Operating in our changing world

Interim report and consolidated financial statements 2018/19

Contents

1 A snapshot of our performance

2 Chairman's statement

4 Chief Executive Officer's statement

8 Strategy at a glance

10 Chief Financial Officer's statement

15 Consolidated financial statements

A snapshot of our performance

Positioning ourselves for the future

- Three new Independent Non-Executive Directors appointed, with Board restructure nearing completion
- Embedding business and supply chain restructures, aligned with customer interests
- Cayman Islands subsidiaries in final stages of closure

Building resilience to external challenges

- Leakage, supply interruptions and customer service performance improvements affected by two significant climate events
- Improved operational approach to leakage, with best repair performance for ten years
- Water production increased by 17% during summer heatwave and 11% during Beast from the East
- Embedding systems approach to management of operations and environmental protection
- 20km Angelinos water pipeline now operational, increasing resilience for customers in North Oxfordshire

Business decisions based on customer voice

- Submission of business plan for 2020-2025, built on feedback from nearly one million customers, and supported by the majority of our customers
- Readying business for launch of Net Promoter System to transform the way we operate, embedding customer insight and feedback at every level of the business
- First customers to migrate to major new £150 million billing system in second half of financial year

Total revenue
£1.0bn
Sept 2017: £1.0bn

Credit rating
Baa1 negative
Sept 2017: Baa1 stable
Corporate family rating

Investment in our assets
£0.6bn
Sept 2017: £0.5bn

Ofwat customer satisfaction rating (out of 5)
4.09
Sept 2017: 4.25

Household written complaints (total)
11,083
Sept 2017: 8,242

Pollution incidents
217
Sept 2017: 202

Dividends paid by parent group to ultimate shareholders
Zero
Sept 2017: Zero

Underlying profit before tax
£43.3m
Sept 2017: £116.1m
(excluding sale of NHH)

Water quality compliance
99.96%
Sept 2017: 99.96%

Reduction in internal sewer flooding incidents
6%

Average interruption to supply (>4 hours only)
0.16 hours lost/property
Sept 2017: 0.06 hours

Additional litres supplied daily during heatwave
450 Ml/d

Electricity generated from sewage
142 GWh
Sept 2017: 146 GWh

Planned sewer maintenance
301km
Sept 2017: 186km

Demand for water reduced through Smarter Home Visits
2.53 Ml/d

Focus on leakage

Leakage
683 Ml/d
Sept 2017: 665 Ml/d
End 2017/18: 695 Ml/d

Number of leaks fixed
37,196
Sept 2017: 27,241

Increase in leaks fixed
37%

Total estimated leakage saved (Ml/d) April-Sept 2018
402 Ml/d
Sept 2017: 273 Ml/d

Average leaks fixed per week
1,431
Best performance since 2008/9

Chairman's statement

Setting a new direction

Ian Marchant
Independent Chairman of Thames Water Utilities Limited

Climate events challenge resilience

2018 has challenged our resilience with two significant climate events in the space of just four months. As climate change takes hold, we know these types of weather patterns will become even more frequent and we're applying learnings from both our successes and our failures to better protect our customers from the threats of our unpredictable world.

While we reduced the potential scale of impact, we didn't cover ourselves in glory when the Beast from the East hit in March. Nearly 75,000 customers were in some way affected by supply outages, leading to a negative impact on our leakage, supply interruptions and customer service performance. Since then, we've published a report about our performance and have committed to making changes, such as using better tools to predict the impact of weather, improving communication and providing more consistent support for customers in vulnerable circumstances. You can find the full report on our website.

The outcome of the prolonged heatwave this summer, in relation to supply interruptions, was a different story. Despite the right ingredients for a hose pipe ban – two consecutive dry winters followed by a persistent spell of hot and dry weather during early summer – we were able to manage water demand and prevent water restrictions by working together with our customers. Improved communication across all channels, including on social media in 'hotspot' high demand areas, encouraged customers to be more water efficient to protect themselves and their fellow customers from supply issues. However, the heatwave also had an impact on our leakage as we increased pressure in our pipes to keep up with demand.

Although we protected our customers from restrictions during 2018, there's no time to be complacent. The threat of drought remains very real, as we head into a critical time of year for replenishing our water supplies to avoid restrictions in 2019. We'll be engaging with our customers as the situation evolves over the winter months.

Our journey to 'best in class' governance

When I joined as Chairman of Thames Water, I launched a major review of our governance to ensure we demonstrate cross-sector leadership in the governance of essential services companies. As part of the review we've set a new dividend policy and realigned CEO remuneration with customer, operational and environmental performance.

During the last six months we've continued to make significant progress; I'm really pleased we've now transferred the assets and liabilities in our Cayman Islands incorporated entities to UK entities, simplifying our structure. These companies themselves are now in the final stages of closure.

We've also been looking at the composition of our Board to increase independence and make sure we have the right mix of skills and capabilities to be able to deliver our plans for the future.

Last week, we announced the appointment of a new Independent Non-Executive Director, Catherine Lynn, as we near the completion of our Board restructure. Catherine is former Group Commercial Director and Group Strategy Director of easyJet and a former Non-Executive Director for Liberty Living, which manages student accommodation. She joined on 28 November and brings a wealth of customer service and strategic experience to the Board.

The last four months has seen the appointment of two other INEDs. Alistair Buchanan, former CEO of Ofgem, joined in July 2018, while Jill Shedden, HR Director at Centrica, was appointed to the Board in October 2018. Awarded an MBE for her work with the Women's Business Council, Jill is a strong advocate of diversity.

This comes as Dame Deirdre Hutton, Ed Richards and Lorraine Baldry near the end of their tenures and I would like to thank them all for their dedication to the business and our customers.

With the full support of our shareholders we're continuing to invest heavily to deliver improvements in our services and we're on track to invest a further £1 billion this financial year. As well as agreeing to three years of receiving no dividends, our ultimate shareholders support our decision to pay them only modest dividends of £20 million a year for a further five years – leading to a total of £100 million over eight years. This dividend restraint will help increase our equity buffer and broaden financial resilience, which is something our customers have told us is important.

Securing the future

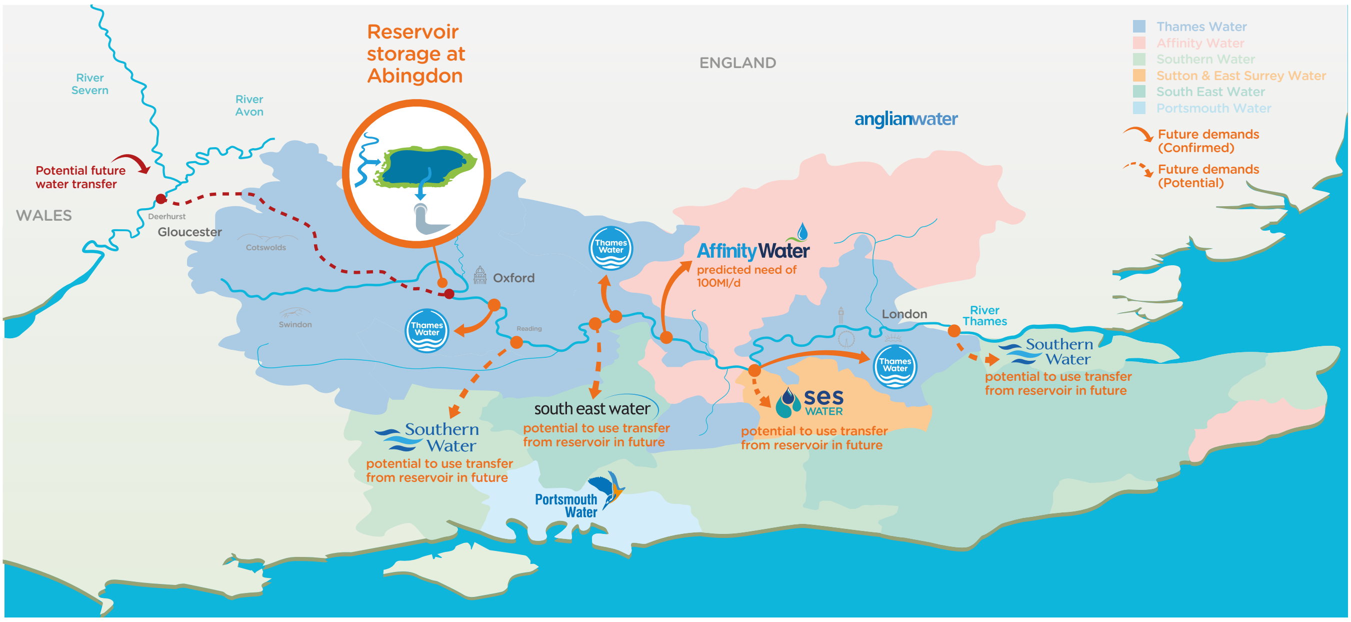
3 September 2018 marked an important milestone with the submission of our business plan for 2020 to 2025, which will see us spend £11.7 billion operating and investing in our business. Based on direct feedback from nearly one million of our customers, the plan will drive a step change in our resilience – both operational and financial – as we future proof our essential services for many years to come. Our full plan is available on our website.

29 November marked the closure of the next stage of consultation for our Water Resources Management Plan, which sets out how we plan to provide a secure and sustainable supply of water for 80 years, from 2020 to 2100. While we are directly responsible for the 15 million customers who live in our region, we're working ever closer with our peers across England and Wales as we pursue similar goals – to deliver high quality services to our customers, which are resilient to external factors. Water transfer and the proposed strategic water resource for the South East, for example, will help make sure people across the whole area are protected from the effects of climate change and population growth.

The last six months have been a challenging time for Thames Water as our new chapter continues to gather momentum. We've solidified our aspirations for the future, and have continued to make changes to channel our efforts in the right way to deliver the best we can for our customers and the environment. Against the backdrop of an unpredictable political landscape, we're maintaining our focus on doing what we need to do to protect our customers – in their homes and businesses – both now and for many years into the future.

Thames Water's new Independent Non-Executive Directors, Alistair Buchanan (top), Catherine Lynn (middle), Jill Shedden (bottom).

Proposed strategic resource for the South East of England



Operating in a changing world

Steve Robertson
Chief Executive Officer

Performance overview

With the Beast from the East and prolonged heatwave, 2018 has brought the threat and volatility of climate change into sharp focus.

While our response to these weather events absorbed much of the potential impact, and we protected many of our customers from restrictions, the events had a significant and enduring impact on our operational performance. We estimate our leakage would have been about 50Ml/d lower, if we hadn't been affected by the weather events.

Reducing leakage remains one of our biggest priorities. In the last six months we've significantly increased the volume of work we're completing, with the highest rate of repair jobs a week since 2008 and a 37% year-on-year increase in leaks fixed. Yet these positive results have been severely hampered by the increase in leakage during, and as a result of, the climate events. This is evident in our performance to date for 2018/19 of 683Ml/d (six months to September 2017: 665Ml/d).

To be able to reduce leakage, we need to be repairing leaks a lot quicker than they appear on a daily basis. In March, the overnight thaw, after a sustained period of freezing conditions, caused pipes to crack, with c. 70% at customer and business premises. This led to a massive increase in the number of repair jobs we needed to complete to reduce our overall leakage position.

To keep up with demand during the heatwave, we pumped more water into our network, which increased the pressure in our pipes and caused more bursts. Alongside that, the weather conditions caused the soil around the pipes to dry out, leading to unstable ground around our pipes. This loss of support puts our pipes under increasing strain, especially when the ground moves due to heavy traffic, and causes more cracks. We're still seeing a heightened occurrence of visible leaks caused by the summer conditions, highlighting the lasting impact of extreme weather on our network.

Although the 'knock-on' effects of both climate events have put us behind where we expected to be, we remain committed to our target of 606 Ml/d for 2020 and are continuing to increase our resources to get there. As part of this, a dedicated leakage task force has been set up to support ongoing activity and identify and implement new innovative methods to tackle leakage.

The climate events also had an impact on our complaint volumes and supply interruptions. As well as complaints resulting from the impact of the freeze thaw, which affected up to 75,000 customers, we saw a significant increase in billing enquiries after diverting all customer services resources to dealing with the effects of the weather. This contributed to the 34% year-on-year increase in total written complaints. We are acutely aware of the challenges we face during the next 18 months and we're working hard to get back on track.

During the first six months of the year of 2018/19 we've continued to see improvement in areas such as sewer flooding where we've seen a 6% year-on-year reduction in internal flooding of customers' properties. We continue to maintain high water quality at 99.96% compliance and our water efficiency programme is going from strength-to-strength.

We remain committed to reducing pollution incidents and our long term trajectory is positive, however we've seen a small year-on-year increase in our overall position for the first nine months of the year (calendar year measure: September 2018: 217; September 2017: 202). We've increased our focus on reducing pollutions from our wastewater network, where most incidents originate, leading to a 10% year-on-year reduction in this category of incidents (2018: 150; 2017: 166). However, this success was offset by a lower level of performance from our sewage treatment works and pumping stations in the early part of the year. In July we targeted our resources to correct our performance, with the total number of pollutions back on to an improving trend. We've increased our volume of proactive sewer maintenance this year, with 301km completed during the first six months, which is just shy of the full year performance for 2017. We're also on track to install 1,000 sewer depth monitors during 2018/19, as part of our plans to digitise our sewer network so we can better target our proactive maintenance and kick start our ambitious digitisation plans for 2020-2025.

Doing things differently

Our plan for 2020-2025 is ambitious, and is part of the bigger picture to protect our region and the country from the challenges of the future. We aim to invest an additional £2.1 billion to improve our resilience, managed through a combination of efficiency and innovation to prevent a real-time increase to bills – this approach has the full support of our customers. But the essence of our plan doesn't start in 2020 – it starts now. Over the next 18 months we'll be working hard to get ourselves into the best possible position to deliver our 2020-2025 goals.

We serve some of the most deprived areas of the country and increasing support for customers in vulnerable circumstances is one of our key priorities. We aim to be industry leaders in our support for these customers, significantly increasing the number of customers on both our social tariffs and priority services register – four fold and seven fold respectively between 2020 and 2025. To make the biggest strides, we're tapping into the experience and know-how of the energy industry.

The voices of our customers are central to our plans and we need to fully integrate them into the body of Thames Water's operations, so we can deliver our promises. As such, we will be launching our new Net Promoter System shortly, which is set to transform the way we operate, embedding customer insight and feedback at every level of our business.

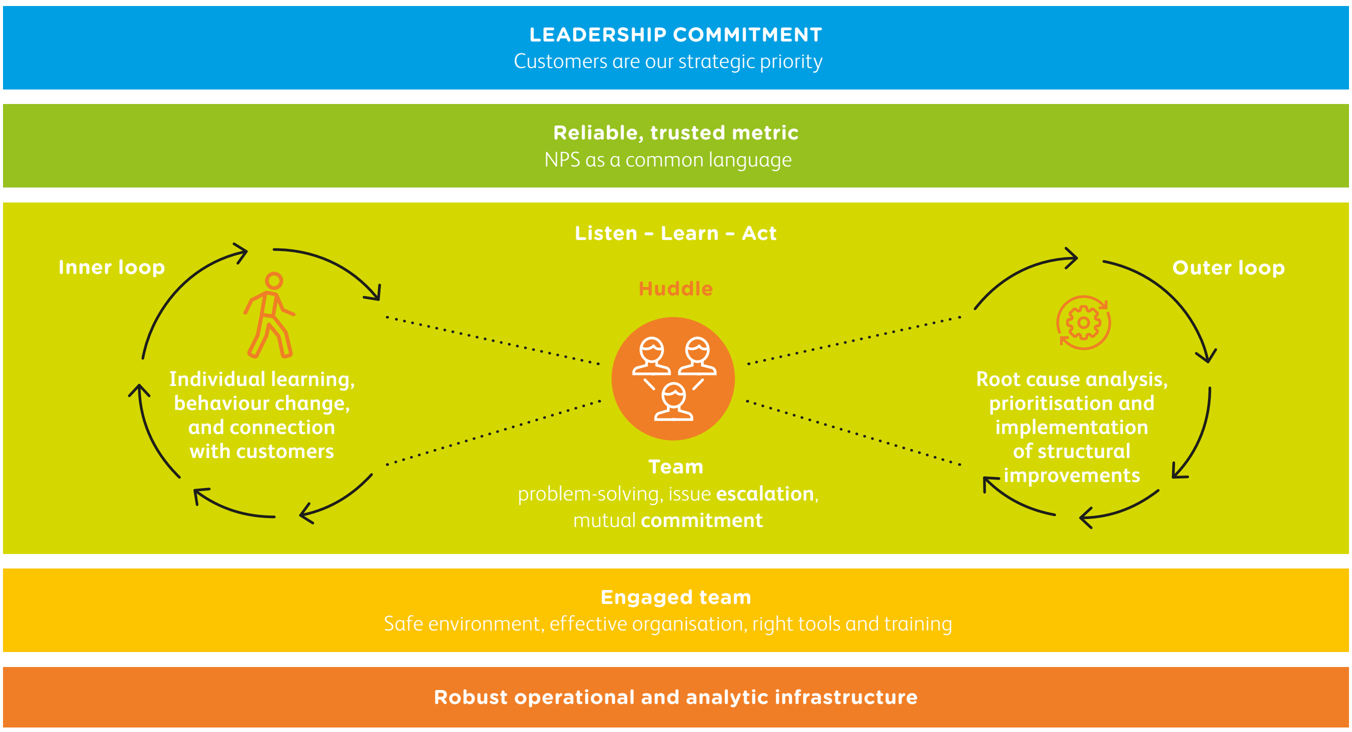
The next few months will mark another milestone in our drive to transform the way we support our customers, as we move the first wave of customers on to our new, £150 million billing and customer relationship management system. This is more than just a system – it is a blue print for a new way of working, focused on minimising customer effort and increasing the speed of resolution. This revised approach will be embedded in the way we recruit, train and performance manage our teams to deliver for customers.

In a challenge of the historical industry norm, we're changing our approach to the management of our operations to look at our business at a 'systems' rather than 'asset' level. Our systems combine treatment works and distributed geographical networks to provide a service to a community of customers – looking at our operations in this way allows us to make smarter investment decisions focused on the challenges of particular communities. To become a true 'systems operator' we need to be better at converting data and information into insight and action, which is why this has become a company mantra and underpins one of our strategic priorities.

Our new 'smarter water catchment' management programme sees us look at environmental protection by system too, and adopts a more holistic approach to building better functioning river catchments. As part of the programme we're working more closely with local organisations and farmers to reduce river pollution and improve river quality, for example in the River Crane catchment where we're already seeing positive results.

As part of our progressive smart metering programme, which encourages water efficiency and puts customers in charge of their water usage, we've been moving thousands of customers to bills based on their actual usage since May 2018. A better understanding of our water usage and being more 'water smart' is crucial to make sure there's enough water for all our customers in the face of population growth and climate change. While many people see a decrease in costs when they move to a metered bill, inevitably some customers will see an increase as they pay for the water they use. We offer support to all our customers to help them keep their bills down, through initiatives such as our Smarter Home Visits programme, which was launched in 2015. We conducted our 200,000th visit during the first half of the financial year.

Net Promoter System



Water Royalty campaign to support new approach to customer engagement to help demand management (August 2018)

Collaborating for success

As with our smarter water catchment initiatives, we can't do what we need to do without working together with those around us – our customers, our stakeholders, our peers, other industries and our colleagues at Thames Water. Innovation is a critical driver to the success of our long-term plans and it requires strong partnerships and the collaboration of the whole team at Thames Water.

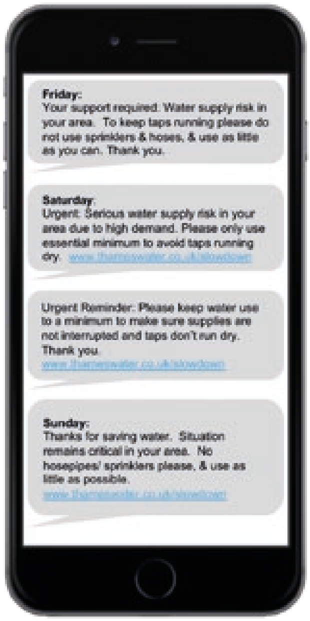
In recent months we've continued to engage our customers in ways which deliver improvements to their service and the health of the environment around us. During the height of the heatwave we produced 450 million more litres of water a day to cope with demand, a 17% increase on daily production, and ran campaigns to encourage our customers to be more water efficient. After sending 500,000 targeted text messages to customers in hotspot areas, we saw an immediate 15% decrease in demand, alleviating the pressure on our water resources and reducing the need to abstract from already water-stressed rivers (see graph on page 7).

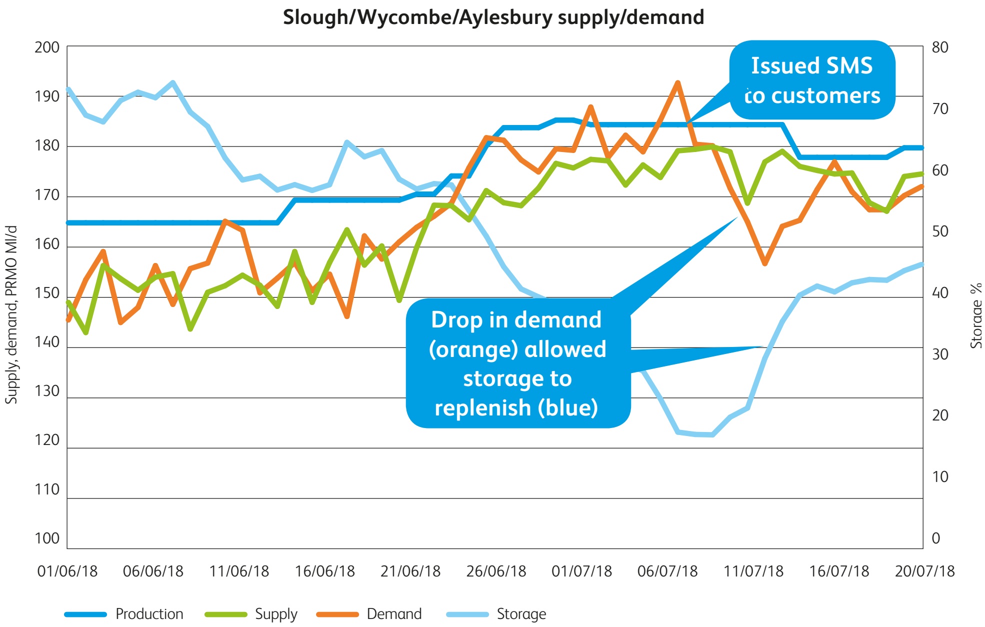
Protecting and enhancing the environment

To reduce our carbon footprint and our impact on the environment around us we generate our own renewable energy. During the first six months of the year we produced 142 GWh of electricity from sewage. While this is four GWh down year-on-year, due to the closure of our Crossness incinerator, it represents the equivalent of £15.5 million in electricity costs. As part of our energy strategy, we're starting a project which will enable us to power the iconic Abbey Mills pumping station on electricity we generate ourselves at nearby Beckton sewage treatment works. Outside the capital, Basingstoke sewage treatment works is now 100% powered by electricity we produce ourselves, with the surplus being exported to the grid.

Last October, a partnership between Thames Water, the London Borough of Waltham Forest and London Wildlife Trust saw us open Walthamstow Wetlands to the public as Europe's largest urban wetland nature reserve. One year on, approximately 375,000 visitors have been to the wetlands to enjoy the abundance of wildlife which makes our operational site their home.

Proactive text messages led to an immediate drop in demand in water-stressed areas during the heatwave





Investing in resilience

The last six months have seen progress on some important resilience projects, to help protect our customers. Our £30 million Angelinos water pipeline is now complete and providing thousands of customers in North Oxfordshire with a more reliable water supply. We're also in the closing stages of our major upgrade of Deephams sewage treatment works, which will soon be ready to treat the wastewater of the 104,000 more customers who are expected to move into the area before 2031.

We're also investing £60 million in our IT systems to increase resilience, stability, reliability and performance, so that we're able to perform in a better way to support our customers.

Looking after our people

Without our people, we wouldn't be able to deliver for our customers, and looking after the mental health of our employees has been at the forefront of our wellbeing agenda this year. We're passionate about reducing the stigma, and in October 2018 we marked World Mental Health Day with 12 of our men holding hands and talking about their experiences with mental health on the River Thames. This poignant display represented the number of male suicides every day in the UK. With approximately one in four people experiencing a mental health illness each year, nearly 1,700 of our employees could be affected. We continue to roll-out mental health training with 352 employees completing the Mindfit and Mental Health First Aid programmes during the first six months of the year.

Resilient to our changing world

There's no denying the last six months have put us behind where we wanted to be with our leakage and complaints performance, however we must get to a position where we are not thrown off course by climate change. It is not going to go away, and to do the best for our customers we must be able to provide our essential services whatever the weather. That's why our business plan for 2020 to 2025 and Water Resources Management Plan are so critical, as we invest to increase resilience and protect our customers both now, and in the future, from the potential impact of our changing world.

Marking World Mental Health Day on 10 October.

Delivering against our strategic priorities

'Here for you, in a changing world' is our vision.

Without our customers we wouldn't exist, which is why our strategy is all about delivering for them.

Deliver brilliant customer engagement to create lifelong advocacy

Progress to September 2018

- **Maintaining high water quality**
  - 99.96% compliance with the Drinking Water Inspectorate water quality measure
  - Over 8,000 lead pipes rehabilitated
- **Customer complaints affected by climate**
  - 92% first time resolution of household written complaints (September 2017: 95.6%). Down due to impact of Beast from the East, with c.75,000 customers disrupted. Also, hot, dry summer resulted in some concentrated supply issues. Improvement trajectory recovered during quarter two
- **Increasing support for customers in vulnerable circumstances**
  - 10% increase in customers on social tariff, totalling 53,671
  - Total of 62,671 customers now on the priority services register (increase of 4.4% since March 2018)
  - 3,353 additional customers with water debt supported through the customer assistance fund
- **Increased engagement with customers**
  - Proactively contacted 7,881 customers after identifying potential leaks using smart meter data, resulting in leakage prevention of 6.53Ml/d
  - Reached milestone of 200,000 Smarter Home Visits since programme launch. Reduced demand by 2.53 million litres of water a day in first six months of 2018
  - 500,000 text messages sent to customers in key risk areas during heatwave resulted in immediate 15% reduction in demand
  - 'Pop up' tap water bars launched at Chelsea Flower Show, Countryfile Live and Notting Hill Carnival
  - Water Royalty campaign launched in August 2018

Key priorities to 2025

- Reduce water quality events by 27% between 2020 and 2025
- Flat average bills in real terms between 2020 and 2025
- 36,500 lead pipes to be rehabilitated by 2020 and a further 53,840 pipes by 2025. No lead communications pipes at nurseries or primary schools by 2025
- Support at least 200,000 families who find it hard to pay by March 2025 through social tariffs
- Double number of customers on our priority services register by 2020 and increase to 400,000 by March 2025
- Utilise mutually beneficial partnerships to improve the scope and scale of our customer support offering, working with partners such as British Red Cross, Age UK and the Berkshire Fire and Rescue Service
- Use smart technology, enabled by investment in our metering programme, to proactively identify consumption related bill queries and help customers understand their usage
- Install 700,000 smart meters 2020-2025
- Launch an innovative online community to host and facilitate conversations between customers
- Develop a new approach to customer engagement using innovative, multi-channel campaigns to incentivise water efficiency and responsible sewer use
- Increase proactive engagement with customers and stakeholders to provide more transparency and accessibility to the way we run the business

Use data from customers, operations and the environment to make better decisions

Progress to September 2018

- **Connecting customer feedback into the business**
  - Developing Net Promoter System (NPS) to improve customer journeys based on real-time insight
- **Using data to pinpoint leakage and understand sewer flows**
  - 26,987 leak detecting acoustic loggers installed to date with trial launched to create connected system
  - Installed 44,105 smart enabled water meters; total of 265,000 smart meters now transmitting data across the network
  - 762 sewer depth monitors installed since January 2018
- **Improving digital infrastructure to better serve customers**
  - On track to migrate first customers to new billing and customer service platform in December 2018 to support service ambitions and system resilience
  - Initiated redevelopment of the website
  - Launched real-time visualisation tools with geospatial views correlating network and customer data to improve operational response
  - Launched Wholesale Market Services portal enabling retailers to submit and manage their service requests
  - On track with accelerated programme to address data issues in the wholesale market to support retailer and end customer experience

Key priorities to 2025

- Introduce Net Promoter System (NPS) to connect customer feedback directly into our business and create a culture of customer obsession
- Create smarter networks and develop the use of operational data to better manage our network, including applying new techniques to predict leaks and floods enabling us to be more proactive in our response
- Install over 200,000 sewer sensors between 2020 and 2025 to improve proactive sewer cleaning
- Maximise use of smart meters and acoustic loggers to detect leaks
- Deliver our leading edge billing engine and customer service platform and embedded new ways of working
- Enhance customer self-service functionality to reduce voice call dependency and enable customer choice
- Build new field force management technology to allow us to get the right team to the right job, and make sure we are able to communicate with customers during the work
- Invest in data and use digital technologies to ensure teams have accurate, real-time data to improve customer journeys, including during incidents
- Support data led architecture with £60 million investment in IT infrastructure
- Connect our customers, assets, people, processes and the environment by organising and integrating disparate data sources

Invest in resilient systems and assets

Progress to September 2018

- **Increased focus on leakage reduction; improvement hampered by Beast from the East and summer heatwave**
  - Although reduced since March 2018, leakage remains higher than anticipated at 683Ml/d despite high levels of leaks repaired
  - Average of 1,431 leaks repaired per week (10 year high); equating to total estimated leakage saved of 402 Ml/d for the period April to September 2018 including visible leaks
  - Increasing the number of teams dedicated to improving leakage
  - Trialling innovations to repair pipes from the inside
  - Increased daily water production by 17% during the heatwave, enough to supply 800,000 homes
  - 58km water mains rehabilitated
- **Continued investment in projects to increase resilience**
  - Invested over £586 million in the above and below ground infrastructure, a £54 million increase since September 2017
  - £30 million, 20km Angelinos pipeline now operational, providing a more reliable water supply to thousands of properties in North Oxfordshire
  - £6.7 million, New Malden trunk main improvements complete, reducing risk of bursts for 84,000 customers

Key priorities to 2025

- Continue significant investment programme, with £2 billion committed to 2020 and a further £6.3 billion to be invested between 2020 and 2025
- Ensure all asset management decisions are taken on a long-term, 'whole life cost' basis
- Reduce leakage from our network by 15% between 2020 and 2025 and by 50% by 2050
- Rehabilitate 338km of water mains between April 2018 and March 2020
- Investment at 11 further sewage treatment works by 2020 to meet population growth needs
- Deliver an average 13.6% reduction in operational unit costs between 2020 and 2025

Protect and enhance the environment

Progress to September 2018

- **Working to reduce impact of our operations on the environment.**
  - Number of pollution incidents: 217 (September 2017: 202). Continued investigation of cause to minimise future pollution incidents
  - 6% reduction in internal sewer flooding incidents since September 2017
  - 301km of planned sewer maintenance delivered, an increase of 61% since September 2017
- **Managing our carbon emissions**
  - Produced 142GWh of electricity from sludge (September 2017: 146GWh). Equivalent of £15.5 million in electricity costs. Down slightly year on year due to closure of Crossness incinerator, however, following years due to increase
  - Thermal hydrolysis plants processing 38% of sludge, up 18% from March 2018
  - 23% reduction in greenhouse gas emissions from burning fossil fuels
- **Promoting access to and enjoyment of our sites**
  - 375,000 visitors to award winning Walthamstow Wetlands in first year of opening

Key priorities to 2025

- Reduce pollution incidents by 18% during 2020-25 and reduce the number of pollution incidents to zero in the medium to long term
- Become 4 star rated under the Environmental Performance Assessment (EPA) framework
- Maximise the potential of innovation to increase the amount of energy we produce, targeting an increase in all renewable energy generation to 517GWh by 2025 (the equivalent of powering 115,000 homes)
- To increase biodiversity by 5% at 253 of our sites by 2025
- Deliver innovative projects to enhance river and groundwater quality and reduce the impact of abstraction
- Secure long term plan to insulate our region from the effects of drought in partnership with other water companies and customers
- Natural capital accounting implemented across 100% of our sites

Build a collaborative and capable team dedicated to serving customers

Progress to September 2018

- **Governance review**
  - Board restructure nearing completion with the appointment of three new Independent Non-Executive Directors, increasing experience and diversity of the Board
- **Increasing diversity**
  - Mean gender pay gap reduced by 2.5 percentage points to 10.8% between April 2017 and April 2018
- **Restructuring the business around the customer**
  - Migrated all operations and customer contact teams into respective standalone functions to improve efficiency and customer service
  - Created new digital and capital delivery teams to facilitate strategic priority delivery and improve performance
  - Human resources team restructured to align to new operating model. Service transformation programme initiated to ensure optimisation of employee experience through people processes
  - Launched company-wide programme to define job families, communities of practice, role profiles and competencies
- **Maintaining commitment to health, safety and wellbeing**
  - Work related lost time frequency rate 0.13, a 19% improvement year on year
  - 352 employees taken part in Mindfit and Mental Health First Aid programmes since April 2018

Key priorities to 2025

- Complete the Board restructure
- Continue to embed 'One Thames' and supply chain restructures to deliver what our customers want and embed ways of working that deliver for them
- Develop a high-performance culture to drive the right outcomes for our customers and the environment
- Build a resilient resource model allowing the organisation to be primed to deliver 24/7 in an efficient and cost effective way
- Build a skilled workforce that differentiates us both now and in the future
- Deliver a proactive, customer focused service to our people through robust processes and advice
- Continue to review and prioritise key health and safety risk areas to eliminate and mitigate risks to our people, contractors and members of the public
- Work with our operational teams and supply chain partners to continue to provide clear leadership direction and embrace new technology to enhance health and safety
- Continue to remove the stigma associated with mental ill health at work through education, engagement and training 10% of our workforce as mental health first aiders by March 2020

Sustainable financing

Brandon Rennet
Chief Financial Officer

Solid and sustainable financing is critical to the delivery of our revised strategic direction and our vision to be **'Here for you, in a changing world'**.

We're embedding cultural characteristics consistent with our vision, with increasing openness and transparency being crucial to the way we manage our finances. During the last six months we've hit some key milestones which underline our commitment to this ethos and take us a step forward on our journey to becoming 'best-in-class'.

Simplifying our corporate structure

Following our announcement to close our Cayman Islands subsidiaries in November 2017, we've made great progress during the last six months. These companies were set up in 2007 solely to address the requirements of UK company law that existed at the time. It was not possible for a UK company to issue public bonds to repay debt provided by investors to help finance its acquisitions. These restrictions have now been largely amended or removed. Although registered in the Cayman Islands, these companies were always resident in the UK for tax purposes and were subject to tax in the UK. The assets and liabilities in the financing company, Thames Water Utilities Cayman Finance Limited, have now been transferred to Thames Water Utilities Finance Plc. The Cayman Islands entities remain as non-active companies held outside the regulated Thames Water Utilities Group, however, bonds can now be issued by our UK incorporated Plc. At the end of September the companies were put into liquidation and they will be formally dissolved in early 2019.

We're also disposing of our insurance company in Guernsey and dormant legacy companies left over from previous ownership, to further simplify our structure.

Environment, Social and Governance (ESG)

As a monopoly provider of essential services to millions of customers, being a responsible company is something we take very seriously. As part of that we're committed to improving our ESG performance.

The last six months has also seen us significantly enhance our sustainability disclosures and we have attracted positive external recognition.

We published our first Environment, Social and Governance (ESG) statement in October this year, going beyond statutory reporting requirements. This statement outlines how we are delivering against ESG criteria, bringing together three years of data in an accessible format.

In September 2018 we were recognised by the GRESB infrastructure survey for our commitment to sustainability. We finished top globally in the 'Water and Sewerage' category and seventh globally for 'Infrastructure' of 280 businesses that took part in the evaluation.

Our financial review

Key financial metrics are summarised below:

Six months ended	30 September 2018			Restated[1] 30 September 2017		
	Underlying	BTL	Total	Underlying	BTL	Total
Revenue (£m)	1,001.1	24.5	1,025.6	1,029.9	12.9	1,042.8
Operating expenses (£m)	(813.7)	(0.1)	(813.8)	(791.1)	–	(791.1)
Operating profit (£m)	222.4	24.4	246.8	275.5	12.9	288.4
Net finance expense (£m)	(191.2)	–	(191.2)	(203.6)	–	(203.6)
Net gain on financial instruments (£m)	12.1	–	12.1	44.2	–	44.2
Profit before tax (excl. sale of NHH) (£m)***	43.3	24.4	67.7	116.1	12.9	129.0
Profit before tax (£m)	43.3	24.4	67.7	205.6	12.9	218.5
Profit after tax (£m)	43.1	23.0	66.1	181.6	10.4	192.0
Capital expenditure including intangibles (£m)	586.7	–	586.7	532.7	–	532.7
Net debt (£m)	11,326.0	–	11,326.0	10,745.6	–	10,745.6
Sale of NHH (£m)	–	–	–	89.5	–	89.5
Dividends paid (£m)	–	–	–	26.0	–	26.0
Gearing (%)*	81.1	–	–	81.3	–	–
Credit rating**	–	–	Baa1 negative	–	–	Baa1 stable

* Ratio of covenant net debt to Regulatory Capital Value ("RCV")
** Representing the consolidated Corporate Family Rating assigned by Moody's
***This measure is statutory profit before tax less the profit recognised on sale of the non-household (NHH) business per Note 4
1 Restated following transition to IFRS 15 on 1 April 2018. See pages 22 to 25

In November 2018 we reinforced this commitment by tying the interest rate on our new Revolving Credit Facility (RCF) to our sustainability performance (for more information on the RCF see page 12). We're an early adopter of this type of loan, which ties our cost of debt on the loan to our annual performance against ESG metrics, as determined by our Infrastructure GRESB score. GRESB is an independent, external ESG benchmark which assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Outperforming the ESG benchmark will result in a lower interest rate, with any financial gains boosting Thames Water's charitable fund. Conversely, any underperformance would be borne by Thames Water, as such incentivising positive ESG behaviours.

Brexit

As we head towards March 2019, there is a high degree of uncertainty about the impact of Brexit, either with or without a deal. To mitigate any potential impact on our operations and our customers we've been working with our supply chain, peers and industry bodies to understand where potential risks may lie. We have identified some critical areas of our supply chain which could affect our business in the event of a 'no-deal', and we're working on appropriate plans to protect the delivery of our services.

Revenue

As a regulated business, we undergo a price review process every five years. The process includes extensive engagement with customers to help inform our overall plan and investment priorities. The total amount we plan to invest in increasing the capacity and resilience of our network for the benefit of our customers goes into our business plan, which is then used to agree the amount we will bill our customers. We are coming towards the end of our current five year regulatory period and have recently submitted our business plan to set prices for the next five year regulatory period, 2020 to 2025.

Overall, underlying revenue for the six month period ended 30 September 2018 has decreased by 2.8% to £1,001.1 million compared to the previous year comparative period. The decrease has been driven by bringing forward £40 million of penalties incurred during years one and two of the current regulatory period and an increase in the number of vacant properties, offset by inflation increases.

Our bills for wastewater customers include amounts relating to the costs of the Thames Tideway Tunnel. As we collect the cash, it is passed over to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the tunnel (to the public the company is known as Tideway). As this money is not retained by us, we exclude it from our underlying results. The annual amounts included in our bills is driven by the phasing of construction works, which is the primary reason for the large increase in revenue related to BTL, from £12.9 million in the six months ended 30 September 2017 to £24.5 million in the six months ended 30 September 2018.

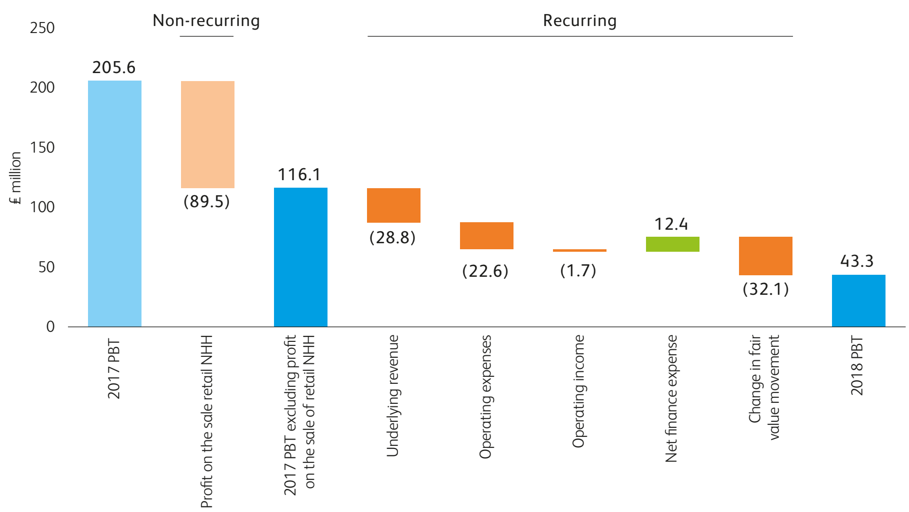
Overall performance

The interim report and consolidated financial statements present the combined results of Thames Water Utilities Limited and its sole subsidiary Thames Water Utilities Finance plc ("the TWUL Group") as if it were a single economic entity. This provides all interested parties with a complete overview of the operating company and the finances in place to support its operations and enhance understanding, presenting the results of operations, financing and financial position in one place.

Total profit before tax ("PBT") for the six month period ended 30 September 2018 was £67.7 million (30 September 2017: £218.5 million), of which £43.3 million related to underlying performance (excluding profit on sale of NHH business) (30 September 2017: £116.1 million).

A summary of the movement in our underlying profit before tax is provided below, split by recurring and non-recurring activity.

Movement in underlying profit before tax (PBT)



Operating expenses

Our operating expenses have increased by £22.7 million (2.9%) to £813.8 million (30 September 2017: £791.1 million). The increase can be attributed to:

- The hot, dry summer created huge demand for water from our customers which increased our operating costs in certain areas of the business. To keep up with demand we had to treat and supply an additional 450 million litres of water a day – an additional 17% – which required us to purchase more chemicals to treat the water. This, alongside an increase in the unit cost of power, resulted in increased power costs of £8.7 million over the period.
- Employee costs have increased by £15.8 million as we increase resources to improve our service to customers.
- We have spent more repairing and fixing leaks in order to get our leakage performance back on track.
- Every five years, we incur additional costs in preparing and assuring our business plan submissions.
- A £9.9 million increase in depreciation and amortisation, as we continue with our significant investment programme.

Dividends

No dividends, to external shareholders or to other group companies, were paid during the six month period ended 30 September 2018 (30 September 2017: £26.0 million). Whilst no dividends were paid during this period, the working capital requirements and interest on external debt of TWUL's parent companies were serviced using the resources of those companies and distributions from other companies within the wider group.

Capital expenditure

During the six month period, we invested a total of £586.7 million (30 September 2017: £532.7 million) in our assets, of which £554.3 million related to capital expenditure on fixed assets. The total investment for tangible fixed assets for the six months period ended 30 September 2018 is summarised in the table below, by area and excludes £47.2 million of capitalised borrowing costs in the period.

Area	Non Infrastructure (£m)	Infrastructure (£m)	Total (£m)
Waste (£m)	133.1	113.9	247.0
Water (£m)	140.4	119.7	260.1
Total (£m)	273.5	233.6	507.1

Key projects within the above capital expenditure include:

- £29.1 million on our metering programme (water);
- £10.6 million on upgrading our sewage treatment works at Deephams (waste);
- £11.0 million on ensuring our waste sites meet regulatory/compliance standards (waste); and
- £19.5 million on connecting our network to the Thames Tideway Tunnel

Sale of non-household business

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 was recognised in the income statement as at 30 September 2017.

No income has been recognised in respect of this sale for the six months ended 30 September 2018.

Credit ratings

In May 2018, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") but placed us on negative outlook (31 March 2018: stable outlook). This continues to be a strong investment grade credit rating supporting our ratings of A3 and Baa3 for our Class A and Class B debt respectively. The change to negative outlook reflects a change in assessment of the stability and predictability of the UK water regulatory regime rather than a reflection of Thames Water specifically.

In July 2018, S&P re-affirmed our credit rating of BBB+ and BBB- (31 March 2018: BBB+ & BBB-) in respect of our Class A debt and our Class B debt respectively and placed us on negative outlook (31 March 2018: stable outlook). We retain credit ratings that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

Financing arrangements

In anticipation of our AMP7 investment programme and being financially prudent, we have increased the size of our RCF from £950 million to around £1.4 billion in November 2018, with a five year term (and two one-year extension options). This upsizing was strongly supported by our relationship bank group.

Through Kemble Water Finance Limited, a holding company within the wider group, around £650 million of Sterling debt was raised in November 2018 using the bank and private placement markets. £400 million of this will be used to refinance the £400 million bond due to be repaid by Kemble Water Finance Limited in April 2019. It is expected that the remaining amount, roughly £250 million, will be used to de-gear Thames Water Utilities Limited in due course. This is in line with the de-gearing plan outlined in our Business Plan submitted in September 2018.

Pensions

We operate three pension schemes for our employees – two defined benefit schemes and one defined contribution scheme. During the six month period ended 30 September 2018, we contributed £5.1 million (30 September 2017: £3.8 million) to our defined contribution scheme.

Our deficit on our defined benefit schemes has reduced by £22.7 million to £278.1 million (31 March 2018: £300.8 million), and we have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments. As part of the last triennial valuation, a recovery plan to reduce the deficit to zero was agreed with the trustees. The Company has agreed to make deficit repair payments of £22.0 million per annum until 2027.

Our defined benefit scheme valuation has been updated to 30 September 2018 on our behalf by independent consulting actuaries, Hymans Robertson LLP.

The decrease in the deficit is mostly driven by a change in actuarial assumptions, specifically a rise in the discount rate for both schemes, resulting in an actuarial gain.

Guaranteed Minimum Pensions

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. The judgment rules that all schemes must equalise Guaranteed Minimum Pensions ("GMP") between males and females.

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

Taxation

We recognised a tax charge of £1.6 million for the first six months of the year, comprising a current tax charge of £3.1 million and deferred tax credit of £1.5 million.

It is our continued aim to be clear and transparent with our approach to tax – our tax strategy is available on our website, and we've included more information on tax in *Our finances explained* which can be found on our website.

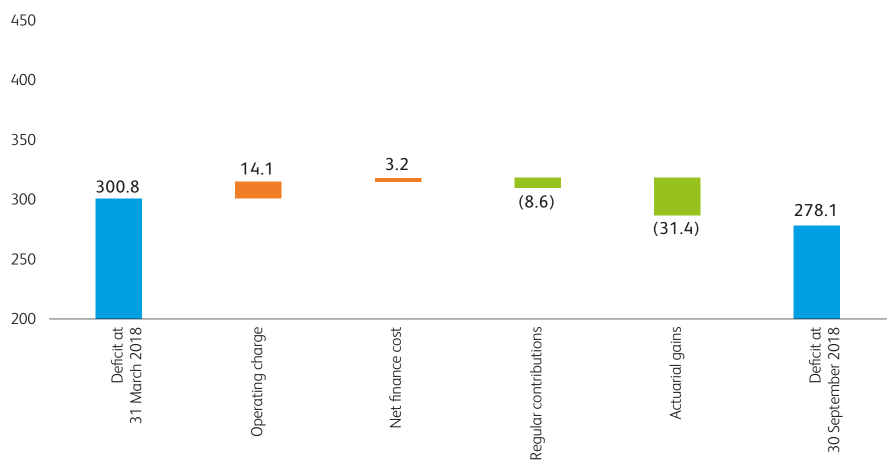
Bad debt

Bad debt arises predominantly from those who choose not to pay their bill, despite being financially able to, as opposed to those who cannot pay, and for whom we have support. In the six month period ended 30 September 2018, we have had an overall increase in bad debt cost of £2.1 million to £28.2 million (30 September 2017: £26.1 million). The increase in bad debt is a result of a decrease in recoverability for bills that have been cancelled and issued to new customers. This is split between bad debt relating to current year bills of £13.3 million (30 September 2017: £11.3 million), which reduces the amount we are able to recognise as revenue, and bad debt relating to bills from prior years of £14.9 million (30 September 2017: £14.8 million), which is recognised within operating expenses. We are working hard to reduce bad debt, and have initiatives in place to support this, including working with Equifax, a credit scoring agency.

Financial instruments

Our borrowings, revenue and totex (total expenditure) are exposed to fluctuations in the external market such as changes in interest rates, inflation and foreign exchange rates. We manage these exposures by entering into derivative contracts in order to hedge against future changes in these external rates. We have approximately £6.8 billion of derivative financial instruments (face value), which include £0.6 billion of forward starting interest rate swaps that have fixed a significant element of the cost of debt we expect to issue before 31 March 2020. A total gain on financial instruments of £12.1 million was recognised in the income statement during the six month period ended 30 September 2018 (30 September 2017: £44.2 million). This was primarily driven by a £96.2 million fair value gain on derivative financial instruments, partially offset by a £70.4 million net foreign exchange loss on foreign currency loans and £13.7 million loss on cash flow hedge transferred from reserves.

Movement in defined benefit pension liability



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

The directors confirm that these condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The above Statement of Directors' Responsibilities was approved by the Board of Directors on 5 December 2018 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

Report on the condensed interim consolidated financial statements

Our conclusion

We have reviewed Thames Water Utilities Limited's condensed interim consolidated financial statements (the "interim financial statements") in the Interim report and consolidated financial statements 2018/19 of Thames Water Utilities Limited for the 6 month period ended 30 September 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 September 2018;
- the condensed consolidated income statement and condensed consolidated statement of other comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the accounting policies and explanatory notes to the interim financial statements.

The interim financial statements included in the Interim report and consolidated financial statements 2018/19 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in the accounting policies to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim report and consolidated financial statements 2018/19, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report and consolidated financial statements 2018/19 under the terms of its licence under the Water Act 1989 which requires the Company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore as if the requirements of the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority applied.

Our responsibility is to express a conclusion on the interim financial statements in the Interim report and consolidated financial statements 2018/19 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the terms of its licence under the Water Act 1989 and its associated requirement to comply with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority as if the Company had issued equity share capital listed on the London Stock Exchange and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

We have read the other information contained in the Interim report and consolidated financial statements 2018/19 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
5 December 2018

Condensed consolidated income statement
For the six month period ended

	Note	30 September 2018 Underlying £m	BTL £m	Total £m	Restated[1] 30 September 2017 Underlying £m	BTL £m	Total £m
Revenue	2	**1,001.1**	**24.5**	**1,025.6**	1,029.9	12.9	1,042.8
Operating expenses	3	**(813.7)**	**(0.1)**	**(813.8)**	(791.1)	–	(791.1)
Other operating income	2	**35.0**	**–**	**35.0**	36.7	–	36.7
Operating profit		**222.4**	**24.4**	**246.8**	275.5	12.9	288.4
Profit on the sale of retail non-household business	4	**–**	**–**	**–**	89.5	–	89.5
Finance income[1]	5	**24.6**	**–**	**24.6**	15.7	–	15.7
Finance expense[1]	5	**(215.8)**	**–**	**(215.8)**	(219.3)	–	(219.3)
Net gain on financial instruments	5	**12.1**	**–**	**12.1**	44.2	–	44.2
Profit on ordinary activities before taxation		**43.3**	**24.4**	**67.7**	205.6	12.9	218.5
Tax credit/(charge) on profit on ordinary activities	6	**(0.2)**	**(1.4)**	**(1.6)**	(24.0)	(2.5)	(26.5)
Profit for the period		**43.1**	**23.0**	**66.1**	181.6	10.4	192.0

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9. Additionally, finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £49.2 million for the restated six month period ended 30 September 2017.

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

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

The accounting policies and notes on pages 21 to 48 are an integral part of these condensed interim consolidated financial statements.

Condensed consolidated statement of other comprehensive income
For the six month period ended

		30 September 2018			Restated[1] 30 September 2017		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Profit for the period		43.1	23.0	66.1	181.6	10.4	192.0
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial gain on pension schemes	15	31.4	–	31.4	44.0	–	44.0
Deferred tax on net actuarial (gains)	13	(5.3)	–	(5.3)	(7.5)	–	(7.5)
Current tax on pension contributions in excess of pension cost charge	6	1.4	–	1.4	–	–	–
Deferred tax on pension contributions in excess of pension cost charge	13	(4.2)	–	(4.2)	–	–	–
May be reclassified to the income statement:							
Gains on cash flow hedges		1.8	–	1.8	10.7	–	10.7
Cash flow hedges transferred to income statement		13.7	–	13.7	9.6	–	9.6
Deferred tax (charge) on cash flow hedges	13	(2.6)	–	(2.6)	(3.4)	–	(3.4)
Other comprehensive income for the period		36.2	–	36.2	53.4	–	53.4
Total comprehensive income for the period		79.3	23.0	102.3	235.0	10.4	245.4

1 The impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 25.

The accounting policies and notes on pages 21 to 48 are an integral part of these condensed interim consolidated financial statements.

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

Condensed consolidated statement of financial position
As at

	Note	30 September 2018 Underlying £m	30 September 2018 BTL £m	30 September 2018 Total £m	Restated[1] 31 March 2018 Underlying £m	Restated[1] 31 March 2018 BTL £m	Restated[1] 31 March 2018 Total £m	Restated[1] 1 April 2017 Underlying £m	Restated[1] 1 April 2017 BTL £m	Restated[1] 1 April 2017 Total £m
Non-current assets										
Intangible assets		190.2	–	190.2	168.8	–	168.8	140.3	–	140.3
Property, plant and equipment	8	14,971.2	–	14,971.2	14,675.3	–	14,675.3	14,094.5	–	14,094.5
Derivative financial assets	12	121.2	–	121.2	76.4	–	76.4	170.6	–	170.6
Intercompany loans receivable[2]		1,974.7	–	1,974.7	1,974.7	–	1,974.7	1,974.7	–	1,974.7
Trade and other receivables	9	3.0	80.5	83.5	3.3	56.7	60.0	2.8	30.4	33.2
		17,260.3	80.5	17,340.8	16,898.5	56.7	16,955.2	16,382.9	30.4	16,413.3
Current assets										
Inventories and current intangible assets		15.5	–	15.5	18.1	–	18.1	21.7	–	21.7
Assets held for sale		–	–	–	–	–	–	1.0	–	1.0
Intercompany loans receivable		15.0	–	15.0	3.2	–	3.2	7.2	–	7.2
Contract assets	9	222.3	0.7	223.0	225.5	0.4	225.9	247.4	0.4	247.8
Trade and other receivables	9	784.7	15.6	800.3	390.5	5.0	395.5	387.0	2.6	389.6
Derivative financial assets	12	17.5	–	17.5	8.5	–	8.5	–	–	–
Short term investments		3.0	–	3.0	–	–	–	1.0	–	1.0
Cash and cash equivalents		54.0	7.4	61.4	104.4	2.6	107.0	52.7	3.8	56.5
		1,112.0	23.7	1,135.7	750.2	8.0	758.2	718.0	6.8	724.8
Current liabilities										
Contract liabilities	10	(536.3)	(12.5)	(548.8)	(125.3)	(4.1)	(129.4)	(125.3)	(0.2)	(125.5)
Trade and other payables	10	(671.4)	(11.8)	(683.2)	(674.6)	(5.1)	(679.7)	(796.1)	(6.4)	(802.5)
Borrowings	11	(437.3)	–	(437.3)	(266.3)	–	(266.3)	(342.3)	–	(342.3)
Derivative financial liabilities	12	–	–	–	(12.3)	–	(12.3)	(23.8)	–	(23.8)
		(1,645.0)	(24.3)	(1,669.3)	(1,078.5)	(9.2)	(1,087.7)	(1,287.5)	(6.6)	(1,294.1)
Net current (liabilities) / assets		(533.0)	(0.6)	(533.6)	(328.3)	(1.2)	(329.5)	(569.5)	0.2	(569.3)
Non-current liabilities										
Contract liabilities	10	(613.7)	–	(613.7)	(589.9)	–	(589.9)	(536.1)	–	(536.1)
Borrowings	11	(10,953.1)	–	(10,953.1)	(10,822.2)	–	(10,822.2)	(10,209.4)	–	(10,209.4)
Derivative financial liabilities	12	(1,191.5)	–	(1,191.5)	(1,225.9)	–	(1,225.9)	(1,398.0)	–	(1,398.0)
Deferred tax	13	(837.3)	–	(837.3)	(831.2)	–	(831.2)	(771.9)	–	(771.9)
Provisions for liabilities and charges	14	(108.8)	–	(108.8)	(111.3)	–	(111.3)	(112.5)	–	(112.5)
Retirement benefit obligations	15	(278.1)	–	(278.1)	(300.8)	–	(300.8)	(379.8)	–	(379.8)
		(13,982.5)	–	(13,982.5)	(13,881.3)	–	(13,881.3)	(13,407.7)	–	(13.407.7)
Net assets		2,744.8	79.9	2,824.7	2,688.9	55.5	2,744.4	2,405.7	30.6	2,436.3
Equity										
Called up share capital		29.0	–	29.0	29.0	–	29.0	29.0	–	29.0
Share premium		100.0	–	100.0	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve		(126.0)	–	(126.0)	(138.9)	–	(138.9)	(222.4)	–	(222.4)
Revaluation reserve		1,005.2	–	1,005.2	1,021.2	–	1,021.2	1,053.1	–	1,053.1
Retained earnings		1,736.6	79.9	1,816.5	1,677.6	55.5	1,733.1	1,446.0	30.6	1,476.6
Total equity		2,744.8	79.9	2,824.7	2,688.9	55.5	2,744.4	2,405.7	30.6	2,436.3

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9.

2 As at 30 September 2018 an intercompany loan receivable was recognised. The counterparty to this was the holding company, Thames Water Utilities Holdings Limited.

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

The accounting policies and notes on pages 21 to 48 are an integral part of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 5 December 2018 and signed on its behalf by:

Brandon Rennet
Chief Financial Officer

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

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	**Total equity £m**
1 April 2017	29.0	100.0	(222.4)	1,053.1	1,576.6	**2,536.3**
Restatement for IFRS 15[1]	–	–	–	–	(100.0)	**(100.0)**
Restated 1 April 2017	29.0	100.0	(222.4)	1,053.1	1,476.6	**2,436.3**
Profit for the period	–	–	–	–	192.0	**192.0**
Gain on cash flow hedge	–	–	10.7	–	–	**10.7**
Cash flow hedges transferred to income statement	–	–	9.6	–	–	**9.6**
Deferred tax charge on cash flow hedge gain	–	–	(3.4)	–	–	**(3.4)**
Actuarial gain on pension scheme	–	–	–	–	44.0	**44.0**
Deferred tax charge on actuarial gain	–	–	–	–	(7.5)	**(7.5)**
Total comprehensive income	–	–	16.9	–	228.5	**245.4**
Transfer of depreciation	–	–	–	(19.2)	19.2	**–**
Deferred tax on depreciation transfer	–	–	–	3.2	(3.2)	**–**
Dividends paid	–	–	–	–	(26.0)	**(26.0)**
Restated 30 September 2017	29.0	100.0	(205.5)	1,037.1	1,695.1	**2,655.7**
1 April 2017	29.0	100.0	(222.4)	1,053.1	1,576.6	**2,536.3**
Restatement for IFRS 15[1]	–	–	–	–	(100.0)	**(100.0)**
Restated 1 April 2017	29.0	100.0	(222.4)	1,053.1	1,476.6	**2,436.3**
Profit for the period	–	–	–	–	218.2	**218.2**
Gain on cash flow hedge	–	–	16.3	–	–	**16.3**
Cash flow hedges transferred to income statement	–	–	84.3	–	–	**84.3**
Deferred tax charge on cash flow hedge gain	–	–	(17.1)	–	–	**(17.1)**
Actuarial gain on pension scheme	–	–	–	–	74.0	**74.0**
Deferred tax charge on actuarial gain	–	–	–	–	(12.6)	**(12.6)**
Total comprehensive income	–	–	83.5	–	279.6	**363.1**
Transfer of depreciation	–	–	–	(38.4)	38.4	**–**
Deferred tax on depreciation transfer	–	–	–	6.5	(6.5)	**–**
Dividends paid	–	–	–	–	(55.0)	**(55.0)**
Restated 31 March 2018	29.0	100.0	(138.9)	1,021.2	1,733.1	**2,744.4**
Profit for the period	–	–	–	–	66.1	**66.1**
Gain on cash flow hedge	–	–	1.8	–	–	**1.8**
Cash flow hedge transfer to the income statement	–	–	13.7	–	–	**13.7**
Deferred tax on cash flow hedge	–	–	(2.6)	–	–	**(2.6)**
Actuarial gain on pension scheme	–	–	–	–	31.4	**31.4**
Current tax on pension contributions in excess of pension cost charge	–	–	–		1.4	**1.4**
Deferred tax on pension contributions in excess of pension cost charge	–	–	–	–	(4.2)	**(4.2)**
Deferred tax on actuarial gain	–	–	–	–	(5.3)	**(5.3)**
Total comprehensive income	–	–	12.9	–	89.4	**102.3**
Transition to IFRS 9[1]	–	–	–	–	(26.5)	**(26.5)**
Deferred tax on IFRS 9 transition	–	–	–	–	4.5	**4.5**
Transfer of depreciation	–	–	–	(19.2)	19.2	**–**
Deferred tax on depreciation transfer	–	–	–	3.2	(3.2)	**–**
30 September 2018	29.0	100.0	(126.0)	1,005.2	1,816.5	**2,824.7**

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26.

The accounting policies and notes on pages 21 to 48 are an integral part of these condensed interim consolidated financial statements

Condensed consolidated statement of cash flows
For the six month period ended

	30 September 2018			Restated[1] 30 September 2017		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Operating activities:						
Profit on ordinary activities after taxation	43.1	23.0	66.1	181.6	10.4	192.0
Less profit on sale of retail non-household business	–	–	–	(89.5)	–	(89.5)
Less finance income	(24.6)	–	(24.6)	(15.7)	–	(15.7)
Add finance expense	215.8	–	215.8	219.3	–	219.3
Less gain on fair value of financial instruments	(12.1)	–	(12.1)	(44.2)	–	(44.2)
Add taxation on profit on ordinary activities	0.2	1.4	1.6	24.0	2.5	26.5
Operating profit	222.4	24.4	246.8	275.5	12.9	288.4
Depreciation on property, plant and equipment	258.1	–	258.1	244.1	–	244.1
Amortisation of intangible assets	10.7	–	10.7	15.1	–	15.1
Less (gain) / add loss on sale of property, plant and equipment	(0.8)	–	(0.8)	0.3	–	0.3
Difference in pension charge and cash contribution	5.5	–	5.5	8.0	–	8.0
Increase / (decrease) in inventory	2.6	–	2.6	(6.1)	–	(6.1)
Decrease / (increase) in contract assets	3.6	(0.7)	2.9	44.4	–	44.4
Increase in trade and other receivables	(394.3)	(34.0)	(428.3)	(458.9)	(20.4)	(479.3)
Increase in contract liabilities	498.8	–	498.8	420.8	–	420.8
Decrease / (increase) in trade and other payables	(83.0)	15.1	(67.9)	(44.2)	7.5	(36.7)
(Decrease) / increase in provisions	(2.5)	–	(2.5)	5.3	–	5.3
Net cash generated by operating activities	521.1	4.8	525.9	504.3	–	504.3
Investing activities:						
Increase in current asset investments	(3.0)	–	(3.0)	(0.5)	–	(0.5)
Purchase of property, plant and equipment	(538.3)	–	(538.3)	(535.7)	–	(535.7)
Purchase of intangible assets	(32.4)	–	(32.4)	(20.7)	–	(20.7)
Proceeds from sale of property, plant and equipment	0.8	–	0.8	7.8	–	7.8
Interest received	23.7	–	23.7	18.1	–	18.1
Net cash used in investing activities	(549.2)	–	(549.2)	(531.0)	–	(531.0)
Financing activities:						
New loans raised	207.1	–	207.1	982.5	–	982.5
Repayment of borrowings	(33.3)	–	(33.3)	(772.6)	–	(772.6)
Derivative paydown	(13.4)	–	(13.4)	(29.9)	–	(29.9)
Interest paid	(178.3)	–	(178.3)	(156.9)	–	(156.9)
Fees paid	(4.4)	–	(4.4)	–	–	–
Dividends paid	–	–	–	(26.0)	–	(26.0)
Net cash used in financing activities	(22.3)	–	(22.3)	(2.9)	–	(2.9)
Net (decrease)/increase in cash and cash equivalents	(50.4)	4.8	(45.6)	(29.6)	–	(29.6)
Net cash and cash equivalents at beginning of period	104.4	2.6	107.0	52.7	3.8	56.5
Net cash and cash equivalents at end of period	54.0	7.4	61.4	23.1	3.8	26.9

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9. Additionally, finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps.

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

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

The accounting policies and notes on pages 21 to 48 form an integral part of these condensed interim consolidated financial statements.

Accounting policies

General information

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

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

During 2017/18, the Company announced its decision to close down its Cayman Islands Subsidiaries, Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH"). As at 30 September 2018, the Cayman Islands entities are no longer subsidiaries of the Company but exist as non-active companies within the Thames Water Limited Group of companies ("the Thames Water Limited Group"). They will be formally dissolved early 2019.

Statement of compliance with International Financial Reporting Standards

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

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

The policies applied in these condensed interim consolidated 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 5 December 2018, the date that the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that became effective and are adopted for 31 March 2019 could result in revisions to accounting policies applied in these interim consolidated financial statements, and if applicable, the opening balance sheet included herein.

Principal risks and uncertainties

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

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

Basis of preparation

The condensed interim consolidated financial statements for the six months ended 30 September 2018, set out on pages 16 to 20, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

In previous years, the Company had 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 were included within the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, an entity registered in the United Kingdom. The Company has elected to prepare consolidated financial statements going forward as it provides all interested parties with a complete overview of the operating company and the finances in place to support its operations and enhances understanding, presenting the results of operations, financing and financial position in one place. Therefore these condensed interim consolidated financial statements present information about the Group. On 31 August 2018, the assets and liabilities of TWUCF and TWUCFH were transferred into TWUF, which resulted in the disposal of the Cayman Islands entities from the Group. The Group as at 30 September 2018 consists of the trading entity, Thames Water Utilities Limited ("the Company") and the financing entity, Thames Water Utilities Finance Plc ("TWUF"). The comparative periods included within this financial statement and notes also include the Cayman Islands entities until the date of transfer on the 31 August 2018.

Bazalgette Tunnel Limited ("BTL") arrangement

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

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

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

New accounting policies and financial reporting changes

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

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

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

Water and wastewater services

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

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

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

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

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

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

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

Requisitions

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

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

Service connections

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

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

Diversions

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

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

Income from infrastructure charges

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

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

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

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

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

There is an impact on the recognition of income from infrastructure charges as a result of the adoption of IFRS 15 and this has been discussed in the "Transition to new IFRSs" section on pages 24 to 25.

Adoptions

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

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

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

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

Financial instruments

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

Classification and measurement

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

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

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

Impairment methodology

Financial assets

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

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

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

Hedge accounting

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

Offsetting financial instruments

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

Transition to new IFRSs

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

Transition approach

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

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

Adjustments

As discussed in the accounting policies section on pages 24 to 25, the Group now recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings. The adjustment has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years.

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

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

	Note	IAS 18 Carrying Amount* As previously stated 31 March 2017 £m	Re-measurement £m	Re-classification £m	IFRS 15 Carrying Amount* 1 April 2017 £m
Current assets					
Trade and other receivables	20	637.4	–	(247.8)	389.6
Contract assets	20	–	–	247.8	247.8
Subtotal		637.4	–	–	637.4
Current liabilities					
Trade and other payables	20	938.7	(10.7)	(125.5)	802.5
Contract liabilities	20	–	–	125.5	125.5
Subtotal		938.7	(10.7)	–	928.0
Non-current liabilities					
Trade and other payables	20	404.9	131.2	(536.1)	–
Contract liabilities	20	–	–	536.1	536.1
Deferred tax	20	792.4	(20.5)	–	771.9
Subtotal		1,197.3	110.7	–	1,308.0

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

	Note	**IAS 18 Carrying Amount* As previously stated 31 March 2018 £m**	**Re-measurement £m**	**Re-classification £m**	**IFRS 15 Carrying Amount* 1 April 2018 £m**
Current assets					
Trade and other receivables	9, 20	**621.4**	**–**	**(225.9)**	**395.5**
Contract assets	9, 20	**–**	**–**	**225.9**	**225.9**
Subtotal		**621.4**	**–**	**–**	**621.4**
Current liabilities					
Trade and other payables	10	**820.6**	**(11.5)**	**(129.4)**	**679.7**
Contract liabilities	10	**–**	**–**	**129.4**	**129.4**
Subtotal		**820.6**	**(11.5)**	**–**	**809.1**
Non-current liabilities					
Trade and other payables	10	**446.0**	**143.9**	**(589.9)**	**–**
Contract liabilities	10	**–**	**–**	**589.9**	**589.9**
Deferred tax	13	**853.7**	**(22.5)**	**–**	**831.2**
Subtotal		**1,299.7**	**121.4**	**–**	**1,421.1**

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

The impact on the group's total equity:

	Note	**1 April 2018 £m**	1 April 2017 £m
Total equity – before IFRS 15 restatement		**(2,854.3)**	(2,536.3)
Decrease in cumulative infrastructure charges recognised in other operating income	20	**132.4**	120.5
Decrease in cumulative taxation on profit/loss on ordinary activities	20	**(22.5)**	(20.5)
Opening total equity 1 April – after IFRS 15 restatement		**(2,744.4)**	(2,436.3)

IFRS 9 'Financial Instruments' applicable from 1 April 2018

Transition approach

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

Adjustments

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

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

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

	Note	IAS 39 Carrying Amount* As previously stated 31 March 2018 £m	Re-measurement £m	IFRS 9 Carrying Amount* 1 April 2018 £m
Non-current liabilities				
Borrowings	11	(10,822.2)	(26.5)	(10,848.7)
Deferred Tax	13	(853.7)	4.5	(849.2)
Subtotal		(11,675.9)	(22.0)	(11,697.9)
Equity				
Retained earnings		2,854.3	(22.0)	2,832.3
Subtotal		2,854.3	(22.0)	2,832.3

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

Significant accounting judgements and key sources of estimation uncertainty

The preparation of interim financial statements requires the Group 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 Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Annual Report and Financial Statements for the year ended 31 March 2018 with the exception of the items noted below; which have been updated following transition to IFRS 15 'Revenue from Contracts with Customers'.

Connections, requisitions and diversions

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

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

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

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

Infrastructure charges

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

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

Unbilled revenue

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

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

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

Arrangement with Bazalgette Tunnel Limited ("BTL")

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

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

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

1. Segmental analysis

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

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

As such, the way in which the Group reports its results has changed. The reporting segments have been updated accordingly to reflect the new way in which the Group reports its financial information internally to the CODM. We have also restated prior year information as a result of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers'. This has been discussed on pages 22 to 25.

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

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

Segmental performance

Management revenue and EBITDA figures are presented below;

Six months ended	30 September 2018 £m	Restated[1] 30 September 2017 £m
External revenue excluding BTL	1,014.3	1,040.9
Total management revenue	1,014.3	1,040.9
Net operating expenses before depreciation and amortisation	(551.5)	(526.4)
Income from sale of Property, Plant and Equipment and the sale of the non-household business	1.8	98.3
Management earnings before interest, tax, depreciation and amortisation (EBITDA)	464.6	612.8

Revenue and EBITDA – Management to statutory reconciliation

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

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

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior period as a result of the transition to IFRS 9.

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

Six months ended	30 September 2018 £m	Restated[1] 30 September 2017 £m
Management EBITDA	464.6	612.8
Depreciation of property, plant and equipment	(254.2)	(233.3)
Amortisation of intangible assets	(10.7)	(14.3)
Management EBIT	199.7	365.2
IFRS 15 adjustment[1]	–	(6.0)
Statutory recognition of other operating income[2]	26.9	33.3
Statutory reclassification of pension costs	(5.5)	(8.0)
Statutory depreciation and write off adjustments[3]	(3.9)	(29.9)
Household BTL revenue[4]	20.3	10.3
Non-household BTL revenue[4]	4.2	2.6
Profit on sale of the retail non-household business[5]	–	(89.5)
Release of an accrual for statutory purposes[6]	–	10.0
Other statutory adjustments	5.1	0.4
Total statutory operating profit	246.8	288.4
Profit on the sale of retail non-household business[5]	–	89.5
Finance income[7]	24.6	15.7
Finance expense[7]	(215.8)	(219.3)
Net gain on financial instruments	12.1	44.2
Total statutory profit before tax	**67.7**	**218.5**

1 The impact of the transition to new accounting standard, IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 25. The restated amount is in respect of transition to IFRS 15.

2 Requisitions and diversion charges, service connection charges, amortisation of deferred income recognised on adoption of assets at nil cost and the release from deferred income of infrastructure charges as disclosed in Note 2. Recognition of infrastructure charges has been impacted by the transition to IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018. The impact has been discussed on pages 22 to 25.

3 Depreciation of adopted fair value assets, borrowing costs and write-offs required for statutory purposes only.

4 The portion of BTL revenue related to our household and non-household customers.

5 Please refer to Note 4 for further information.

6 Release of a management accrual not recognised under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

7 Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps.

2. Revenue

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

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

We have presented a further disaggregation of our revenue below:

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

All revenue is derived from activities based in the UK.

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

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

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

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior period as a result of the transition to IFRS 9.

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

3. Operating expenses

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

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

4. Profit on sale of non-household business

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

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

5. Finance income and expense and net gains on financial instruments

During the six months ended 30 September 2018, the Group recognised finance income of £24.6 million (restated – six months ended 30 September 2017: £15.7 million) relating mainly to interest on intercompany loans, swap novation income and interest on bank deposits.

The Group also recognised finance expenses of £215.8 million (restated – six months ended 30 September 2017: £219.3 million) relating mainly to interest and accretion on loans, other borrowings, fees incurred in relation to the transfer of assets and liabilities of the Cayman Islands entities and defined benefit pension obligations.

	Six months ended 30 September 2018 £m	Restated[1] Six months ended 30 September 2017 £m
Finance income	24.6	15.7
Finance expense	(215.8)	(219.3)
Net finance (expense)	(191.2)	(203.6)

1 Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £49.2 million for the restated six month period ended 30 September 2017.

Net gains on financial instruments

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

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Exchange (losses) / gains on foreign currency debt	(70.4)	46.9
Gain arising on swaps where hedge accounting is not applied	96.2	6.9
Loss on cash flow hedge transferred from equity	(13.7)	(9.6)
Net gains on financial instruments	12.1	44.2

6. Taxation

	30 September 2018			Restated[1] 30 September 2017		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Current tax:						
Amounts payable in respect of group relief	**1.7**	**1.4**	**3.1**	3.4	2.5	5.9
Deferred tax:						
Origination and reversal of timing differences	**(1.5)**	**–**	**(1.5)**	20.6	–	20.6
Tax (credit) / charge on profit on ordinary activities	**0.2**	**1.4**	**1.6**	24.0	2.5	26.5

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

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

	30 September 2018			Restated[1] 30 September 2017		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Profit on ordinary activities before taxation	**43.3**	**24.4**	**67.7**	205.6	12.9	218.5
Current tax at 19% (2017: 19%)	**8.3**	**4.6**	**12.9**	39.0	2.5	41.5
Effects of:						
Disallowable expenditure	**1.1**	**–**	**1.1**	2.5	–	2.5
Non-taxable income – other including property disposals	**(2.5)**	**–**	**(2.5)**	(2.5)	–	(2.5)
Group relief not paid at standard tax rate	**(6.9)**	**(3.2)**	**(10.1)**	(12.4)	–	(12.4)
Tax rate change on temporary timing differences	**0.2**	**–**	**0.2**	(2.6)	–	(2.6)
Total tax (credit) / charge	**0.2**	**1.4**	**1.6**	24.0	2.5	26.5

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

The Group intends to utilise tax losses available in its parent company for the year ended 31 March 2019. As a result, the Group intends to reduce its claims for tax relief on its capital expenditure in this period. The Group expects to pay £1.7 million to its parent company for the tax losses relating to the six months to 30 September 2018, which is shown in the income statement as a current tax charge in respect of the current year of £3.1 million and a current tax credit in OCI (Other Comprehensive Income) of £1.4 million. The Group 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 Group. This results in a reduction of the current tax charge of £10.1 million and a reduction of the current tax credit in reserves of £3.2 million. Utilising tax losses in this way should ultimately benefit customers through lower tax funding in future regulatory settlements.

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

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

7. Dividends

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

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

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

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

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

8. Property, plant and equipment

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

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

9. Trade and other receivables

	30 September 2018			Restated[1] 31 March 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments	–	80.5	80.5	–	56.7	56.7
Amounts owed by group undertakings	3.0	–	3.0	0.3	–	0.3
Other receivables	–	–	–	3.0	–	3.0
	3.0	80.5	83.5	3.3	56.7	60.0
Current:						
Gross trade receivables	776.0	16.7	792.7	462.5	6.4	468.9
Less doubtful debt provision	(151.8)	(1.9)	(153.7)	(172.6)	(1.7)	(174.3)
Net trade receivables	624.2	14.8	639.0	289.9	4.7	294.6
Amounts owed by group undertakings	–	–	–	0.2	–	0.2
Insurance claims receivable	49.6	–	49.6	36.1	–	36.1
Prepayments	81.7	–	81.7	27.5	–	27.5
Other receivables	29.2	0.8	30.0	36.8	0.3	37.1
	784.7	15.6	800.3	390.5	5.0	395.5
Current:						
Contract assets	222.3	0.7	223.0	225.5	0.4	225.9
	1,007.0	16.3	1,023.3	616.0	5.4	621.4
Total	1,010.0	96.8	1,106.8	619.3	62.1	681.4

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9.

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

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

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

10. Trade and other payables

	30 September 2018			Restated[1] 31 March 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities[1]	**613.7**	**–**	**613.7**	589.9	–	589.9
Current:						
Trade payables – operating	**297.3**	**–**	**297.3**	304.6	–	304.6
Trade payables – capital	**150.7**	**–**	**150.7**	141.1	–	141.1
Amounts owed to group undertakings	**5.5**	**–**	**5.5**	0.3	–	0.3
Other taxation and social security	**7.0**	**–**	**7.0**	6.5	–	6.5
Amounts payable in respect of group relief	**1.9**	**3.0**	**4.9**	6.8	1.6	8.4
Accruals[1]	**168.1**	**–**	**168.1**	175.3	–	175.3
Amounts owed to Bazalgette Tunnel Limited	**–**	**8.8**	**8.8**	–	3.5	3.5
Other payables	**40.9**	**–**	**40.9**	40.0	–	40.0
	671.4	**11.8**	**683.2**	674.6	5.1	679.7
Current:						
Contract liabilities[1]	**536.3**	**12.5**	**548.8**	125.3	4.1	129.4
	1,207.7	**24.3**	**1,232.0**	799.9	9.2	809.1
Total	**1,821.4**	**24.3**	**1,845.7**	1,389.8	9.2	1,399.0

1 The impact of the transition to new accounting standards, IFRS 9, 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

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

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

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

11. Borrowings

	30 September 2018 £m	31 March 2018 £m
Secured bank loans and private placements	3,087.3	2,824.6
Bonds	8,180.5	8,105.3
	11,267.8	10,929.9
Interest payable on borrowings	122.6	158.6
Total	11,390.4	11,088.5
Disclosed within non-current liabilities	10,953.1	10,822.2
Disclosed within current liabilities	437.3	266.3
Total	11,390.4	11,088.5

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

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

	30 September 2018 £m	31 March 2018 £m
Secured bank loans and private placements	(3,087.3)	(2,824.6)
Bonds	(8,180.5)	(8,105.3)
Interest payable on borrowings	(122.6)	(158.6)
	(11,390.4)	(11,088.5)
Cash and cash equivalents	64.4	107.0
Net debt (statutory basis)	(11,326.0)	(10,981.5)
Reconciliation to net debt (covenant basis)		
Interest payable on borrowings	122.6	158.6
Unamortised debt issuance costs and discount	(77.2)	(79.5)
Derivative financial liabilities	(188.1)	(237.8)
IFRS 9 transition adjustment[1]	26.5	–
Net debt (covenant basis)	(11,442.2)	(11,140.2)
Equity attributable to owners of the Group	2,824.7	2,744.4[1]

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26.

Net debt (covenant basis) excludes accrued interest, unamortised debt issuance costs and discounts, IFRS 9 transition adjustment and includes derivative financial liabilities related solely to accretion on index linked swaps and the effect of movement in foreign exchange rate to cross currency swap held in the Group.

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 one to three based on the degree to which the fair value is observable. Unless otherwise stated all of the Group's inputs to valuation techniques are level two – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level two. The table below sets out the valuation basis of financial instruments held at fair value as at 30 September 2018:

	Level 2[1]	
	30 September 2018 £m	31 March 2018 £m
Financial assets – derivative financial instruments		
Index linked swaps	**69.1**	71.7
Cross currency swaps	**69.6**	13.2
	138.7	84.9
Financial liabilities – derivative financial instruments		
Cross currency swaps	**(56.6)**	(69.6)
Interest rate swaps	**(157.7)**	(176.2)
Index linked swaps	**(933.7)**	(947.1)
Forward starting interest rate swaps	**(43.5)**	(45.3)
	(1,191.5)	(1,238.2)
Net total	**(1,052.8)**	(1,153.3)

1 The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index linked swaps 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 Group 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 Group'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 Group's other financial assets and financial liabilities are set out in the tables below.

Financial assets:

	30 September 2018		31 March 2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Amounts owed by group undertakings	**1,974.7**	**1,974.7**	1,974.7	1,974.7
Derivative financial instruments	**121.2**	**121.2**	76.4	76.4
	2,095.9	**2,095.9**	2,051.1	2,051.1
Current				
Cash and cash equivalents	**61.4**	**61.4**	107.0	107.0
Short term investments	**3.0**	**3.0**	–	–
Derivative financial instruments	**17.5**	**17.5**	8.5	8.5
Amounts owed by group undertakings	**15.0**	**15.0**	3.2	3.2
	96.9	**96.9**	118.7	118.7
Total	**2,192.8**	**2,192.8**	2,169.8	2,169.8

Financial liabilities:

	30 September 2018 Book value £m	30 September 2018 Fair value £m	31 March 2018 Book value £m	31 March 2018 Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	(2,772.6)	(2,958.7)	(2,718.0)	(2,932.9)
Bonds	(8,180.5)	(10,344.9)	(8,104.3)	(10,553.6)
Derivative financial instruments				
Cross currency swaps	(56.6)	(56.6)	(69.6)	(69.6)
Interest rate swaps	(157.7)	(157.7)	(176.2)	(176.2)
Index linked swaps	(933.7)	(933.7)	(934.8)	(934.8)
Forward starting interest rate swaps	(43.5)	(43.5)	(45.3)	(45.3)
	(12,144.6)	(14,495.1)	(12,048.2)	(14,712.4)
Current				
Borrowings				
Secured bank loans and private placements	(314.7)	(315.9)	(106.7)	(108.2)
Bonds	–	–	(1.0)	(1.0)
Interest payable	(122.6)	(122.6)	(158.6)	(158.6)
Derivative financial instruments				
Index linked swaps	–	–	(12.3)	(12.3)
	(437.3)	(438.5)	(278.6)	(280.1)
Total	(12,581.9)	(14,933.6)	(12,326.8)	(14,992.5)

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

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

13. Deferred tax

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

		Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	Total £m
Restated[1]	At 1 April 2017	(1,041.8)	64.6	195.3	10.0	(771.9)
	Charge to income	(8.4)	(0.9)	(19.4)	(0.9)	(29.6)
	Charge to other comprehensive income	–	(12.6)	(17.1)	–	(29.7)
Restated[1]	At 31 March 2018	(1,050.2)	51.1	158.8	9.1	(831.2)
	Restatement for IFRS 9[1]	–	–	–	4.5	4.5
	Credit / (charge) to income	8.1	1.5	(7.9)	(0.2)	1.5
	Charge to other comprehensive income	–	(5.3)	(2.6)	(4.2)	(12.1)
	At 30 September 2018	(1,042.1)	47.3	148.3	9.2	(837.3)

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

	30 September 2018 £m	Restated[1] 31 March 2018 £m
Deferred tax asset	204.8	219.0
Deferred tax liability	(1,042.1)	(1,050.2)
Total	(837.3)	(831.2)

1 The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 22 to 26.

14. Provisions for liabilities and charges

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

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

The insured liability provision arises from insurance claims from third parties received by the Group, 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.

Other provisions principally relate to a number of contractual and legal claims against the Group and potential fines for non-compliance with various regulations the Group 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. Retirement benefit obligations

Background

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

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

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

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

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

IAS 19 Assumptions

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

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

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

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

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

15. Retirement benefit obligations continued

Actuarial risk factors

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

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

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

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

GMP equalisation

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

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

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

This represents a non-adjusting post balance sheet event. Refer to Note 17 for more information.

16. 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 consolidates these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

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

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

17. Post balance sheet events

GMP equalisation

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. The judgement rules that all schemes must equalise Guaranteed Minimum Pensions ("GMP") between males and females. We consider that this results in a change to the plan rules and therefore this represents a non-adjusting post balance sheet event. Refer to Note 15 Retirement Benefit Obligations for further information on the impact.

Credit facility

On 30 November 2018, Thames Water Utilities Finance Plc amended the existing £950 million credit facility by increasing the total capacity to £1,387 million. The facility matures in 2023, with extension options to 2025, and will be available to be used for general corporate purposes. The interest rate on the facilities, where drawn, includes an element linked to annual performance against Environmental, Social and Governance metrics.

18. Contingent liabilities

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

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

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

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

19. Related party transactions

Trading transactions

	30 September 2018		30 September 2017	
	Services provided by the Group £'000	**Services provided to the Group £'000**	Services provided by the Group £'000	Services provided to the Group £'000
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	**980**	**3**	1,082	565
Immediate parent				
Thames Water Utilities Holdings Limited	**11,786**	**7,107**	8,340	2,150
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**107**	**–**	60	7
Thames Water Commercial Services Limited	**165**	**–**	202	–
Thames Water Property Services Limited	**131**	**19**	182	226
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	**–**	**2**	–	–
Total	**13,169**	**7,131**	9,866	2,948

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

19. Related party transactions continued

Outstanding balances

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

	30 September 2018		31 March 2018	
	Amounts owed to the Group £'000	**Amounts owed by the Group £'000**	Services provided by the Group £'000	Services provided to the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	**5**	**–**	5	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	**1,014**	**–**	1,014	–
Thames Water Limited	**12**	**–**	121	–
Immediate parent				
Thames Water Utilities Holdings Limited	**1,974,745**	**7,107**	1,974,745	4,300
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**–**	**–**	79	–
Thames Water Property Services Limited	**–**	**–**	24	–
Total	**1,975,776**	**7,107**	1,975,988	4,300

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

Key management personnel

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

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

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

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

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

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

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

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

		IAS 18			Transition	IFRS 15		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	BTL £m	Total £m
Revenue	2	1,029.9	12.9	1,042.8	–	1,029.9	12.9	1,042.8
Operating expenses	3	(791.1)	–	(791.1)	–	(791.1)	–	(791.1)
Other operating income	2	42.7	–	42.7	(6.0)	36.7	–	36.7
Operating profit		281.5	12.9	294.4	(6.0)	275.5	12.9	288.4
Profit on the sale of retail non-household business	4	89.5	–	89.5	–	89.5	–	89.5
Finance income	5	15.7	–	15.7	–	15.7	–	15.7
Finance expense	5	(219.3)	–	(219.3)	–	(219.3)	–	(219.3)
Net gain on financial instruments	5	44.2	–	44.2	–	44.2	–	44.2
Profit on ordinary activities before taxation		211.6	12.9	224.5	(6.0)	205.6	12.9	218.5
Taxation on (profit) / loss on ordinary activities	6	(25.0)	(2.5)	(27.5)	1.0	(24.0)	(2.5)	(26.5)
Profit for the period		186.6	10.4	197.0	(5.0)	181.6	10.4	192.0

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

		IAS 18			Transition	IFRS 15		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	BTL £m	Total £m
Profit for the period		186.6	10.4	197.0	(5.0)	181.6	10.4	192.0
Other comprehensive income								
Will not be reclassified to the income statement:								
Net actuarial gain on pension schemes	15	44.0	–	44.0	–	44.0	–	44.0
Deferred tax on net actuarial (gains)	13	(7.5)	–	(7.5)	–	(7.5)	–	(7.5)
May be reclassified to the income statement:								
Gains on cash flow hedges		10.7	–	10.7	–	10.7	–	10.7
Cash flow hedges transferred to income statement		9.6	–	9.6	–	9.6	–	9.6
Deferred tax (charge) on cash flow hedges	13	(3.4)	–	(3.4)	–	(3.4)	–	(3.4)
Other comprehensive income for the period		53.4	–	53.4	–	53.4	–	53.4
Total comprehensive income / (loss) for the period		240.0	10.4	250.4	(5.0)	235.0	10.4	245.4

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

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

	IAS 18			Transition		IFRS 15		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	BTL £m	Total £m
Non-current assets								
Intangible assets	140.3	–	140.3	–	–	140.3	–	140.3
Property, plant and equipment	14,094.5	–	14,094.5	–	–	14,094.5	–	14,094.5
Derivative financial assets	170.6	–	170.6	–	–	170.6	–	170.6
Intercompany loans receivable	1,974.7	–	1,974.7	–	–	1,974.7	–	1,974.7
Trade and other receivables	2.8	30.4	33.2	–	–	2.8	30.4	33.2
	16,382.9	**30.4**	**16,413.3**	**–**	**–**	**16,382.9**	**30.4**	**16,413.3**
Current assets								
Inventories and current intangible assets	21.7	–	21.7	–	–	21.7	–	21.7
Assets held for sale	1.0	–	1.0	–	–	1.0	–	1.0
Intercompany loans receivable	7.2	–	7.2	–	–	7.2	–	7.2
Contract assets	–	–	–	247.4	0.4	247.4	0.4	247.8
Trade and other receivables	634.4	3.0	637.4	(247.4)	(0.4)	387.0	2.6	389.6
Short term investments	1.0	–	1.0	–	–	1.0	–	1.0
Cash and cash equivalents	52.7	3.8	56.5	–	–	52.7	3.8	56.5
	718.0	**6.8**	**724.8**	**–**	**–**	**718.0**	**6.8**	**724.8**
Current liabilities								
Contract liabilities	–	–	–	(125.3)	(0.2)	(125.3)	(0.2)	(125.5)
Trade and other payables	(932.1)	(6.6)	(938.7)	136.0	0.2	(796.1)	(6.4)	(802.5)
Borrowings	(342.3)	–	(342.3)	–	–	(342.3)	–	(342.3)
Derivative financial liabilities	(23.8)	–	(23.8)	–	–	(23.8)	–	(23.8)
	(1,298.2)	**(6.6)**	**(1,304.8)**	**10.7**	**–**	**(1,287.5)**	**(6.6)**	**(1,294.1)**
Net current (liabilities)/assets	**(580.2)**	**0.2**	**(580.0)**	**10.7**	**–**	**(569.5)**	**0.2**	**(569.3)**
Non-current liabilities								
Contract liabilities	–	–	–	(536.1)	–	(536.1)	–	(536.1)
Trade and other payables	(404.9)	–	(404.9)	404.9	–	–	–	–
Borrowings	(10,209.4)	–	(10,209.4)	–	–	(10,209.4)	–	(10,209.4)
Derivative financial liabilities	(1,398.0)	–	(1,398.0)	–	–	(1,398.0)	–	(1,398.0)
Deferred tax	(792.4)	–	(792.4)	20.5	–	(771.9)	–	(771.9)
Provisions for liabilities and charges	(112.5)	–	(112.5)	–	–	(112.5)	–	(112.5)
Retirement benefit obligations	(379.8)	–	(379.8)	–	–	(379.8)	–	(379.8)
	(13,297.0)	**–**	**(13,297.0)**	**(110.7)**	**–**	**(13,407.7)**	**–**	**(13,407.7)**
Net assets	**2,505.7**	**30.6**	**2,536.3**	**(100.0)**	**–**	**2,405.7**	**30.6**	**2,436.3**
Equity								
Called up share capital	29.0	–	29.0	–	–	29.0	–	29.0
Share premium	100.0	–	100.0	–	–	100.0	–	100.0
Cash flow hedge reserve	(222.4)	–	(222.4)	–	–	(222.4)	–	(222.4)
Revaluation reserve	1,053.1	–	1,053.1	–	–	1,053.1	–	1,053.1
Retained earnings	1,546.0	30.6	1,576.6	(100.0)	–	1,446.0	30.6	1,476.6
Total equity	**2,505.7**	**30.6**	**2,536.3**	**(100.0)**	**–**	**2,405.7**	**30.6**	**2,436.3**

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

		IAS 18			Transition		IFRS 15		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	BTL £m	Total £m
Non-current assets									
Intangible assets		168.8	–	168.8	–	–	168.8	–	168.8
Property, plant and equipment	8	14,675.3	–	14,675.3	–	–	14,675.3	–	14,675.3
Derivative financial assets	12	76.4	–	76.4	–	–	76.4	–	76.4
Intercompany loans receivable		1,974.7	–	1,974.7	–	–	1,974.7	–	1,974.7
Trade and other receivables	9	3.3	56.7	60.0	–	–	3.3	56.7	60.0
		16,898.5	**56.7**	**16,955.2**	**–**	**–**	**16,898.5**	**56.7**	**16,955.2**
Current assets									
Inventories and current intangible assets		18.1	–	18.1	–	–	18.1	–	18.1
Assets held for sale		–	–	–	–	–	–	–	–
Intercompany loans receivable		3.2	–	3.2	–	–	3.2	–	3.2
Contract assets	9	–	–	–	225.5	0.4	225.5	0.4	225.9
Derivative financial assets	12	8.5	–	8.5	–	–	8.5	–	8.5
Trade and other receivables	9	616.0	5.4	621.4	(225.5)	(0.4)	390.5	5.0	395.5
Cash and cash equivalents		104.4	2.6	107.0	–	–	104.4	2.6	107.0
		750.2	**8.0**	**758.2**	**–**	**–**	**750.2**	**8.0**	**758.2**
Current liabilities									
Contract liabilities		–	–	–	(125.3)	(4.1)	(125.3)	(4.1)	(129.4)
Trade and other payables	10	(811.4)	(9.2)	(820.6)	136.8	4.1	(674.6)	(5.1)	(679.7)
Borrowings	11	(266.3)	–	(266.3)	–	–	(266.3)	–	(266.3)
Derivative financial liabilities	12	(12.3)	–	(12.3)	–	–	(12.3)	–	(12.3)
		(1,090.0)	**(9.2)**	**(1,099.2)**	**11.5**	**–**	**(1,078.5)**	**(9.2)**	**(1,087.7)**
Net current (liabilities)/assets		**(339.8)**	**(1.2)**	**(341.0)**	**11.5**	**–**	**(328.3)**	**(1.2)**	**(329.5)**
Non-current liabilities									
Contract liabilities		–	–	–	(589.9)	–	(589.9)	–	(589.9)
Trade and other payables	10	(446.0)	–	(446.0)	446.0	–	–	–	–
Borrowings	11	(10,822.2)	–	(10,822.2)	–	–	(10,822.2)	–	(10,822.2)
Derivative financial liabilities	12	(1,225.9)	–	(1,225.9)	–	–	(1,225.9)	–	(1,225.9)
Deferred tax	13	(853.7)	–	(853.7)	22.5	–	(831.2)	–	(831.2)
Provisions for liabilities and charges	14	(111.3)	–	(111.3)	–	–	(111.3)	–	(111.3)
Retirement benefit obligations	15	(300.8)	–	(300.8)	–	–	(300.8)	–	(300.8)
		(13,759.9)	**–**	**(13,759.9)**	**(121.4)**	**–**	**(13,881.3)**	**–**	**(13,881.3)**
Net assets		**2,798.8**	**55.5**	**2,854.3**	**(109.9)**	**–**	**2,688.9**	**55.5**	**2,744.4**
Equity									
Called up share capital		29.0	–	29.0	–	–	29.0	–	29.0
Share premium		100.0	–	100.0	–	–	100.0	–	100.0
Cash flow hedge reserve		(138.9)	–	(138.9)	–	–	(138.9)	–	(138.9)
Revaluation reserve		1,021.2	–	1,021.2	–	–	1,021.2	–	1,021.2
Retained earnings		1,787.5	55.5	1,843.0	(109.9)	–	1,677.6	55.5	1,733.1
Total equity		**2,798.8**	**55.5**	**2,854.3**	**(109.9)**	**–**	**2,688.9**	**55.5**	**2,744.4**

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

	IAS 18			Transition	Restatement	IFRS 15		
	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	Underlying £m	BTL	Total £m
Operating activities:								
Profit on ordinary activities after taxation	186.6	10.4	197.0	(5.0)	–	181.6	10.4	192.0
Less profit on sale of retail non-household business	(89.5)	–	(89.5)	–	–	(89.5)	–	(89.5)
Less finance income	(15.7)	–	(15.7)	–	–	(15.7)	–	(15.7)
Add finance expense	219.3	–	219.3	–	–	219.3	–	219.3
Less gain on fair value of financial instruments	(44.2)	–	(44.2)	–	–	(44.2)	–	(44.2)
Add taxation on profit on ordinary activities	25.0	2.5	27.5	(1.0)	–	24.0	2.5	26.5
Operating profit	281.5	12.9	294.4	(6.0)	–	275.5	12.9	288.4
Depreciation on property, plant and equipment	244.1	–	244.1	–	–	244.1	–	244.1
Amortisation of intangible assets	15.1	–	15.1	–	–	15.1	–	15.1
Loss/(profit) on sale of property, plant and equipment	0.3	–	0.3	–	–	0.3	–	0.3
Difference in pension charge and cash contribution	8.0	–	8.0	–	–	8.0	–	8.0
Increase in inventory	(6.1)	–	(6.1)	–	–	(6.1)	–	(6.1)
Decrease in contract assets	–	–	–	44.4	–	44.4	–	44.4
Increase in trade and other receivables	(410.7)	(20.4)	(431.1)	(48.2)	–	(458.9)	(20.4)	(479.3)
Increase in contract liabilities	–	–	–	420.8	–	420.8	–	420.8
Increase in trade and other payables	330.1	7.5	337.6	(374.3)	–	(44.2)	7.5	(36.7)
Increase/(decrease) in provisions	5.3	–	5.3	–	–	5.3	–	5.3
Net cash generated by operating activities	**467.6**	**–**	**467.6**	**36.7**	**–**	**504.3**	**–**	**504.3**
Investing activities:								
Increase in current asset investments	(0.5)	–	(0.5)	–	–	(0.5)	–	(0.5)
Interest received	63.7	–	63.7	–	(45.6)	18.1	–	18.1
Purchase of property, plant and equipment	(499.0)	–	(499.0)	(36.7)	–	(535.7)	–	(535.7)
Purchase of intangible assets	(20.7)	–	(20.7)	–	–	(20.7)	–	(20.7)
Proceeds from sale of property, plant and equipment	7.8	–	7.8	–	–	7.8	–	7.8
Net cash used in investing activities	**(448.7)**	**–**	**(448.7)**	**(36.7)**	**(45.6)**	**(531.0)**	**–**	**(531.0)**
Financing activities:								
New loans raised	982.5	–	982.5	–	–	982.5	–	982.5
Repayment of borrowings	(772.6)	–	(772.6)	–	–	(772.6)	–	(772.6)
Derivative paydown	(29.9)	–	(29.9)	–	–	(29.9)	–	(29.9)
Interest paid	(202.5)	–	(202.5)	–	45.6	(156.9)	–	(156.9)
Dividends paid	(26.0)	–	(26.0)	–	–	(26.0)	–	(26.0)
Net cash used in financing activities	**(48.5)**	**–**	**(48.5)**	**–**	**45.6**	**(2.9)**	**–**	**(2.9)**
Net decrease in cash and cash equivalents	(29.6)	–	(29.6)	–	–	(29.6)	–	(29.6)
Net cash and cash equivalents at beginning of period	52.7	3.8	56.5	–	–	52.7	3.8	56.5
Net cash and cash equivalents at end of period	**23.1**	**3.8**	**26.9**	**–**	**–**	**23.1**	**3.8**	**26.9**

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