-	2.1	-	-	**2.1**
Deferred tax on cash flow hedge profit	-	-	(7.2)	-	-	**(7.2)**
Actuarial gain on pension scheme	-	-	-	-	29.7	**29.7**
Deferred tax on actuarial gain	-	-	-	-	(5.1)	**(5.1)**
Total comprehensive income	-	-	35.4	-	126.8	**162.2**
Transfer of depreciation	-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer	-	-	-	3.4	(3.4)	**-**
Reduction in deferred tax rate	-	-	-	(0.1)	0.1	**-**
Dividends paid	-	-	-	-	(127.0)	**(127.0)**
31 March 2017	29.0	100.0	(222.4)	1,053.1	1,964.1	**2,923.8**
Profit for the period	-	-	-	-	138.1	**138.1**
Profit on cash flow hedge	-	-	10.7	-	-	**10.7**
Cash flow hedge transfer to the income statement	-	-	9.6	-	-	**9.6**
Deferred tax on cash flow hedge	-	-	(3.4)	-	-	**(3.4)**
Actuarial gain on pension scheme	-	-	-	-	44.0	**44.0**
Deferred tax on actuarial gain	-	-	-	-	(7.5)	**(7.5)**
Total comprehensive income	-	-	16.9	-	174.6	**191.5**
Transfer of depreciation	-	-	-	(19.2)	19.2	**-**
Deferred tax on depreciation transfer	-	-	-	3.2	(3.2)	**-**
Dividends paid	-	-	-	-	(26.0)	**(26.0)**
30 September 2017	29.0	100.0	(205.5)	1,037.1	2,128.7	**3,089.3**

The accounting policies and notes on pages 34 to 46 are an integral part of these condensed financial statements.

Condensed statement of cash flows

For the six month period ended

	30 September 2017			30 September 2016		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Operating activities:						
Profit on ordinary activities after taxation	**127.7**	**10.4**	**138.1**	24.8	12.2	37.0
Less profit on sale of retail non-household business	**(89.5)**	**-**	**(89.5)**	-	-	-
Less finance income	**(50.3)**	**-**	**(50.3)**	(45.7)	-	(45.7)
Add finance expense	**268.2**	**-**	**268.2**	220.2	-	220.2
Add loss on fair value of financial instruments	**12.4**	**-**	**12.4**	179.1	-	179.1
Add taxation on profit on ordinary activities	**13.0**	**2.5**	**15.5**	(76.6)	3.0	(73.6)
Operating profit	**281.5**	**12.9**	**294.4**	301.8	15.2	317.0
Depreciation on property, plant and equipment	**244.1**	**-**	**244.1**	253.0	-	253.0
Amortisation of intangible assets	**15.1**	**-**	**15.1**	11.6	-	11.6
Loss/(profit) on sale of property, plant and equipment	**0.3**	**-**	**0.3**	(0.6)	-	(0.6)
Difference in pension charge and cash contribution	**8.0**	**-**	**8.0**	(18.3)	-	(18.3)
Increase in inventory	**(6.1)**	**-**	**(6.1)**	(1.8)	-	(1.8)
Increase in trade and other receivables	**(410.7)**	**(20.4)**	**(431.1)**	(364.3)	(24.0)	(388.3)
Increase in trade and other payables	**330.1**	**7.5**	**337.6**	430.6	13.7	444.3
Increase/(decrease) in provisions	**5.3**	**-**	**5.3**	(5.9)	-	(5.9)
Net cash generated by operating activities	**467.6**	**-**	**467.6**	606.1	4.9	611.0
Investing activities:						
Increase in current asset investments	**(0.5)**	**-**	**(0.5)**	(56.2)	-	(56.2)
Interest received	**45.3**	**-**	**45.3**	42.0	-	42.0
Purchase of property, plant and equipment	**(499.0)**	**-**	**(499.0)**	(569.9)	-	(569.9)
Purchase of intangible assets	**(20.7)**	**-**	**(20.7)**	(55.0)	-	(55.0)
Proceeds from sale of property, plant and equipment	**7.8**	**-**	**7.8**	0.6	-	0.6
Proceeds from sale of non-household business	**-**	**-**	**-**	97.5	-	97.5
Net cash used in investing activities	**(467.1)**	**-**	**(467.1)**	(541.0)	-	(541.0)
Financing activities:						
New loans raised	**982.5**	**-**	**982.5**	37.3	-	37.3
Repayment of borrowings	**(772.6)**	**-**	**(772.6)**	(0.6)	-	(0.6)
Derivative paydown	**(29.9)**	**-**	**(29.9)**	-	-	-
Interest paid	**(184.1)**	**-**	**(184.1)**	(209.6)	-	(209.6)
Dividends paid	**(26.0)**	**-**	**(26.0)**	(30.0)	-	(30.0)
Net cash used in financing activities	**(30.1)**	**-**	**(30.1)**	(202.9)	-	(202.9)
Net (decrease)/increase in cash and cash equivalents	**(29.6)**	**-**	**(29.6)**	(137.8)	4.9	(132.9)
Net cash and cash equivalents at beginning of period	**52.7**	**3.8**	**56.5**	522.5	-	522.5
Net cash and cash equivalents at end of period	**23.1**	**3.8**	**26.9**	384.7	4.9	389.6

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

The company holds short term investments as current financial assets (see note 12) which include money market deposits held with external parties. In the prior period the net cash flows on these investments were presented within financing activities. The Directors have considered the nature of these short term investments and have presented the net cash flow movement within investing activities with the prior period comparative re-presented in the same category. There is no impact on the total net movement in cash and cash equivalents for TWUL resulting from this change in presentation.

Bazalgette Tunnel Limited (“BTL”) is an independent company un-related to Thames Water Utilities Limited, and was appointed in 2015 to construct the Thames Tideway Tunnel. BTL is responsible for the construction of the Thames Tideway Tunnel. For the period ended 30 September 2017 the Company has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. These amounts are subsequently paid to BTL. The revenue and profit on this arrangement, which is excluded from our key performance indicators in line with our banking covenants, has been disclosed separately to the Company’s underlying performance in the statements above. The cash balance included above reflects amounts collected and not paid over at the balance sheet date.

The accounting policies and notes on pages 34 to 46 form an integral part of these condensed financial statements.

Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items which are considered material, except as noted below:

General information

Thames Water Utilities Limited ("the Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The Company is also an intermediate holding company within the Kemble Water Holdings Limited Group of companies ("the Group").

The Company's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers, operating in London, the Thames Valley and surrounding area in accordance with its licence of appointment. Following our decision in July 2016 to exit from the competitive non-household retail market, from the date of market opening (1 April 2017), the Company no longer acts as a retailer to non-household customers.

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 2017 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 27 November 2017, 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 2018 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 2017, there have been no significant changes to the principal risks and uncertainties that were disclosed in the Annual Report and Financial Statements for the year ended 31 March 2017.

Basis of Preparation

The condensed interim financial statements for the six months ended 30 September 2017, set out on pages 30 to 33, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

Notes to the condensed financial statements

The accounting policies adopted in the preparation of these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period.

A number of amendments to IFRSs became effective for the financial year beginning 1 April 2017, however the Company did not have to change its accounting policies or make material retrospective adjustments as a result of adopting these new standards. We have undertaken an initial assessment over the impact of adopting the new accounting standards that are not yet effective, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. We do not currently expect IFRS 9 or IFRS 15 to have a material impact on the financial reporting for Thames Water. The impact of IFRS 16 will be for the Company to recognise lease commitments on the balance sheet and work continues to quantify the impact on adoption of this standard.

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.

The Directors have considered the financial position of the Company and have concluded that it has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. Forecast cash flows, including working capital, capital expenditure and external debt repayments, have been reviewed against the cash and funding facilities available with no material uncertainty regarding liquidity having been identified. Additionally the forecast covenant compliance has been reviewed with no breach anticipated in the period of assessment, the Company's Corporate Family Rating ("CFR") investment grade credit rating (Baa1) has been reaffirmed with Moody's as stable outlook and the Final Determination provides long term stability over pricing and costs. The investment grade credit rating with S&P has downgraded by one notch from A- to BBB+ with our outlook improving from 'negative' to 'stable' at this new rating. BBB+ still represents a strong investment grade rating and this will not have any significant impact on our ability to access efficiently priced debt or our ability to satisfy our licence conditions. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these condensed interim financial statements. On this basis the Directors consider it appropriate to prepare the condensed interim financial statements on the going concern basis.

1. 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 2017.

Notes to the condensed financial statements (continued)

2. Segmental analysis

IFRS 8 *Operating Segments* requires segmental information to be presented on the same basis as that used for internal management reporting. Segmental information is reported internally on a monthly basis by the "Operating Companies" (representing individual business units rather than separate legal entities) to the Executive Committee. The Executive Committee, responsible for the day-to-day running of the business, is headed by the Chief Executive Officer and is also comprised of the Chief Financial Officer and the Company's functional directors. Consequently for the purposes of IFRS 8 the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Company.

Management considers that the Company's reportable segments are those used by the Executive Committee for the purposes of resource allocation and to assess the Company's performance. These segments are also aligned with the internal business structure and the regulatory environment in which the Company operates, and therefore may differ from Ofwat definitions, which are as follows:

Retail: comprised of the household Operating Company and provides certain customer-facing activities including billing and revenue collection;

Water: responsible for all aspects of raw water abstraction and treatment as well as the distribution of high quality drinking water to household and non-household customers; and

Wastewater: responsible for all aspects of wastewater collection, treatment and safe disposal for household and non-household customers. Wastewater will be responsible for the construction of interface works to the Thames Tideway Tunnel.

Other activities conducted by the Company primarily relate to certain non-regulated activities and shared corporate services that have not been included within the above segments. Management does not consider these activities to represent a separate reportable segment and consequently for the below disclosures they have been aggregated into a single caption designated "Unallocated".

Following the sale of the retail non-household business, our customer profile has changed. There are now a smaller number of non-household customers, being retailers rather than the end user, and as a result of this one retailer exceeds 10% of total revenues in each of the water and wastewater segments. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer.

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 there to be only one single geographical location of business.

Segmental performance

Transactions between reportable segments are included within segmental results in accordance with the Company's accounting policies. These are eliminated on production of the Company's financial statements, as shown within the reconciliation presented. Information regarding the performance results of each reportable segment are provided in line with that evaluated by the CODM and is based on Earnings before Interest and Tax ("EBIT").

In the current period, due to the sale of the retail non-household business, water and wastewater have begun collecting wholesale revenue charges relating to non-household customers and therefore external revenue for these two reportable segments has increased and the intersegment revenue has decreased.

Financial income and expenses are not allocated to the reportable segments as this activity is managed centrally by the Company's treasury function, which manages the overall cash and net debt position of the Company. Similarly the corporation tax credit or charge is not allocated to the individual reportable segments as this is considered to be borne by the Company as a whole.

A segmental analysis of revenue and EBIT has been presented overleaf:

Notes to the condensed financial statements (continued)

2. Segmental analysis (continued)

Six months ended 30 September 2017:	Retail £m	Water £m	Wastewater £m	Unallocated £m	**Total £m**
External revenue excluding BTL	811.2	116.0	111.0	6.3	**1,044.5**
Reallocation of property sales proceeds to profit on sale of PP&E	-	-	-	(0.9)	**(0.9)**
BTL	-	-	-	10.2	**10.2**
Inter-segment revenue	(724.5)	313.2	411.3	-	**-**
Statutory reclassification of bad debt expenses	-	-	-	(11.0)	**(11.0)**
Net revenue	86.7	429.2	522.3	4.6	**1,042.8**
Operating expenses	(84.2)	(214.4)	(208.7)	(17.8)	**(525.1)**
Depreciation	(7.0)	(112.0)	(104.9)	(9.3)	**(233.2)**
Amortisation	(0.8)	(0.6)	(0.5)	(12.8)	**(14.7)**
Reconciliation to statutory operating expenditure:					
Statutory depreciation adjustment	-	-	-	(10.9)	**(10.9)**
Statutory amortisation adjustment	-	-	-	(0.4)	**(0.4)**
Statutory reclassification of bad debt expenses	-	-	-	11.0	**11.0**
Statutory reclassification of other operating income	-	-	-	(7.8)	**(7.8)**
Statutory reclassification of pension costs	-	-	-	(8.0)	**(8.0)**
Other	-	-	-	(2.0)	**(2.0)**
Total statutory operating expenditure	(92.0)	(327.0)	(314.1)	(58.0)	**(791.1)**
Loss on sale of property, plant and equipment	-	-	-	(0.3)	**(0.3)**
Other operating income	-	-	-	43.0	**43.0**
Earnings before interest and tax	(5.3)	102.2	208.2	(10.7)	**294.4**
Profit on sale of non-household business	-	-	-	89.5	**89.5**
Net finance expense including net fair value loss on financial instruments	-	-	-	(230.3)	**(230.3)**
Profit/(loss) before tax for the period	(5.3)	102.2	208.2	(151.5)	**153.6**

Six months ended 30 September 2016:	Retail £m	Water £m	Wastewater £m	Unallocated £m	**Total £m**
External revenue	1,017.8	9.6	11.2	6.9	**1,045.5**
Reallocation of property sales proceeds to profit on sale of PP&E	-	-	-	(6.9)	**(6.9)**
BTL	-	-	-	15.4	**15.4**
Inter-segment revenue	(915.4)	411.7	503.7	-	**-**
Statutory reclassification of bad debt expenses	-	-	-	(14.5)	**(14.5)**
Net revenue	102.4	421.3	514.9	0.9	**1,039.5**
Operating expenses	(94.5)	(192.9)	(206.0)	(18.6)	**(512.0)**
Depreciation	(0.8)	(85.4)	(104.2)	(8.1)	**(198.5)**
Amortisation	-	-	-	(11.6)	**(11.6)**
Reconciliation to statutory operating expenditure:					
Statutory depreciation adjustments	-	-	-	(54.5)	**(54.5)**
Statutory reclassification of bad debt expenses	-	-	-	14.5	**14.5**
Statutory reclassification of other operating income	-	-	-	(9.3)	**(9.3)**
Statutory reclassification of pension costs	-	-	-	5.8	**5.8**
Other	-	-	-	(6.4)	**(6.4)**
Total statutory operating expenditure	(95.3)	(278.3)	(310.2)	(88.2)	**(772.0)**
Profit on sale of property, plant and equipment	-	-	-	0.6	**0.6**
Other operating income	-	-	-	48.9	**48.9**
Earnings before interest and tax	7.1	143.0	204.7	(37.8)	**317.0**
Net finance expense including net fair value loss on financial instruments	-	-	-	(353.6)	**(353.6)**
Profit/(loss) before tax for the period	7.1	143.0	204.7	(391.4)	**(36.6)**

Notes to the condensed financial statements (continued)

2. Segmental analysis (continued)

Segmental net assets

Separate segmental analysis of total assets and total liabilities are not reviewed by the CODM. Instead the information provided to the CODM comprises a measure of capital expenditure and segmental net assets. Certain centrally held provisions (including deferred tax liabilities), capitalised borrowing costs, external financing obligations and retirement benefit obligations are not allocated to the individual segments as they are considered to be borne by the Company as a whole.

A segmental analysis of the net asset position of each segment and level of capital expenditure is presented below:

As at 30 September 2017:	Retail £m	Water £m	Wastewater £m	Unallocated £m	**Total** **£m**
Total assets	917.4	6,491.5	7,526.1	1,555.1	**16,490.1**
Total liabilities	(638.6)	(382.9)	(519.1)	(12,604.0)	**(14,144.6)**
Net assets/(liabilities)	278.8	6,108.6	7,007.0	(11,048.9)	**2,345.5**
Reconciliation to statutory net assets:					
Fair value asset	-	-	-	1,384.0	**1,384.0**
Depreciation of fair value asset	-	-	-	(254.2)	**(254.2)**
Capitalised borrowing costs	-	-	-	330.5	**330.5**
Fair value of self-lay sewers	-	-	-	79.5	**79.5**
Fair value of derivatives	-	-	-	(824.6)	**(824.6)**
Statutory pension adjustment	-	-	-	29.8	**29.8**
Tax adjustments	-	-	-	(1.6)	**(1.6)**
Other	-	-	-	0.4	**0.4**
Statutory net assets	278.8	6,108.6	7,007.0	(10,305.1)	**3,089.3**
Capital expenditure on property, plant and equipment and intangibles	15.4	230.6	230.0	86.8	**562.8**

As at 31 March 2017:	Retail £m	Water £m	Wastewater £m	Unallocated £m	**Total** **£m**
Total assets	551.5	6,293.9	7,398.1	1,544.6	**15,788.1**
Total liabilities	(235.9)	(360.0)	(490.4)	(12,323.8)	**(13,410.1)**
Net assets/(liabilities)	315.6	5,933.9	6,907.7	(10,779.2)	**2,378.0**
Reconciliation to statutory net assets:					
Fair value asset	-	-	-	1,384.0	**1,384.0**
Depreciation of fair value asset	-	-	-	(244.9)	**(244.9)**
Capitalised borrowing costs	-	-	-	277.1	**277.1**
Fair value of self-lay sewers	-	-	-	46.3	**46.3**
Fair value of derivatives	-	-	-	(840.9)	**(840.9)**
Statutory pension adjustment	-	-	-	(144.5)	**(144.5)**
Tax Adjustments	-	-	-	72.1	**72.1**
Other	-	-	-	(3.4)	**(3.4)**
Statutory net assets	315.6	5,933.9	6,907.7	(10,233.4)	**2,923.8**
Capital expenditure on property, plant and equipment and intangibles	41.1	443.0	451.1	282.8	**1,218.0**

Notes to the condensed financial statements (continued)

3. Operating expenses

	30 September 2017 Total £m	30 September 2016 Total £m
Wages and salaries	**106.3**	102.2
Social security costs	**11.8**	11.4
Pension costs – defined benefit schemes	**14.9**	12.4
Pension costs – defined contribution schemes	**3.8**	3.2
Apprenticeship levy	**0.4**	-
Severance costs	**0.2**	0.3
Total employee costs	**137.4**	129.5
Power	**51.5**	50.3
Carbon reduction commitment	**2.8**	3.1
Raw materials and consumables	**26.6**	26.3
Charge for bad and doubtful debts	**14.8**	13.0
Rates	**58.1**	48.4
Depreciation of property, plant and equipment	**244.1**	253.0
Amortisation of intangible assets	**15.1**	11.6
Operating lease rental – plant and machinery	**2.2**	0.4
Operating lease rental – other	**6.5**	12.3
Research and development expenditure	**1.4**	1.4
Other operating costs	**331.1**	318.7
Gross operating costs	**891.6**	868.0
Own work capitalised	**(100.5)**	(96.0)
Net operating expenses	**791.1**	772.0

4. Other operating income

	30 September 2017 £m	30 September 2016 £m
Power income	**4.7**	4.8
Requisitions and diversions charges	**12.4**	11.8
Service connections charges	**11.5**	13.2
Release from deferred income – infrastructure charges	**9.3**	7.7
Rental income	**4.2**	4.5
Other income	**0.9**	6.9
Total	**43.0**	48.9

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

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:

	£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**

Notes to the condensed financial statements (continued)

6. Taxation

	30 September 2017			30 September 2016		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Current tax:						
Amounts payable/(receivable) in respect of group relief	3.1	2.5	5.6	(0.3)	3.0	2.7
Deferred tax:						
Origination and reversal of timing differences	9.9	-	9.9	(15.3)	-	(15.3)
Adjustment in respect of prior periods	-	-	-	(1.3)	-	(1.3)
Adjustment in respect of corporation tax changes	-	-	-	(59.7)	-	(59.7)
	9.9	-	9.9	(76.3)	-	(76.3)
Tax on profit/(loss) on ordinary activities	13.0	2.5	15.5	(76.6)	3.0	(73.6)

The corporation tax charge is based upon the standard rate of corporation tax in the UK of 19% (2016: 20%). The deferred tax liability at 30 September 2017 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 2017 is based on the forecast effective tax rate for the full year to 31 March 2018 applied to the profits earned in the six months to 30 September 2017.

The current tax charge for the six month period ended 30 September 2017 is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	30 September 2017			30 September 2016		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Profit/(loss) on ordinary activities before taxation	140.7	12.9	153.6	(51.8)	15.2	(36.6)
Current tax at 19% (2016: 20%)	26.7	2.5	29.2	(10.3)	3.0	(7.3)
Effects of:						
Disallowable expenditure	2.5	-	2.5	1.3	-	1.3
Non-taxable income including property disposals	(2.5)	-	(2.5)	(1.8)	-	(1.8)
Group relief not paid at standard tax rate	(12.4)	-	(12.4)	(6.5)	-	(6.5)
Tax rate change on temporary timing differences	(1.3)	-	(1.3)	(58.0)	-	(58.0)
Adjustments to tax charge in respect of prior periods – deferred tax	-	-	-	(1.3)	-	(1.3)
Total tax charge/(credit)	13.0	2.5	15.5	(76.6)	3.0	(73.6)

The Company intends to utilise tax losses available in its parent company for the year ended 31 March 2018. 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 £5.6 million to its parent company for the tax losses relating to the six months to 30 September 2017, which is shown in the income statement as a current tax charge in respect of the current year. 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 £12.4 million.

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate 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 2017 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 in the tax charge of £3.6 million.

Notes to the condensed financial statements (continued)

7. Dividends

	Six months ended 30 September 2017 £m	Year ended 31 March 2017 £m
Distribution to ultimate shareholders:		
External dividend distributions	-	22.8
Interest on Kemble Water Eurobond Plc debt	-	77.2
	-	100.0
Distributions not distributed to ultimate shareholders:		
Interest on Kemble Water Finance Limited debt	**26.0**	55.0
Distribution to Thames Water Limited	-	2.0
Total	**26.0**	157.0

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (31 March 2017: £nil).

No distributions in the period were made to ultimate shareholders (31 March 2017: £100.0 million). The dividend ultimately paid to Kemble Water Finance Limited of £26.0 million (31 March 2017: £55.0 million) was used to enable it to continue to service its external debt and working capital requirements.

8. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	Total £m
Cost:					
At 1 April 2016	3,321.2	6,191.9	6,475.2	1,991.5	**17,979.8**
Additions	-	24.2	15.9	1,075.2	**1,115.3**
Transfers between categories	95.0	626.3	255.9	(977.2)	**-**
Disposals	(3.7)	(3.8)	-	-	**(7.5)**
At 31 March 2017	3,412.5	6,838.6	6,747.0	2,089.5	**19,087.6**
Additions	-	2.6	6.5	523.6	**532.7**
Transfers between categories	11.8	135.5	130.6	(277.9)	**-**
Disposals	(0.3)	(8.7)	(2.3)	-	**(11.3)**
At 30 September 2017	3,424.0	6,968.0	6,881.8	2,335.2	**19,609.0**
Depreciation:					
At 1 April 2016	(834.8)	(3,427.7)	(244.3)	-	**(4,506.8)**
Depreciation charge	(52.7)	(318.8)	(120.5)	-	**(492.0)**
Disposals	2.0	3.7	-	-	**5.7**
At 31 March 2017	(885.5)	(3,742.8)	(364.8)	-	**(4,993.1)**
Depreciation charge	(26.0)	(155.4)	(62.7)	-	**(244.1)**
Disposals	-	3.2	-	-	**3.2**
At 30 September 2017	(911.5)	(3,895.0)	(427.5)	-	**(5,234.0)**
Net book value:					
At 30 September 2017	2,512.5	3,073.0	6,454.3	2,335.2	**14,375.0**
At 31 March 2017	2,527.0	3,095.8	6,382.2	2,089.5	**14,094.5**
At 31 March 2016	2,486.4	2,764.2	6,230.9	1,991.5	**13,473.0**

£53.4 million of borrowing costs were capitalised in the period (31 March 2017: £76.3 million). The effective annual capitalisation rate for borrowing costs was 5.89% (31 March 2017: 4.86%).

Notes to the condensed financial statements (continued)

9. Trade and other receivables

	30 September 2017			31 March 2017		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments and accrued income	-	42.7	42.7	-	30.4	30.4
Other receivables	2.4	-	2.4	2.8	-	2.8
	2.4	42.7	45.1	2.8	30.4	33.2
Current:						
Gross trade receivables	897.4	10.7	908.1	421.9	3.2	425.1
Less doubtful debt provision	(181.3)	(0.8)	(182.1)	(175.8)	(0.6)	(176.4)
Net trade receivables	716.1	9.9	726.0	246.1	2.6	248.7
Amounts owed by group undertakings	2.2	-	2.2	2.0	-	2.0
Insurance claims receivable	48.8	-	48.8	39.0	-	39.0
Prepayments and accrued income	251.5	1.2	252.7	286.2	0.4	286.6
Other receivables	30.5	-	30.5	60.9	-	60.9
	1,049.1	11.1	1,060.2	634.2	3.0	637.2
Total	1,051.5	53.8	1,105.3	637.0	33.4	670.4

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

Prepayments and accrued income at 30 September 2017 includes £193.5 million (31 March 2017: £244.6 million) of water and wastewater income not billed.

10. Trade and other payables

	30 September 2017			31 March 2017		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current:						
Accruals and deferred income	416.9	-	416.9	404.9	-	404.9
Current:						
Trade payables – operating	208.4	-	208.4	282.9	-	282.9
Trade payables – capital	186.8	-	186.8	179.5	-	179.5
Amounts owed to group undertakings	-	-	-	1.1	-	1.1
Other taxation and social security	5.9	-	5.9	6.7	-	6.7
Amounts payable in respect of group relief	20.8	4.7	25.5	17.7	2.2	19.9
Accruals and deferred income	731.7	9.4	741.1	429.4	0.2	429.6
Amounts owed to Bazalgette Tunnel Limited	-	2.5	2.5	-	4.2	4.2
Other payables	40.2	-	40.2	7.1	-	7.1
	1,193.8	16.6	1,210.4	924.4	6.6	931.0
Total	1,610.7	16.6	1,627.3	1,329.3	6.6	1,335.9

Accruals and deferred income at 30 September 2017 includes £519.5 million (31 March 2017: £81.1 million) of receipts in advance from customers for water and wastewater charges, and £nil (31 March 2017: £97.3 million) of net proceeds in relation to the sale of the retail Non-Household business.

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

Notes to the condensed financial statements (continued)

11. Borrowings

	30 September 2017 £m	31 March 2017 £m
Secured bank loans	**1,776.0**	1,890.8
Amounts owed to group undertakings	**9,137.8**	8,732.6
	10,913.8	10,623.4
Interest payable on secured bank loans	**4.3**	4.3
Interest payable on amounts owed to group undertakings	**162.5**	179.2
	166.8	183.5
Total	**11,080.6**	10,806.9
Disclosed within current liabilities	**690.6**	383.4
Disclosed within non-current liabilities	**10,390.0**	10,423.5
Total	**11,080.6**	10,806.9

The secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the 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 subsidiaries, has guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

As at 30 September 2017, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £2,900.6 million (31 March 2017: £2,888.3 million) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking. Financing costs arising in Thames Water Utilities Finance Limited are directly recharged under mirrored interest terms for all loans except for one loan, a £225.0 million 6.59% secured bond due in 2021, which was loaned on with a margin of one basis point.
- £6,399.7 million (31 March 2017: £6,023.4 million) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking. All costs are directly recharged under mirrored interest terms, and an additional margin of ten basis points.

The capital structure of the Company consists of net debt and equity as follows:

	30 September 2017 £m	31 March 2017 £m
Cash and cash equivalents	**26.9**	56.5
Short term investments	**1.5**	1.0
Secured bank loans	**(1,776.0)**	(1,890.8)
Amounts owed to group undertakings	**(9,137.8)**	(8,732.6)
Interest payable on secured bank loans	**(4.3)**	(4.3)
Interest payable on amounts owed to group undertakings	**(162.5)**	(179.2)
Net debt	**(11,052.2)**	(10,749.4)
Amounts owed to group undertakings	**300.0**	300.0
Interest payable on secured bank loans	**4.3**	4.3
Interest payable on amounts owed to group undertakings	**162.5**	179.2
Unamortised debt issuance costs and discount	**(77.7)**	(75.2)
Derivative financial liabilities	**(223.9)**	(208.4)
Net debt (covenant basis)	**(10,887.0)**	(10,549.5)
Equity attributable to owners of the Company	**3,089.3**	2,923.8

Net debt (covenant basis) excludes amounts owed to group undertakings for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts, and includes derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate to one cross currency swap held in TWUL. Amount owed to group undertaking include loan from intermediate subsidiaries, Thames Water Utilities Cayman Finance Limited of £100.0 million (31 March 2017: £100.0 million), and Thames Water Utilities Finance Limited of £200.0 million (31 March 2017: £200.0 million).

Notes to the condensed financial statements (continued)

12. 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 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Company's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2017:

	Level 2[1]	
	30 September 2017	31 March 2017
	£m	£m
Financial assets – derivative financial instruments		
Index-linked swaps	**62.6**	83.0
Interest rate swaps	**-**	0.6
Financial liabilities – derivative financial instruments		
Cross currency swaps	**(78.4)**	(71.6)
Interest rate swaps	**(153.2)**	(108.4)
Index-linked swaps	**(565.8)**	(589.2)
Forward starting interest rate swaps	**(89.8)**	(155.3)
Net total	**(824.6)**	(840.9)

[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 liabilities:

	30 September 2017		31 March 2017	
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	£m
Non-current				
Bank loans				
Floating rate	**(219.6)**	**(219.6)**	(319.4)	(319.4)
Index linked	**(1,284.3)**	**(1,637.9)**	(1,256.3)	(1,687.7)
Fixed rate	**(158.3)**	**(184.7)**	(158.2)	(189.5)
Amounts owed to group undertakings	**(8,727.8)**	**(11,759.2)**	(8,689.6)	(12,153.9)
Derivative financial instruments				
Cross currency swaps	**(78.4)**	**(78.4)**	(71.6)	(71.6)
Interest rate swaps	**(152.6)**	**(152.6)**	(107.3)	(107.3)
Index linked swaps	**(556.1)**	**(556.1)**	(566.5)	(566.5)
Forward starting interest rate swaps	**(89.8)**	**(89.8)**	(155.3)	(155.3)
	(11,266.9)	**(14,678.3)**	(11,324.2)	(15,251.2)
Current				
Bank loans				
Floating rate	**(99.9)**	**(99.9)**	(150.0)	(150.0)
Index linked	**(13.9)**	**(13.9)**	(6.9)	(6.9)
Amounts owed to group undertakings	**(410.0)**	**(410.0)**	(43.0)	(43.0)
Interest payable	**(166.8)**	**(166.8)**	(183.5)	(183.5)
Derivative financial instruments				
Index linked swaps	**(9.7)**	**(9.7)**	(22.7)	(22.7)
Interest rate swaps	**(0.6)**	**(0.6)**	(1.1)	(1.1)
	(700.9)	**(700.9)**	(407.2)	(407.2)
Total	**(11,967.8)**	**(15,379.2)**	(11,731.4)	(15,658.4)

Notes to the condensed financial statements (continued)

12. Fair value of financial instruments (continued)

Financial assets:

	30 September 2017 Book value £m	30 September 2017 Fair value £m	31 March 2017 Book value £m	31 March 2017 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 – options	**62.6**	**62.6**	83.6	83.6
	2,337.3	**2,337.3**	2,358.3	2,358.3
Current				
Short term investments	**1.5**	**1.5**	1.0	1.0
Cash and cash equivalents	**26.9**	**26.9**	56.5	56.5
Amounts owed by group undertakings	**27.7**	**27.7**	16.8	16.8
	56.1	**56.1**	74.3	74.3
Total	**2,393.4**	**2,393.4**	2,432.6	2,432.6

Amounts owed to group entities include publicly traded bonds and private placements issued by subsidiary entities, 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 bonds and associated derivatives. For private placements 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 and fixed rate debt instruments is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread.

13. 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
At 1 April 2016	(1,105.4)	46.8	76.6	0.2	**(981.8)**
Credit/(charge) to income	43.0	(3.8)	27.7	9.8	**76.7**
Credit to equity	-	21.6	6.1	-	**27.7**
At 31 March 2017	(1,062.4)	64.6	110.4	10.0	**(877.4)**
(Charge)/credit to income	(8.2)	2.1	(3.8)	-	**(9.9)**
Charge to equity	-	(7.5)	(3.4)	-	**(10.9)**
At 30 September 2017	(1,070.6)	59.2	103.2	10.0	**(898.2)**

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 2017 £m	31 March 2017 £m
Deferred tax asset	**172.4**	185.0
Deferred tax liability	**(1,070.6)**	(1,062.4)
Total	**(898.2)**	(877.4)

Notes to the condensed financial statements (continued)

14. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Restructuring provision £m	AMP4 provision £m	Other provisions £m	**Total £m**
At 1 April 2016	7.0	45.4	0.6	3.9	40.7	**97.6**
Utilised during the period	(6.5)	-	(0.4)	(2.2)	(13.1)	**(22.2)**
Charge to income statement	6.5	22.0	0.5	-	3.8	**32.8**
Transfer to current liabilities	-	-	-	(0.2)	4.5	**4.3**
At 31 March 2017	7.0	67.4	0.7	1.5	35.9	**112.5**
Utilised during the period	-	-	(0.5)	(0.7)	(1.7)	**(2.9)**
Charge to income statement	2.9	1.3	-	-	3.8	**8.0**
Transfer from current liabilities	-	-	-	0.2	-	**0.2**
At 30 September 2017	9.9	68.7	0.2	1.0	38.0	**117.8**

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 9. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The AMP4 provision represents agreed settlement in respect of an information request received from Ofwat issued under section 203 of the Water Industry Act 1991 concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10. The provision is utilised against contributions to various charity schemes. The associated outflows are expected to arise over AMP6.

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.

15. 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.

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.

Thames Water

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